

Empty Nesters/ Seniors Considerations

As an empty nester whose children have recently left home or a senior citizen, you're probably familiar with the basic facts about insurance. However, your needs at this stage of your life have likely changed significantly since you first purchased an insurance policy. For example, at this stage of your life, you may be planning to sell your home and retire to a new area, considering long-term care coverage or evaluating whether it makes sense to purchase an annuity. In addition, as a senior you may now qualify for certain discounts on your auto and homeowner's policies. To be sure, there are many important insurance decisions to consider during this phase of your life, making this a good time to re-evaluate your needs.

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Auto 401: Traveling On

There is a nice benefit to growing older! At this life stage, you can take advantage of several age-related discounts.

- For example, as a mature driver (typically age 55 – 70), you may be eligible for discounts. After age 70, the incidence of serious accidents escalates significantly so the discounts might cease.
- Discounts may also be available for seniors who limit the amount of driving they do – for example, to less than 7,500 miles per year – or agree to only drive during daylight hours. When you retire or change jobs and work or stay closer to home – and therefore need to drive less – you should inform your insurance company as you may be able to get lower rates.
- If you have worked for the same employer for many years, let your insurer know. Those who show stability in their employment may qualify for an auto premium discount.
- If your children have turned 18, left home and are regularly not driving your vehicle, alert your insurance company, as your auto premiums may decrease.
- Consider taking a senior driving refresher course, such as AARP’s 55Alive or a program run by the National Institute of Highway Safety or AAA. Participation in these programs should help you qualify for a discount.
- Since your net worth may still be growing, or at its highest at this stage of your life, consider whether it makes sense to purchase an “umbrella policy” to raise your auto liability coverage, for example to \$1 million, in order to protect your assets.
- If you are driving an older vehicle not worth much in current book value, consider dropping collision insurance. With older cars, the cost of collision coverage can exceed the value of the car.

Home 401: Small is Beautiful

At this stage of your life, you may be in a downsizing mode. So you can look for ways to bring your costs down by bringing your insurance in line with your scaled back lifestyle. At the same time, be careful to protect assets you have worked so hard to accumulate. Here are some tips:

- Let your insurance company know when you retire, as senior discounts may be available because you will likely be around home more of the time and can watch over your home/possessions.
- Consider adding more homeowner's liability coverage – and/or an umbrella policy for \$1 million. At this stage of your life, you may have more assets to protect in the event you are sued. If you decide on an umbrella policy, note that these policies often cover both home and auto liability, and are separate from your homeowner's and auto policies. If you decide to start a home-based business after retiring from your "first career," consider adding to your homeowner's liability coverage.
- In maintaining your residence you must also realize that you are liable for things that happen on your premises. Keep in mind that in many states you could be held legally responsible for the actions of anyone who drinks in your home and then has an accident in your house or after leaving it. Your policy should protect you against lawsuits due to these types of liability issues.
- Reassess the current value of your home or condominium and your possessions to see whether you need to increase your insurance to cover their replacement costs in today's market, as the price of real estate has risen significantly during recent years.
- Reassess the value of your expensive possessions, like jewelry, heirlooms or art, for which you may need a special "floater policy" for extra insurance coverage.
- If the cost of homeowner's insurance and other costs, such as maintaining your home, are becoming too high, consider renting instead of owning. Renter's insurance is typically less expensive than homeowner's, as you are insuring your possessions and not the dwelling itself. Recently, some insurers in Florida and the Gulf states have raised homeowner's premiums by 20-30% following hurricanes Katrina and Rita, hitting seniors particularly hard.
- If you purchase a vacation home or boat, see if you can consolidate your homeowner's coverage from the same insurer and possibly qualify for a multiple policy discount.
- If you've just paid off your mortgage – and up until now your homeowner's insurance has been paid through your mortgage company – be sure to notify the insurance company to send the premium bills directly to your home address, and remember to pay the premiums on time so that your policy does not lapse, as there is no grace period in a homeowners policy.

Life 401: Late-in-Life Insurance

Now is a good time to re-evaluate your life insurance to determine whether you still need as much coverage as you did when your family was younger and you had a large mortgage on your home. Your circumstances have likely changed.

- If you are covered by a group life insurance policy through your job and are planning to retire soon, inquire as to whether you can convert it to an individual policy.
- Review your policies to determine whether you can decrease coverage. Consider these factors:
 - Is your spouse alive?
 - Is your home paid off?
 - What other financial assets do you have in addition to life insurance?
 - Are your children now financially independent?
 - Do you have high current debts or anticipate estate taxes that would be a struggle for your survivors to pay off after you die?
- Be sure to update your beneficiaries. For example, has your spouse died, or have you remarried?
- If you have a cash value life policy, consider whether you can use some of the money built up in the policy to pay for long-term care insurance premiums, if long-term care insurance makes sense for you.
- Once you reach age 59 ½, you are eligible to withdraw funds penalty-free from your 401K or IRA. At this time you may be considering the purchase of an annuity – a contract with an insurance company that promises to pay a series of income payments at regular intervals in return for premiums you have paid. Explore the different types of annuities available:
 - Single premium
 - Multiple premium
 - Fixed
 - Deferred
 - Variable

If you are approached, make sure you examine whether an annuity makes sense for you in terms of your age and income needs.

