

Financial Life Planner

Step 11: Revamp Insurance

WHEN WE'RE around age 50, we should give our insurance coverage a serious rethink. There's the usual question: Should we raise the deductibles on our homeowner's and auto policies, because we're now wealthier and can afford to take more financial risk?

But the thornier issue involves three other policies: Can we afford to drop our disability and life insurance—and should we purchase long-term-care coverage? In each case, we need to consider how much we've already saved for retirement or how much we're likely to have once retirement rolls around.

Start with life insurance. If we died tomorrow, we wouldn't have to worry about our own retirement, because we'd no longer be around. Instead, the question is, would our family be okay financially? If the children are through college and we have enough saved to pay for our spouse's retirement, we might drop our life insurance.

Similarly, if we already have enough socked away to pay for both our own retirement and that of our spouse, assuming we're married, we might drop our disability insurance.

The premium savings could be handsome. But we shouldn't be too quick to celebrate—because we might need those dollars to buy long-term-care insurance. These policies have a troubled history, with insurers mispricing them and then coming back to demand huge premium increases.

What to do? Ideally, you'll have enough amassed by retirement so you can pay nursing home costs out of pocket. That might mean \$1.5 million socked away and perhaps more if you're married or live in an area with steep long-term-care costs.

What about everybody else? If you skip the insurance, you run the risk of having to spend down your assets and then fall back on Medicaid. Don't like that idea? Find out the cost of nursing homes in your area. Next, figure out how much you could afford to pay between portfolio withdrawals, Social Security and any pension income. You might then purchase a long-term-care policy to cover the gap between what you can afford and what a nursing home might cost.