

# Weathering a Serious Illness



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When a serious illness strikes you or a family member, you are often faced with daunting financial and emotional challenges. While health crises can be overwhelming in their magnitude and unpredictability, planning for unpleasant contingencies can eliminate some of the problems you might face. Expecting the worst can seem overwhelming, but there are good reasons to plan for a crisis.

The skyrocketing costs associated with even preventive health care can quickly drain savings. A 2005 Harvard study found that medical causes were cited in roughly half of personal bankruptcies in 2001, meaning approximately 2 million Americans that year were pushed

into bankruptcy by illness. Some 75 percent of those had medical insurance when their illness started. The average debtor in the study was a 41-year-old woman with children and at least some college education. Short of insolvency, an incapacitating illness can alter your long-term plans and force you to reassess your goals.

## Preventive medicine

Educate yourself. This is especially important for women, who traditionally were socialized to leave the financial details to the men in their lives. You should have the following items in place before illness strikes:

**A file for important papers:** A fireproof box in your home can store copies of wills, health care directives, tax returns, automobile titles and registrations, birth and marriage certificates, passports, insurance policies, funeral instructions, powers of attorney, and other critical information, making it easy for you or a family member to locate them quickly.

**A list of critical phone numbers:** When you're under stress, it can be hard to know what to do or who to contact for support or to dispose of routine matters. A complete list of doctors, baby sitters, family members, close friends, lawyers, employers' human resources staff, financial planners, health insurers and credit card companies can help you focus and will save you from spending precious energy trying to track down resources. Keep this list in your file of important papers.

**Third-party notification for bills:** Choose a family member not living with you, or a friend, to receive notice if you miss a payment; this will tip them off that something may be amiss and help keep you from ruining your credit rating.

**Advance directives and durable power of attorney:** Advance directives for medical care (living will, durable power of attorney for health care – make sure it incorporates HIPAA medical privacy rules – and Do Not Resuscitate Order) and

financial and estate management (will, durable power of attorney for finances or a trust) legally communicate your wishes and designate individuals to carry them out should you be unable to do so. Update these documents whenever your wishes or life circumstances change, and be careful not to name someone who will alienate the professionals they will have to work with. Consider appointing a third party as a co-power of attorney. When establishing a trust, consider naming a professional trustee.

**List of assets:** Include legal documents, safe deposit boxes, retirement, investment and pension plan account numbers, current funds and other key assets; where they are located; and any information that may be required to access them.

**Advisers you trust:** When selecting advisers, ask yourself what kind of help you might need. Maybe your accountant also offers a bookkeeping service. If you need a financial planner or advisor, a complimentary guide is available at the Paladin Registry, a free public service that helps consumers avoid the risks and consequences of bad advice and help you select high quality professionals who have demonstrated the competence and integrity to help them achieve their goals. There are other resources you can use to locate a financial professional. <http://www.paladinregistry.com>

**Care for dependents:** This can include children, pets, or disabled or elderly parents. Legal guardianship of children should be stipulated in your will, and guardians should receive a standby proxy that can be used until guardianship is officially awarded by a court. Care for pets and parents should be pre-arranged with family or friends.

**Assess your insurance needs:** The time to buy or change your life, health or long-term care insurance is when you're healthy, not when you're ill. Long-term care insurance is an option worth exploring. Your financial planner or insurance broker will be familiar with different companies' offerings and can help match you with an appropriate policy when considering costs and your needs. Long-term disability insurance is critical in protecting your income during working years and should be purchased before insurability becomes an issue.

**Maintain financial flexibility:** Consider investing some money in more short term/highly liquid investments that are easily accessible when you need cash.

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**Prepare for the long term:** In illness, as in aging, living – not money – becomes the primary concern. Make important decisions while you’re able to do it rationally, not emotionally. Don’t give away assets – such as your home – that you might need later, because you think it will make you eligible for Medicare. You may want to consider putting your assets in trust or establishing a life estate on your home. Do make sure to speak with an attorney regarding your specific situation. You can outsource daily financial functions early enough for them to be in place should you really need them; make sure you find the right person, though – always use a professional bonded fiduciary.

### **In the eye of the storm**

Health concerns rightly take center stage once a serious illness is diagnosed. But it’s also critical to spend some energy on the financial aspects of illness.

**Communicate early and often.** It is critical that you and your partner or family set priorities and discuss how to handle them. Who will take over daily tasks and household responsibilities? How will you pay the bills? Regular communication makes it less likely that things will fall through the cracks.

**Automate for the short term:** During a shorter-term illness, set up automatic payments for essential bills such as mortgage and utilities.

**Assess your current status.** Compile a list of assets and liabilities. (See Resources, Glossary and Helpful Forms for definitions and a useful worksheet.) Reassess your financial priorities with attention to college savings, retirement plans and savings accounts; and reallocate your investments where needed.

