Life & Health Insurance Advisor

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Phased Retirement: How to Make It Work for You

Longer lifespans, shrinking retirement funds and the poor economy are prompting many Americans to rethink their retirement plans. In 2011, 20 percent of workers responding to the Retirement Confidence Survey said the age at which they planned to retire had increased in the past year. To ease the transition, some workers are planning to phase their way into full retirement. Is phased retirement something you should consider? If so, what do you need to know to make it work for you?

What exactly is "phased retirement"?

The definition of "phased retirement" varies from situation to situation. If 65 is the "normal" retirement age, phased retirement can mean reducing work hours and phasing into retiring before then. It can also mean working past normal retirement age. Phased retirement can take different shapes and forms, including reduced work schedules, job sharing or going back to work after retirement—sometimes with the same employer and sometimes with a different employer.

Financial Implications

Although many employers want to keep productive older employees in the workforce, individuals seeking phased retirement can encounter some administrative hurdles. These include:

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This Just In...

Baby boomers who own annuities are more confident of their ability to retire, found a recent study. The Insured Retirement Institute (IRI) reported that more than one-third of baby boomers do not know when they will retire. Among this group, three out of 10 said they were concerned about having enough money, while more than half said they plan to work for income in retirement.

On the other hand, the study, "Boomer Expectations for Retirement," found that nine out of 10 boomers who own insured retirement products (annuities) believed they were doing a good job of preparing financially for retirement.

The recent downturn in stocks has made annuities more appealing for many individuals. As of the fourth quarter 2008, combined net assets of U.S. variable annuities equaled $1.2 trillion, while fixed annuity assets were valued at $556 billion, up 9 percent from 2007.

For more information on the role annuities can play in your financial plan, please contact us.

How to File a Life Insurance Claim

If you are the beneficiary of a life insurance policy, how do you file a claim?

If you have an "insurable interest" in a family member or business partner's life, chances are he or she has bought life insurance to protect your financial security. When the time comes, your family member or partner would want you to receive the benefits of that policy. So how do you go about filing a claim?

First, you'll need to obtain a copy of the death certificate. Most insurers will require a certified copy. You can get this from the funeral director.

You'll also need a claim form. Use the contact information on the life insurance policy to contact the insurer. If you do not have a copy of the policy, for a group life policy, contact the deceased's employer. For an individual policy, contact the insurer or the agent who sold the policy. The agent should be able to help you fill out the paperwork.

Once you submit a claim, the insurer should take between one to four weeks to process a standard claim. In certain circumstances, however, it can take longer:

- If there is a question whether the policy was actually in force when the death occurred,
- If the death resulted from an accident and the policy has already paid accidental death benefits ("double indemnity"),
- If questionable circumstances surround the death (i.e., the beneficiary could have been involved),
- If the policy was in force for less than two years. (After that point, the policy enters the "incontestable period," where the insurer cannot deny a claim except for "material misrepresentation" on the application. A material misrepresentation is a statement or omission that would have affected the insurer's decision to offer coverage—for example, an insured neglecting to mention a heart attack on his/her application.)
- If the death certificate indicates the policyholder was older than he/she stated on the policy application,
- If the policyholder claimed to be a nonsmoker but was actually a smoker (in some states),
- If there is a question that the deceased might not be the person named in the policy.
- Most states require an insurer to pay interest on the death benefit from either the date of death or shortly thereafter if it delays payment but eventually determines you are entitled to the benefit.

For assistance in filing a life insurance claim or locating a missing policy, please contact us.

Risk Tip

"...you shouldn't store a life insurance policy — which contains important contact and policy information — in a safety deposit box. In most states, boxes are sealed temporarily upon one's death, which could delay a settlement."

