Financial Planning
for Patients with Chronic Illness

When it comes to managing financial affairs, hoping for the best while planning for the worst can pay big dividends for future security and peace of mind.

By Trudie Mitschang

ACCORDING TO RECENT statistics,[1] 133 million Americans (or 45 percent of the population) have at least one chronic disease. By 2025, it is estimated that chronic diseases will affect an estimated 164 million Americans — nearly half the population. And as anyone living with a chronic illness can attest, the cost of care can be astronomical, yet many patients have minimal understanding when it comes to proper estate and financial planning.

Martin Shenkman, a New Jersey CPA and attorney who lectures on estate planning for the chronically ill, says that most people have no idea where to start when it comes to estate planning, and the unexpected burden of chronic illness only increases the complexity of it. Shenkman learned firsthand what a daunting prospect it can be when his wife was diagnosed with multiple sclerosis in 2006. After making adjustments to his life insurance holdings, trusts and other financial planning tools, he made it his mission to educate the public and financial professionals about the importance of customizing planning documents for people with a chronic illness. "You must address the issues at hand and then tailor them to the current situation you are in," he explains. "You also must have a plan prepared to deal with the many legal and financial situations your family members will likely deal with in the event of your death."

His website, laweasy.com, offers the following additional tips:[2]

- Designate a power of attorney, but be very cautious about who this person is.
- If your life timeline has been shortened tremendously, re-evaluate your portfolio and investment strategy.
- Consider setting up a living trust.

Begin with a Budget

Many financial considerations impact short-term and long-term quality of life. Obviously, everyone's situation is unique, but there are general recommended financial guidelines that can help to build financial security, and it all begins with establishing a realistic budget. A budget is a useful financial tool for anyone, but it's especially valuable for those with a chronic illness because it serves as a foundation for all other financial decisions. Both income and expenses may change if an individual is unable to work or if medical costs rise, and it's highly likely there will be unexpected medical costs related to the chronic condition.

Prior to crunching numbers, the first task, although unpleasant, involves learning as much as possible about the likely progression and symptoms of the illness so that informed decisions can be made. For example, home healthcare might be required at some point. If a wheelchair will be needed, money may be required to widen doorways or to make additional home modifications. Retirement may come earlier than planned, or a spouse may need to leave work to be the caregiver. Knowing this information, a financial adviser can adjust an individual's investment portfolio and budget to prepare for projected costs. And an estate planning lawyer can revise the power of attorney and healthcare directives to address specific potential disabilities related to illness.

Cyndi Hutchins, director of financial gerontology at Bank of America Merrill Lynch, suggests setting up separate reserves to pay for future healthcare expenses such as shifting assets toward income investments like bonds. Another possibility is setting up a deferred annuity that could kick in down the road when living expenses related to illness are expected to rise. "These types of investments allow you to turn on the income stream when you need it," she says.[3]

Keeping good records is also important. For example, it is a good idea to set up a system to help track medical expenses and insurance claims. And, a list of instructions that includes where to find important household and financial information can be prepared for a trusted friend or relative who can access it in an emergency.

Another step to consider is streamlining finances by consolidating various accounts. Having everything in one place can make it easier and quicker for an individual or a trusted advisor to manage. One time-saving step is to set up automatic bill payment or online banking. This will not only save time each month, it will also help to track expenses and see where all the money goes.

The Art of Cutting Costs

Many chronic illnesses require expensive medicines. Financial experts advise those on Medicare to review the Part D prescription drug or Advantage plan after diagnosis to see if it would be advantageous to make adjustments to health plans. If Medicare isn't an option, an insurance broker can help find a plan that covers much of the drug costs. When it comes to healthcare exchanges, individuals should be sure to do their homework. A study by HealthPocket.com[4] found that average out-of-pocket costs for patients taking one of five common specialty drugs were lowest for platinum plans, even though those plans charge higher premiums than gold, silver and bronze plans.

Some foundations, states and drug companies offer programs that pay for out-of-pocket costs insurance doesn't cover. If an individual qualifies, he or she can get discounts, help with co-payments or several months of free prescriptions. Some programs require proof of financial need, while others don't. "It all depends on the drug, the company and the condition," says Tricia Blazier, personal financial planning manager at Allsup, a firm that helps people get disability and healthcare benefits.[3] Links to programs can be found at the Partnership for Prescription Assistance (www.pparx.org) and at RxAssist (www.rxassist.org). Specific disease organizations may also offer financial help.