**Where will extra cash come from?** In the event of a long-term or chronic illness, you may be forced to liquidate investments. Keep in mind withdrawals from traditional IRAs and 401(k)s are taxed as ordinary income, generally a higher rate than the long-term capital gains tax rate, and penalties may apply; consult your tax advisor. Anyone diagnosed with a terminal illness should proceed with a defensive strategy: move funds to cash and modify your investment asset allocation plan. The goal is to protect principle as much as possible. There may be some wisdom in the old rule of thumb: Your age should equal your bond weighting.

**Review the fine print in your health care policies:** Knowing ahead of time what services and providers are covered by your policy can allow for more efficient planning. Many treatments or diagnostic tests must be pre-approved; not doing so can cost you thousands of unnecessary dollars. Hospital and provider insurance affiliations can also drastically affect how much you’ll pay out of pocket for care. When appointments are made, ask whether providers are in or out of network, if applicable.

**Ask your employer for flexibility:** Some employers might consider allowing employees to donate sick or vacation time to cover a seriously ill coworker. Others may be willing to allow you to use as-yet-unaccrued days off. Your human resource office can also sometimes cut through red tape from employer-sponsored health or disability insurance providers.

**Ask for support.** Women, especially, can be reluctant to “impose” on family or friends to handle tasks such as cooking or child care that could reduce physical, emotional, and financial stress. During times of crisis, though, your personal network can provide not only life’s daily necessities but also might be an untapped source of information, experience, or critical resources. If you don’t ask, people won’t necessarily assume you need help.

**Be assertive about asking for the treatment and information you need.** The options presented by your providers may not be the best or only options for you. Be prepared to do a significant amount of research to find information about your condition and prognosis; names, costs, and availability of alternate treatments; and professionals who provide second opinions. If you are unable to do this for yourself, consider having a health care POA drafted so others may assist you.

**Consider a patient advocate.** This can be a professional or a member of your family who has the time, willingness and perseverance to fight through much of the red tape associated with critical medical care. This person makes sure you get the information and the care you need, and serves as an active liaison between the patient and insurer, employer and/or creditors in matters related to their diagnosis. You can learn more about patient advocates at [www.patientadvocate.org](http://www.patientadvocate.org).

### **On the road to recovery**

Once the immediate crisis has passed, you can’t assume your work is done. Whether the illness is chronic, unlikely or likely to recur, there are still steps to take – either to allow for continued care or to regroup for the next possible diagnosis.

**Reassess.** It’s critical to assess your new circumstances to determine what money you still owe, how much you have left, and what you will need on an ongoing basis. Identify your most immediate financial threat and develop a plan to deal with it.

**Pay down debt first.** If you don’t have enough on hand to pay both your credit cards and your medical bills, pay off the credit cards first. While card issuers are sometimes willing to negotiate a lower interest rate, doctors and hospitals rarely charge interest or late fees, and will often cut their charges or work out a feasible payment plan if you call.

**Rethink your risk.** Any financial crisis can leave a residue of fear. Cut your risk by restocking your emergency fund and consider moving some of your long-term investments to more conservative vehicles.

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**Solidify your insurance.** Don't let your health insurance lapse. If you or a family member loses or leaves a job, sign up for COBRA, transitional coverage offered for up to 18 months through your employer. COBRA isn't cheap, but it's not nearly as expensive as paying for all medical costs on your own, and depending on what state you live in, you may have a difficult time securing an individual policy. If your insurance does lapse, and you buy an individual policy, you might find yourself or other family members uninsured for any pre-existing conditions for at least one year. Take the time to also review your life insurance policies. If you have any term policies with a conversion option to a more "permanent" insurance, you may want to consider converting as soon as finances allow you. The benefit of converting term insurance is it is often without evidence of insurability, important given that you are at least temporarily uninsurable. Please make sure to review the policy prior to doing so as fees and charges may apply. Long-term care insurance is often seen as unnecessary, but a study by the U.S. Department of Health and Human Services indicates that people age 65 face at least a 40% lifetime risk of entering a nursing home [http://www.pueblo.gsa.gov/cic\\_text/health/ltc/guide.htm](http://www.pueblo.gsa.gov/cic_text/health/ltc/guide.htm). Long-term care insurance can be very expensive and can quickly eat through your nest egg. The annual cost of a nursing home, depending on region, can easily cost \$100,000. Long-term care insurance, though costly, can help limit the out-of-pocket expenses for nursing homes and/or home health care. If you are in a position to purchase long-term care insurance, you should educate yourself on the pros and cons by reading "The Guide to Long-Term Care Insurance" at the website noted above.

**Update documents as necessary.** This is a good time to make sure that changing circumstances haven't affected your choice of beneficiaries or executors of wills and advance directives. If you have a choice of health insurance policies, compare your recent experience with coverage you would have received with a different insurer – but again, beware of limitations on pre-existing conditions. You might also need to amend your list of assets (noted previously in the article).

While a health crisis is not inevitable, chances are that you or someone you love will face at least one bout of serious illness in your lifetime. It's never too early to plan. If you keep putting it off, consider hiring a professional to ensure it gets done. Putting things in order will not only make it easier to handle illness when it comes, but will also provide you peace of mind once you've done everything you can to prevent a health crisis from becoming a financial crisis as well.

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. Please talk to a professional regarding your situation.

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