Source: American Council of Life Insurers

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Pension distributions. A defined benefit pension plan generally cannot pay benefits before retirement, discouraging many individuals who would otherwise be interested in phased retirement from pursuing it. In 2007, the IRS issued final regulations that helped ease the way to phased retirement for many individuals. First, they clarify that a pension plan is permitted to commence payment of retirement benefits to participants after they have attained normal retirement age—even if they continue working. The regulations also provide rules on how low a plan's normal retirement age is permitted to be. While ordinarily the normal retirement age under pension and annuity plans is age 65, Rev. Rul. 71-147 permits a different age to be specified; however, an age lower than 65 is permitted only if it represents the age at which employees customarily retire in the particular company or industry, and the age change is not a device to accelerate funding.

Healthcare benefits. Healthcare benefits can create another stumbling block to phased retirement. Those who retire at the "traditional" age of 65 become eligible for Medicare. But what happens to younger individuals who cut back on hours and no longer qualify for coverage under their employer's group health plan?

If your employer currently offers health benefits to retirees, consider yourself part of the lucky minority. In 2008, 36 percent of employers with 1,000 or more workers offered health benefits to early retirees, while small businesses "almost never" offer health insurance benefits to retirees, reported the federal Agency for Healthcare Research and Quality.

"Retiree health benefits" cover a retiree beyond what is mandated by COBRA or other health continuation laws. Coverage must include provisions typically found in a medical plan, such as hospitalization and doctor's care. The retiree plan does not have to be the same plan provided to active employees, nor does it matter whether the retiree pays the entire premium. Plans that cover only dental, vision or prescription drugs are not included.

The Affordable Care Act established a federal Early Retiree Reinsurance Program to help employers maintain health coverage for retirees age 55 and older who are not yet eligible for Medicare. Employers accepted into the program will receive reimbursement for medical claims for early retirees, their spouses, surviving spouses and dependents. Check with your employer's plan administrator or human resources office to see if your employer participates. For more information, visit www.healthcare.gov. The program ends on January 1, 2014, when early retirees will be able to choose from additional coverage options available in health insurance exchanges.

Employees and retirees should know that private-sector employers are not required to promise retiree health benefits. Furthermore, when employers do offer retiree health benefits, nothing in federal law prevents them from cutting or eliminating those benefits—unless they have made a specific promise to maintain the benefits.

If your employer offers retiree health benefits, you will need to review your summary plan description (SPD) to understand what exactly you can expect. If your employer has reserved the right in the SPD or controlling plan document to change the terms of the plan, *you may lose coverage at any time during your retirement.* If your employer made a clear promise that you will have specific health benefits for a definite period of time or for life, and did not reserve the right to change the plan in any formal written plan document, you should be covered.

If you retire early and have a special agreement with your employer, carefully consider the materials you have received concerning the terms of your early retirement.

- Do any of these documents contain language regarding the duration of your retiree health benefits?
- Are there any records of meetings that your employer may have had with you concerning an early retirement offer?

If you are considering an early retirement, you may wish to protect yourself by negotiating a written contract with your employer that includes the specific terms of your health benefits and the circumstances, if any, under which they can be changed. Given the uncertainty of the law in this area, you may wish to seek legal advice.

Health Savings Accounts (HSAs) or other plans that allow individuals to build tax-free savings for retirement health costs could make phased retirement a more attractive option for some individuals. And if it looks like you might have to work for pay in retirement, you're not alone—the 2011 Retirement Confidence Survey found that nearly three-quarters (74 percent) of workers now plan to do so.

We can help you make your retirement more financially secure. For assistance with your retirement financial plan, please contact us. ■

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health and location, and pays an average of $25,000. You can also buy higher-end policies that provide up to $100,000 in benefits and cover a wide range of illnesses, such as Alzheimer's, paralysis, coma and multiple sclerosis.

8 Policies under $100,000 often don't require a medical exam.

9 Critical illness insurance can supplement your disability income insurance. Because you don't have to prove disability, only illness, to collect benefits, critical illness insurance may offer more flexible coverage than many disability policies.