Ask whether the annuity lets you tap into your principal if you should need it, or whether there are stiff penalty fees. Be sure you understand the fees associated with the annuity, as well as the special tax treatment of annuities: namely that income tax on annuities is deferred until you start receiving the income payments.

- If you are strapped for cash and are considering selling your life insurance policy to a third party in return for a sum of money, called a life settlement, carefully consider the impact on your beneficiaries and whether it will affect your eligibility for any other public assistance you may be receiving. Also, before you make any decisions, be sure to check out the legitimacy of the company to which you are considering selling your policy by calling your state insurance department.
- If you are considering the purchase of a “Final Expense” policy – a small whole life policy, usually with coverage under \$10,000 and often sold to seniors up to age 85 – be aware that some are sold as guaranteed issue and come with steep charges. Furthermore, they typically don’t pay a full benefit in the first two or three years of the policy.

Health 401: Happy, Healthy and Hip (replacement)

As you age, health insurance considerations become paramount. Here are several issues you need to address:

- Are your children still in college full-time? You may be able to cover them under your existing health plan if you are still employed. If your children are in college out-of-state, you may need to explore a health plan through the school or from a private insurance company in the geographic area where they are living for most of the year.
- If you decide to retire or have been laid off from your job before you turn 65 – and you are not yet eligible for Medicare, what do you do?
 - Check to see if you are eligible to continue to get health insurance at the group rates from your former employer under COBRA (Consolidated Omnibus Budget Reconciliation Act). COBRA is a federal law enacted in 1985 that typically entitles you to continue your employer's coverage for up to 18 months. Note that you will be responsible for paying the premiums for this insurance and that you must let your former employer know within 60 days of leaving your job if want to continue your health benefits.
 - If you are no longer employed and your COBRA benefits have run out – but you are still not yet eligible for Medicare – you might want to consider a catastrophic or high-deductible medical plan which typically carries lower premiums than other individual policies. The caveat here is that people with serious pre-existing health problems like heart disease, diabetes or Multiple Sclerosis typically can't get catastrophic health insurance.
- Be wary of health discount cards. If you are considering the purchase of a health discount card of any sort – for example to cover pharmaceuticals, dental care or doctor visits – be sure to investigate whether the insurer is legitimate by calling your state insurance department. Also research how many complaints have been filed against that insurer and find out exactly what is covered and whether your physician/dentist accepts the card.
- Consider whether you still need disability insurance. Important considerations include whether you are still employed, your age, how many years you have until eligibility for Social Security, your individual financial needs and your ability to pay the premiums, which typically escalate significantly as you age.

- Carefully evaluate whether long-term care insurance make sense for you. Before purchasing long-term care insurance, do a thorough analysis of your financial situation to be sure you can continue to afford the premiums for an extended period of years – through your old age until death – and figure out whether you have significant savings or other financial assets you want to protect. Many people find they cannot afford the premiums as they get older and get closer to the point when they are most likely to need the coverage. In addition, make sure you know what triggers will result in benefit payments, as well as the likelihood and potential size of premium increases.

Regarding Medicare.

As you near the Medicare age of 65, you will need to decide whether you want traditional Medicare or a Medicare Advantage plan.

Traditional Medicare includes Medicare Part A, hospital insurance, and Part B, doctor bills. Part A is already paid for through your contributions over your working lifetime. Part B requires that you pay monthly premiums – around \$90 per month/per individual – that can be automatically deducted from your Social Security check, if you are already collecting.

As you get ready to enroll in Medicare, you may also want to consider purchasing – at incremental cost – a Medicare supplement or Medigap policy to pay for those medical/hospital expenses and deductibles not covered by Medicare. Medicare supplements or Medigap policies are offered by a number of private insurers that have been approved by Medicare.

Another option is a Medicare Advantage plan. Medicare Advantage plans, which replace the current Medicare + Choice plans, are offered by some private companies that have signed a contract with Medicare. Before purchasing a Medicare Advantage plan, find out what hospitals are in-network and which doctors are included.

There's been a great deal of attention to Medicare's newest offering: the prescription drug benefit known as Medicare Part D. If you're currently receiving Medicare, then you are also eligible for Medicare Part D. To decide whether to enroll, consider the following:

- Do some calculations to see whether the plan is likely to save you money. For example, add up what you spent on prescriptions during the past 12 months and see if that amount is greater, or less than, the annualized cost of Medicare D – the premiums plus the deductible.
- Different private insurers have been approved by Medicare to administer this drug benefit. If you decide to enroll, you'll need to decide which private insurer's plan best suits your needs. Make sure that the plan you select covers a drugstore convenient to you and the specific prescription drugs you currently take. Also, make sure the plan is legitimate by calling your state insurance department.

- If you are currently receiving retiree medical benefits from your former employer, call the company's benefits department to find out how they are handling the new Medicare drug benefit. Recent articles indicate that some companies are considering dropping retiree medical/drug benefits for people who sign up for the new Medicare drug benefit. Calculate which benefits are better for your individual situation.
- Keep your eye on some key dates. May 15, 2006 is the last date you can sign up for Medicare Part D without incurring a penalty charge. After that date, the next open period starts on Nov. 15, 2006 to sign up for the 2007 benefit year.