

MAKING THE TRANSITION TO RETIREMENT: INSURANCE NEEDS

BY AMB. HERMAN J. "HANK" COHEN

When planning and preparing for your transition to retirement, especially in the current climate of economic uncertainty, don't forget to include updating your insurance needs on your long checklist of things to do. The two most important items will be reviewing your life insurance and considering long-term care insurance.

LIFE INSURANCE

First and foremost, take a look at your life insurance portfolio. If you are a family person and have adult children who are no longer dependents, you may be carrying too much simple term-life insurance at a growing cost. Your term-life premiums might better be used for other purposes, such as paying off the mortgage or other types of insurance that are more relevant to retirement living. Term-life insurance makes sense when the kids are still with you at home, because you get the maximum amount of life insurance at the lowest possible cost.

A high level of term-life insurance could be reduced significantly by taking into account income from a surviving spouse's future annuity and Social Security. With respect to term-life insurance, you will be asked to choose an option for your government term-life insurance, known as Federal Employees' Group Life Insurance. When I retired, I opted for continued coverage at a reduced level of \$70,000, with no premium payable.

One life insurance option to look at is cash-value insurance. In many cases, basic term-life policies have the option of conversion to cash-value life with no additional underwriting for health. The advantage of cash-value life insurance is the accumulation of savings that earn interest tax-deferred. With some policies, the interest paid on your cash savings is greater than prevailing rates in bank savings accounts. Deferred taxes are payable on the earned interest only if you withdraw cash from the policy during your lifetime. If the policy pays off, your heirs will not have to pay taxes on either the accumulated interest or the saved principal. In my current cash-value life insurance policy with the United States Automobile Association, the monthly interest on my savings is sufficient to pay the premium on my life insurance, with funds left over to increase my cash accumulation. Unfortunately, USAA insurance is available to Foreign Service personnel only at the commissioned officer level. But there are many other insurance firms out there that offer similar policies.

If you expect to continue having to support dependent children after your retirement, you may wish to continue to have low-cost term-life insurance. By far the best and cheapest place to buy such insurance is Worldwide Assurance for Employees of Public Agencies, a nonprofit association in Washington that provides term-life insurance to federal civilian employees and their families. You can't beat the price and the service, because everything is run by federal employees themselves. Term-life insurance is all they do.

For more information, visit www.waepa.org.

LONG-TERM CARE INSURANCE

As you approach age 55, it is important to consider long-term care insurance. This insurance covers home health care, extended stays in a nursing home or other recuperative facility resulting from severe illness, injury or mental incapacity. The cost of such facilities, depending on geographic location, can run between \$400 and \$600 per day. Regular health care policies, including MEDICARE, do not cover such post-hospital care. The younger your age when you purchase such long-term care insurance, the cheaper it is.

A good place to learn about options for long-term care insurance that best meets your needs is the Insurance Desk at the Hirshorn Company in Philadelphia, reachable by phone at (800) 242-8221 or online at www.hirshorn.com. The American Foreign Service Protective Association (AFSPA) also gives professional advice about long term care coverage (www.afspa.org). While MEDICARE does not cover long-term care, it does cover hospice care in the final stages of life.

PERSONAL EFFECTS COVERAGE

Insuring your personal household effects is not something that begins with retirement planning. It begins with your first day in the Foreign Service and continues through your entire career. Nevertheless, when retirement appears on the horizon, you may very well be facing the prospect of personal effects shipments arriving at your retirement destination from a number of different storage locations, including overseas. Keep in mind that you can change your official retirement destination at the last minute. At this point, it is important to make sure you are fully covered against loss and breakage while your effects are in transit. This is the time in your life when accumulation is at a maximum.

Here again, a reliable place to check on the adequacy and quality of your coverage is at the Foreign Service Insurance Desk of the Hirshorn Company. The personal property plan has given excellent service to Foreign Service personnel since 1970. Clements Worldwide is another excellent company that has been serving Foreign Service employees for many decades (www.clements.com/FSJ).