How to Cope With 3 Common Retirement Emergencies

Planning will help you weather these sudden retirement costs.

By Emily Brandon | Sept. 26, 2016

Budget for the commonly needed services that Medica (GETTY IMAGES)

Most people pay for retirement using a combination of their Social Security income and withdrawals from personal savings. Retirees learn to live on this typically modest fixed income. But a significant home repair or large health care cost can disrupt your spending plan, perhaps even causing you to deplete your savings too quickly. "The reasons for having an emergency reserve in retirement are really not much different than having one as a key component of anyone's financial plan, except there is more on the line," says Todd Smith, a certified financial planner and CEO of Level 5 Financial in Colorado Springs, Colorado. "No longer having a paycheck creates more risk."

Here's how you can prepare for three common retirement emergencies.

[See: 10 Costs to Include in Your Retirement Budget.]

Major home or car repairs. Your home, car and major appliances are all aging and will likely need to be repaired or replaced at some point, perhaps on short notice if they stop working completely. But withdrawing money from your traditional 401(k) or IRA triggers income tax that you will need to pay in addition to the repair bill. To avoid disrupting your retirement account distribution strategy and paying extra taxes, it is a good idea to keep enough money for most emergencies outside of your tax-deferred retirement accounts. "A solid emergency reserve fund certainly affords retirees the ability to handle unforeseen events such as a new roof or water heater, car repairs, medical expenses not covered by Medicare, without tapping into other accounts that may be subject to less-than-desirable market conditions or creating a taxable event that pushes them into a higher tax bracket," Smith says. "I think that six to 12 months of expenses is usually sufficient. This is a good balance of comfort and peace of mind for a retiree and not being too cash-heavy."

[See: 10 Ways to Increase Your Social Security Payments.]

Outliving your savings. Your retirement savings needs to last the rest of your life, however long that might be. It's essential to calculate how much you can safely withdraw from your retirement account each year without depleting your savings too quickly. Once you spend your nest egg, your only source of retirement income is likely to be Social Security. This can make delaying claiming Social Security to get higher payments later on in retirement particularly important, especially if you expect to live into your 90s or older. "If you have no health concerns and a family history of living until age 90 or 100, delaying Social Security makes a lot more sense in that situation," says Kenneth Klabunde, a certified financial planner and founding principal of Precedent Asset Management in Indianapolis. "If you're a low-asset retiree, deferring Social Security to age 70 may make sense for you because you are more likely to run out of money." Social Security payments are also increased each year to keep up with inflation, and a larger initial payment increases the dollar value of the annual inflation adjustment.

[See: 10 Things You Need to Know About Medicare.]

Runaway medical expenses. Just like private insurance, Medicare has monthly premiums and an annual deductible. Medicare beneficiaries also typically need to pay for 20 percent of the cost of most medical services, and there's no cap on how high this amount could climb. To make your medical costs more predictable, you could buy a Medigap policy, which, depending on the plan you choose, will typically pay for many of Medicare's cost-sharing requirements and sometimes additional services. You can also purchase a Medicare Part D plan to cover your prescription drug costs, and you are allowed to switch plans once a year as your coverage needs change. Another option is to purchase a Medicare Advantage plan, which replaces Medicare parts A and B with a private plan that has different cost-sharing requirements and typically more coverage restrictions than traditional Medicare. It's also a good idea to budget for the commonly needed services that Medicare doesn't cover, including dental care, eyeglasses, contacts and hearing aids. "In most cases, the solutions around helping with large health bills in retirement involve planning ahead," says Andrew Mohrmann, a certified financial planner and founder of Modern Dollar Planning in St. Louis. "Unfortunately, if retirees incur large bills when they're already there and haven't taken any measures ahead of time to help, it can be too late."