

# Choosing the Right Insurance For Your Life's Stages



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FINANCIAL PLANNING ASSOCIATION

*The Heart of Financial Planning*<sup>™</sup>



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Along the financial road of life arise the inevitable delays, detours, emergencies and breakdowns. Some are small, which you can pay for out of cash flow, a cash emergency fund or even investments. But others are major and expensive setbacks. That's when you need insurance.

The purpose of insurance is to shift these major financial risks to insurance companies. Without adequate formal insurance, you are, in reality, self-insuring. You'll pay out of your own pocket the cost of such financial calamities as the loss of a home, an auto accident or a serious illness — expenses that could demolish your household finances and derail accomplishment of your life's dreams.

Insurance coverage costs money and that cost is rising. So you need to buy insurance wisely: the right kind...the right amount...at the right time...at the best price.

This brochure, produced by the Financial Planning Association (FPA), the premier resource for the public to find a financial planner who will deliver advice using an ethical, objective and client-centered process, explains what types of insurance are most likely appropriate for the different stages of your life: from first launching out as a young adult to raising a family to retirement. By buying the right mix and amount of insurance — and not buying coverage you don't need — you'll get the best bang for your insurance dollars.

## Young, Single, And On Your Own

You are fresh out of high school, college or a short tour of the military. For the first time, you are truly on your own as a young adult — and you're on your own for insurance, too, as most insurers drop a child from the parents' coverages once the child leaves home or school. Below are some of the insurance coverages you should consider.

**Health** – A medical plan will likely be available at your job, but not all employers provide health benefits, and not all employees join available health plans. You may not have found a job yet out of school, or you may be between jobs. As a consequence, many young people choose to go without coverage. But that's not wise. Even the young can suffer an expensive major illness or accident.

If you are between jobs, and you were covered under the previous employer's plan, you probably can continue that group coverage for up to another 18 months through the federal program COBRA. But before continuing under COBRA, compare the cost against similar private coverage.

If employer coverage or COBRA isn't available, consider a temporary short-term health care policy (1–12 months) to cover you until you become eligible for a new employer's plan. Or apply for a high-deductible permanent major medical policy. Either of these types of policies can be reasonably priced, but you must qualify medically and they usually don't cover pre-existing conditions.

**Disability** – Your working income is possibly your most precious financial resource at this stage. Yet as a young person, your odds of being disabled by illness or injury at least 90 days or longer before age 65 are higher than your odds of dying, according to the Insurance Information Institute.

Disability insurance, sometimes called income-replacement insurance, pays a portion (typically around 40–60 percent) of lost wages if you're unable to continue your job due to an accident or illness. Any employer disability coverage is usually limited to 6 to 12 months, and what they provide may be insufficient for your wages. State-sponsored worker's compensation programs may provide income, but normally only if you're injured on the job (a few states provide for nonwork related disabilities). Social Security may provide benefits, but only if you're unable to work at virtually any job.

If your employer's coverage doesn't pay at least 60 percent and doesn't last to age 65, you'll likely want to supplement it with private coverage.

**Renter's** – Your personal assets are probably modest, but nonetheless, it could cost you thousands or tens of thousands of dollars to replace clothes, a computer, audio equipment, and other property if stolen or destroyed. Your landlord's insurance does not cover your personal property.

A personal renter's policy is usually quite affordable — \$150 to \$300 a year will probably buy the coverage you need. However, you might need additional coverage, or an insurance rider, for high-valued property such as jewelry. Also see if the policy includes liability coverage in the event you are sued for injuries suffered at your residence.

**Auto** – Once you're no longer a student, you won't be able to insure your vehicle through your parents' policy. Shop around. Rates vary widely for comparable coverage.

**Life** – Because you're single, you probably don't need life insurance yet. It generally is designed to provide income for those whose financial security is tied to you, such as a spouse, child or dependent parents.

Some financial experts argue, however, that it can be worth buying life insurance while you're young because premiums are relatively low and you're likely in good health.

## Newly Married

Wedding bells ring in the need to revamp the insurance coverage you were carrying when you were single. For example, it may be less expensive for both of you to insure under a single employer's medical plan. You'll probably also want to insure your vehicles with a single carrier. If one of you quits working, you might want to drop that person's disability coverage unless they anticipate returning to work within a couple of years.

**Life** – Now life insurance is more important because someone else is financially tied to you.

First, calculate the amount of coverage you need to replace future lost income and cover any large debts. Then, decide what type of insurance to buy. You might be able to afford to buy sufficient death benefits through a whole life policy, which have investment components as well as death benefits. Or, you may be better off buying term life insurance, which provides only a "pure" death benefit for a death occurring within a specified time. Generally, term insurance allows you to buy more death benefits for each premium dollar.

**Homeowner's** – You may become a first-time homebuyer. If so, it's best (though more expensive) to buy a policy that will pay for the full cost of rebuilding your home and for replacing your personal possessions, versus merely paying for their market value at the time.