10 Critical illness insurance provides peace of mind. If you don't have thousands of dollars in reserve at all times to pay for illness-related catastrophic expenses, this coverage can provide your family with a valuable financial buffer and needed peace of mind.

For more information on critical illness insurance, please contact us. ■

Ten Reasons to Buy Critical Illness Insurance

A critical illness policy pays a lump sum benefit if you are diagnosed with a serious health condition, such as cancer, heart attack or stroke. Payouts for critical illness policies typically average around $25,000. Do you need critical illness coverage? Here are some reasons to consider buying this valuable coverage.

1. You have a strong chance of developing a chronic disease before age 65. The U.S. Centers for Disease Control (CDC) reports that in 2005, 133 million Americans – almost 1 out of every 2 adults – had at least one chronic illness.
2. Disease can be costly. Cancer tops the list of most costly diseases to treat. For starters, the American Cancer Society said the cost of a 30-day cancer drug prescription averaged more than $1,600 in 2006, and it's even higher today. Of course, every case differs, and the extent of your insurance coverage can make a big difference in your out-of-pocket costs.
3. Medical debt contributes to 60 percent of personal bankruptcies in the U.S., according to 2009 research from Harvard Law School, Harvard Medical School and Ohio University.
4. Even those with medical insurance face the risk of medical bankruptcy. The Harvard/Ohio University study found that 75 percent of medical bankruptcies affected people who had health insurance. The fact is, insurers are cutting back on coverage to keep premiums low. Your policy probably provides fewer benefits than it did only a few years ago.
5. Treating and coping with a serious illness often involves costs not covered by your medical insurance. Think beyond deductibles and co-payments: your out-of-pocket expenses can include transportation to out-of-town medical facilities, lodging costs for a family member, experimental treatments, lost work time, extra payments for childcare or household help, etc.
6. You can use critical illness payments however you like. Unlike other health insurance policies, whose benefits reimburse healthcare providers, critical illness insurance payments go directly to policyholders, to be used however they see fit.
7. Critical illness insurance is affordable. A basic policy can cost as little as $300-$500 per year, depending on your age, gender,

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Avoid Overuse of Medical Imaging

Experts expect the number of medical imaging tests performed in the U.S.—currently 95 million per year—to double by 2012. These tests, which include MRIs, x-rays and CAT scans, cost $100 billion annually.

Although medical imaging can save lives through improved diagnosis, between 20 to 50 percent of these tests are unnecessary, according to a report by America's Health Insurance Plans (AHIP), an insurer trade group. Unneeded tests waste $3-10 billion per year and unnecessarily expose patients to radiation, which can cause cancer.

AHIP cautions, "Every year, nearly 45 million people in the United States visit a health care provider because of lower back pain. It's the most common reason that people seek chiropractic help and the No. 2 reason behind medical visits overall, just behind upper respiratory infections."

However, research has found that diagnostic imaging is seldom useful for low back pain, since most back pain cases are "unspecific," or cannot be linked to a specific disease or abnormality. In fact, only one in 2,500 lumbar x-rays uncover abnormalities, such as tumors or herniated disks.

If your physician orders medical imaging, you might want to keep the following recommendations, developed by researchers and physicians, in mind:

1. **Imaging is appropriate if you have "red flag" symptoms, such as fever or blunt trauma, which require immediate diagnosis and treatment.**
2. **If you suffer from low back pain, before consenting to imaging, ask your physician to perform a thorough examination, including a focused health history, to determine whether your pain stems from a definitive cause or is "unspecified."**
3. **If your pain is unspecified, the American College of Physicians and the American Pain Society say, "Clinicians should not routinely obtain imaging or other diagnostic tests in patients with unspecified low back pain." Instead, they recommend taking a "wait and see" approach, since unspecified low back pain often resolves itself with time. Waiting can save money and prevent unnecessary radiation exposure.**

For more suggestions on using your health plan wisely, please contact us. ■