Evaluating the Need for Insurance in Retirement

Of all the changes that come in retirement, few are likely to give you more concern than dealing with money. Your concern is, of course, understandable and widely shared because so much of what will happen is unpredictable. That's especially true of how long and how well you may live—whether you live long enough to have to lower your standard of living so that you can stretch your nest egg to avoid the horror of outliving your money.

Although you may improve your situation by taking good care of your health and living without extravagance, you should be adequately covered against unforeseen losses by the right kinds of insurance. If you think of insurance as a product to be bought and focus only on its costs, you may consider it a luxury that you cannot afford.

But if you regard it as a vehicle for managing risk—at a time in your life when you probably will be more vulnerable to the risk of substantial losses and less able to recover quickly—you may think of certain types of insurance as necessities while considering others only as optional. During retirement there are three major risks: risks to health, longevity and to our property. Some of these risks are ones should be addressed before the age of retirement.

Necessities

*Medicare supplement (Medigap) or Medicare Advantage insurance***.** This coverage helps you to pay Medicare deductibles and the portion of hospital and medical charges that are approved by Medicare but not paid by it in a year when your total hospital and/or medical charges are high—something that can happen when you get older. Those who are willing to pay more to have a greater choice of services generally choose a Medigap policy. Those who prefer to save money and use a limited pool of medical service providers might prefer to use the Medicare Advantage program.

Prescription drug coverage. At a time when your need for prescription drugs may grow, be sure that you have insurance to cover a substantial share of those costs. In some cases, a retiree will have the choice of using a prescription drug plan offered by a former employer. In other cases, a retiree's only choice will be to sign up for the new Medicare Part D drug plan. The latter is a voluntary program, however, so don't hesitate to sign up if that's your only option.

Possible Necessity

Long-term care (LTC) insurance. This insurance is designed to help you to meet the high costs of nursing facility, assisted living and/or home care that you might incur if and when you are not able to handle the activities of daily living such as bathing and dressing.

While LTC insurance might not be for everyone, it is very important to evaluate such insurance while you are young and healthy, generally in your early 50s. The cost of this coverage is based on your age and health at the time you apply for coverage. By waiting to consider LTC insurance, many people risk the onset of health conditions that may subject them to higher risk classes with higher premiums, or, even worse, may make them uninsurable for LTC insurance. One of the biggest mistakes made when purchasing LTC insurance is to inadequately cover for inflation of LTC costs. LTC insurance can be purchased as an employee benefit, through an association or individually. Group plans often provide discounts or underwriting concessions.

Option

Additional life insurance. If you have sufficient life insurance coverage—under a group and/or individual policy—and/or financial assets to provide for your spouse and/or other beneficiaries, including enough to help them during the first year after your passing, you probably won't need additional life insurance coverage. If not, shop among strong insurance companies for the plan that best meets your personal needs and is priced reasonably.

Continuing Coverage

In retirement, of course, you must maintain and budget for other insurance policies—such as for your home and cars—because retirement does not change your need to protect yourself against the risks of fires, floods, natural disasters, accidents, or other potential causes of losses. However, you should examine these policies to see whether you should add or delete anything—or raise or reduce the values of specific items such as jewelry or electronic equipment. You may find that you are still paying a premium for an item that you disposed of years ago. It's always a wise move to reevaluate your insurance needs as you transition into retirement.

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