Standard policies typically set limits on what they'll pay for higher-end possessions such as jewelry, silverware, and antiques, so you may need a "rider" or "floater" to provide extra coverage.

And be aware that the standard homeowner's policy does not cover flood or earthquake damage. You'll have to buy separate policies for that.

**Liability** – Commonly called umbrella coverage, this provides liability protection above the limited protection offered by standard homeowner's and auto insurance. In this era of lawsuits, liability coverage becomes more important as your net worth grows.

Umbrella coverage is only a few hundred dollars for the typical \$1 million policy, especially if bought from the company that insures your car or home.

## Proud Parents

A newborn brings many changes to your household, including insurance.

**Health** – Add your baby to your medical policy within 30 days of birth. Otherwise, many policies require you to wait until the next enrollment period.

**Life** – Boost coverage to take into account the future cost of raising your child, including college. Provide coverage for a stay-at-home parent too.

Planners differ over whether to buy a small amount of life insurance for children. Some consider it a waste of money, while others recommend coverage for unexpected funeral expenses.

You may want to use your will to create a trust with your children as beneficiaries in order to manage the life insurance proceeds (and other assets) in the event both parents die while the children are still young.

**Other** – Review other existing policies. For example, your auto insurance may cost less if a previously working parent stays home to provide childcare.

## Empty Nesters

As your children strike out on their own, it's time for another major review of your insurance coverage.

**Long-term care insurance** – Now is the time to begin considering one of the most overlooked types of insurance: long-term care. This insurance is designed to pay for custodial care in a nursing home, assisted-living facility, or professional at-home care, any of which can be very expensive.

Many people don't buy this insurance because they assume that the government will pay for it. But Medicare won't pay for long-term custodial nursing home care. And Medicaid, a federal/ state program designed for the poor, will pay for it only if you have spent down most of your financial assets in order to qualify. Furthermore, Medicaid benefits are much more limited than private coverage.

The majority of financial planners recommend buying long-term care insurance while you are in your fifties. The premiums are still reasonable at this age and you run less risk of failing to qualify due to deteriorating health. According to a 2003 *Consumer Reports* article, one in four 65-year-olds “flunk the physical.” If poor health is a barrier, you may be able to qualify by buying group coverage through work, if it's available.

**Disability** – You'll want to continue this coverage as long as you are working and dependent on the income.

**Life** – With the kids gone, you may not need as much life insurance as before, but it remains critical if you're married and still working. Often, estate planning issues on legacy creation will determine if you wish to keep coverage.

## Retired

**Health** – Medicare doesn't start until age 65, so if you retire before then, you'll need to bridge the gap with alternative coverage. You may have a retiree medical plan available through your former employer, but many employers are dropping these plans because of costs. If 18 months of COBRA doesn't get you to age 65, you will need to convert your group coverage to individual coverage or venture out into the private coverage market.

Just don't go without as you may have done as a young adult. *Fidelity Investments*, for example, estimates that couples retiring at age 65, with no access to employer-sponsored health insurance, could spend as much as \$330,000 out of pocket for medical care over the next 20 to 30 years—not including long-term care, which can cost up to \$105,000 each year.

**Medigap** – Medicare generally pays only about 55 percent of retirees' average medical expenses. Consequently, unless you are enrolled in a reliable Medicare HMO program, you either pay the difference out of pocket or you can buy a Medicare supplemental insurance, commonly called Medigap insurance.

Medigap policies come in 10 standardized versions, A through J, with each version offering different degrees of benefits. While the plan benefits are standardized among insurers, prices are not, so shop around carefully.

**Medicare Prescription Drug Plans** – These plans add prescription drug coverage to your existing Medicare plans. Generally, these plans will help you save money on prescriptions.

**Disability** – Once you retire, you don't need disability coverage. Besides, most disability policies won't cover you beyond normal retirement age.

**Long-term care (LTC)** – If you haven't already bought LTC insurance, don't wait any longer. You're probably in your sixties now and the cost of coverage climbs rapidly. Your risk of not qualifying because of health reasons also accelerates.

**Life** – You may need minimal or no life insurance at this stage—perhaps just enough to cover any debts you have and to be certain your spouse will be OK financially.

Larger amounts might still be necessary if you want to pass the death benefits on to your adult children or to pay for potential estate taxes. With large amounts, it's often wise to shift ownership of the policy out of your estate in order to reduce any potential tax bite.

**Other** – Retirees often can get a discount for homeowner's coverage, and they may get a discount for auto insurance until they turn 75.

## Don't Skimp on Coverage

The purchase of insurance—particularly policies such as disability or long-term care—are often viewed as a “waste” of money. Some see it as money spent on policies they hope or think they will never use.

Yet without adequate insurance, you run the risk of a financial disaster. The key is to buy only the right types and amounts of insurance at the right time. Don't get sidetracked by insurance that may be a waste of money for most people, such as credit, flight, specific disease, car rental and pet insurance.

Work with your financial planner to match the right insurance coverage for the right stages of your life.

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