INSURANCE FOR EARLY RETIREES

Workers retiring early typically worry about how much they'll have to stretch their limited retirement dollars so as not to run out of money. That's certainly an important concern. But many early retirees overlook another major issue: adequate insurance, particularly medical.

Workers retire early for two major reasons: they are psychologically and financially ready, or they are forced into early retirement due to unemployment or poor health. Whatever the reason, they need to review their insurance, preferably before retirement, to be sure they are adequately covered.

Medical insurance. The biggest insurance challenge for early retirees is medical insurance, namely because they won't be eligible for Medicare until they reach age 65. Early retirees have several options, depending on their age and working situations.

First, your former employer may provide health benefits for early retirees, particularly if it is encouraging early retirement. This option is rapidly becoming less common, but it still exists, particularly among larger companies. The retiree policy may not be as comprehensive as the one you had as an employee, and you may pay a larger share of the cost—or even all of the cost.

If your spouse is still working, you may be able to join his or her employer's plan. The employer may allow you to join only at open enrollment, so you may want to try to time your retirement to match the enrollment period.

Another option may be to continue your former employer's group coverage through COBRA. You'll have to pay the entire premium, and probably your employer's administrative fee as well (around 2 percent). Beyond the expense, the biggest problem of COBRA for early retirees is that it extends coverage only 18 months for most workers. If you retire well before age 65, as many people do, you'll be left with a gap.

Regardless of whether you can be covered under the above options, check out private coverage. In some cases, it can actually be less expensive for the same level of benefits. Of course, private coverage may be the only option left to you. If you are forced into early retirement due to poor health, however, you face the challenge of finding a private insurer willing to cover you at an affordable price. So it's important to review federal and state law regarding what rights you have to access private insurance.

If you can't afford private coverage, you may qualify for Medicaid or coverage through the Veterans Administration. Your state also may offer a high-risk health insurance pool for people in poor health.

Long-term care insurance. Early retirement means you probably are in your mid-fifties to your early sixties, and if you haven't already considered buying long-term care insurance, don't wait any longer. You may still be in good or excellent health and qualify for LTC coverage at standard or preferred rates. But the more you delay, the more expensive premiums become and the greater the risk you won't qualify due to deteriorating health.

Why consider LTC insurance? An annual nursing home stay averages over $50,000, and nursing home costs have been rising about 5 percent a year. A multi-year stay in a nursing home could decimate your retirement savings. LTC insurance also pays for many alternatives to nursing homes, such as assisted living and at-home nursing care.

Life insurance. Upon retirement, your need for life insurance may diminish, since one of the major purposes of life insurance is to replace income lost should you die while still working. You may want some minimal insurance to cover debts and funeral costs, or you may feel you can do without entirely, and put those premiums toward long-term care coverage or other insurance needs.

On the other hand, you may want to maintain a significant amount of life insurance if you want to pass the death benefits on to your adult children, or to pay for estate taxes.

Whatever your needs, don't cancel your existing insurance until you've thoroughly explored all avenues.

Homeowner's. Retirees often can get a discount on their homeowner's coverage because they're home more to keep an eye on the house. Early retirees also might get some reduction in auto rates because they don't drive as much (rates will go up when you get older, because older drivers pose higher risks).

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