The Ins and Outs of Insurance

Understanding insurance coverage and making sure the right kind is purchased is essential. A study by Prudential Insurance titled "The 5 Ws of Chronic Illness Care"[5] explores important steps individuals can take to mitigate the financial impact of a chronic illness, with an emphasis on having the correct insurance products and coverage in place. According to the study, some considerations to keep in mind include:

• Cost: How much will the product cost? Is it a one-time payment or are payments ongoing? Are the costs fixed or can they increase? If the cost is affordable now, will it still be in retirement, when income is more likely to be fixed?

• Access: How easily and quickly can funds be accessed?

• Payment flexibility: Does the product provide payments in the form of reimbursements for only qualified medical expenses, or does it provide funds that can be used for any expenses once the requirements have been met?

• Duration and continuity: How long will insurance coverage last — for a lifetime or for a set time period? Is there a limit to how long an individual can use it once payments begin? How long will the payments last once they have begun? Can payments be started and stopped while coverage is maintained?

• Amount: Is the coverage based on a set amount or time period? What happens if the amount isn't enough for an illness?

• Prioritizing and adding layers of protection: Just as there is no one product that perfectly addresses all the issues of chronic illness care costs, there probably isn't one product on the market that is perfect for each person. Therefore, a product should be chosen based on priorities, and more than one layer of coverage may help address all priorities, although this approach can be more costly.

Types of insurance to consider depend on specific circumstances, but most financial planners agree that if an individual owns term life insurance, he or she may want to consider converting it to permanent life insurance to provide protection for loved ones. And, depending on what type of permanent life insurance it is, benefits may be accessed today for expenses down the line. For example, New York Life recently introduced a chronic care rider that is available on whole life and custom whole life policies purchased after Jan. 10, 2014. The rider provides an opportunity for the policy owner to receive a portion of the policy's face amount should the insured become chronically ill.

For those who already own a life insurance policy that accumulates cash value, it can be borrowed against. If the policy has an accelerated benefits rider, a certain percentage of the death benefit can be unlocked to use while the insured is still living. Individuals who are caring for a loved one with a chronic illness will want to make sure their own life insurance is in place and sufficient to support the person they are caring for, in case they pass away unexpectedly.

There is also the catch-22 of affording life insurance with a pre-existing condition. According to Bankrate.com, while it has historically been true that it is next to impossible for those with pre-existing conditions to find affordable insurance products, the insurance landscape has shifted dramatically in recent years, making it easier, though not inexpensive.[6] "Better detection, earlier diagnosis and more effective treatment of illness mean today's patients live longer, healthier lives," notes Dr. Valerie R. Kaufman, vice president and chief medical director at MassMutual. "Insurance companies are offering [life] insurance to those with chronic medical conditions because there is much more medical information available."

While the outlook is more optimistic now, there are, of course, no guarantees, and the ability to purchase a plan will be determined by many factors, including:

- Specific type of illness
- Severity of the illness
- Time elapsed since diagnosis
- Stability of the applicant's health
- Treatment regimen

Disability insurance is another key component of the financial plan. A typical group plan offered by an employer will replace up to 60 percent of an individual's salary, but a supplemental plan or an individual policy will cover up to 80 percent. An insurance advisor can perform a risk-management audit to determine how much coverage is needed.

It's a good idea to consult with an impaired-risk specialist when shopping for insurance. This insurance agent knows which life insurance companies offer the most competitive prices for applicants with pre-existing health conditions. Having an advocate who can do the legwork can be well worth the time and effort.

The Essentials of Estate Planning

Estate planning is possibly one of the most important components of a solid financial plan. Not only is it important to "get your affairs in order" in the event of death, but there are many estate planning tools to help manage finances while living.

For example, a durable power of attorney can help protect property in the event an individual becomes unable to handle financial matters. It also allows that person to authorize someone else to act on his or her behalf to do things like pay everyday expenses, collect benefits, watch over investments and file taxes.

A living trust (also known as a revocable trust) is a separate legal entity that protects property and investments. It's called a living trust because it's meant to function while a person is alive. Thus, the trust is controlled by the person who creates it, who can change the trust terms, transfer property in and out of the trust or end the trust altogether. That individual can also name a co-trustee such as a financial institution or a loved one to manage the assets in case he or she is unable to do so.

An advanced medical directive lets others know what medical treatment is desired, and it establishes who will make medical decisions for that individual in the event he or she can't express preferences. Depending on what's allowed by the state in which the person lives, this document may include a living will, a durable power of attorney for healthcare, and a do-not-resuscitate order.

Getting Affairs in Order

It's a well-known adage that if you fail to plan you plan to fail. Taking the time to get financial affairs in order now can ease anxiety about the unknown, and help create financial security no matter what the future may hold.

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