Planning for Retirement with Chronic Illness

It can be difficult to plan for retirement with the added expenses of a chronic illness, but there are many steps you can take to ensure you are prepared.

By Abbie Cornett

IF YOU ARE like many Americans, you may not be preparing for retirement. A survey conducted by *Money* magazine in 2016 found one out of every three Americans has no savings, and 23 percent have less than $10,000 saved. This figure is particularly alarming since retirement is one of the biggest life expenses, even without a chronic illness.[1]

Many expenses get in the way of saving money such as credit card debt, student loans, low wages and children.[1] But, for those with a chronic illness, saving for retirement is even harder since a large part of your income goes to cover expensive insurance plans, doctor visits, medicines and medical supplies. Furthermore, if you are unable to work or can't work full time due to your illness, there often isn't enough money to save.

Actually, the population dealing with chronic illness and its expenses is larger than most people realize. According to statistics, 133 million Americans have at least one chronic illness. And, it is estimated by 2025, that number will have grown to 164 million people or nearly half the population.[2] But, that doesn't mean those with chronic illness can't prepare for retirement. Following are some steps to getting started in the right direction.

Steps to Preparing for Retirement

1. The first step: Talk to your doctor. Your doctor can advise you on the likely progression of your disease and whether you will need special medical services, equipment or food. For example, if you have a neuromuscular illness, this may mean planning to make your home handicap-accessible in the future. Your doctor can also advise if you might have to reduce your work hours in the future or retire early due to your illness. This information is vital for helping you set a budget to plan for projected costs.[3]

2. Determine how much retirement money you will need. After you have learned as much as possible about the expected progression of your disease, it's time to determine how much money you will need for retirement. While this may sound obvious, it isn't. According to a study conducted by Age Wave and Merrill Lynch, 81 percent of Americans say they don't know what they will need to fund their retirement.[4]

A common guideline for retirement planning is to aim for replacing 70 percent of your annual preretirement income. This amount can consist of savings, investments, Social Security wages and any other income sources such as a pension and part-time employment. A recent retirement survey estimates the average amount needed to retire is $738,400 with $260,000 of that amount allocated toward healthcare costs. Of course, this amount will differ from person to person based on individual needs and lifestyles.[5]

While close to $750,000 sounds like a lot of money to save, think about it in these terms: You don't have to save that much by the time you retire, but you do need to save enough so that amount can grow to that total. For example, if you are 30 years old and want to retire at age 70, you have 40 years to save. Assuming an average rate of return of approximately 7 percent per year, you'll need to save $5,463 per year or $738,400 by the time you are age 70. That's just more than $455 per month.[5]

This nest egg will give you about $30,000 of income per year. To determine what your total income will be, add what you expect from Social Security wages each year, and adjust the amount. The Social Security Administration website has a number of calculators to help you estimate your benefits (see Retirement Planning Related Websites).

When deciding how much you need to save, remember that numbers are averages. You will need to estimate the age you plan to retire, as well as any additional amount you will need to take care of your illness. Similar to the Social Security calculators, there are a number of good retirement calculators you can utilize to help reach your goals.

3. Start saving. Next is to determine how are you are going to reach your goal. According to Martin Shenkman, a CPA, attorney and author of *Estate Planning for People with a Chronic Condition or Disability*, patients should "simplify all of their finances by consolidating everything they can." This means getting rid of unneeded bank accounts, setting bills to be automatically paid and uploading important documents. If all your information is consolidated in one place, it will be easier for you or your financial planner to manage. By making these simple changes, you can empower yourself to plan for the future and free up valuable time to concentrate on your health.

Clearly, everyone's circumstances are different, but that doesn't mean the basic guidelines for planning for retirement are. The first step is to create a reasonable budget based on your individual needs and lifestyle. When creating the budget ask yourself these questions:[6]

- What is my illness going to demand (i.e., specialized medical equipment, home remodeling, home healthcare)?
- How much money do I need to be saving each month?
- How do I protect my future?
- How much do I need to include to enjoy life now?

> A common guideline for retirement planning is to aim for replacing 70 percent of your annual preretirement income.

Because of the unpredictability of chronic illness, there are going to be times when you have to revise your budget as needs change.

4. Stay the course. Consistently save money, even if it is a small amount. While it may not seem much at the time, the balance will build up. Trust me, your future self will thank you for every dollar you are able to save today. Two ways you can accomplish this are by prioritizing your spending and paying down long-term debt. The less you owe, the less interest you will pay. Those interest payments can instead go toward savings!

5. Review your insurance. When diagnosed with a chronic illness, understanding insurance coverage becomes vital to your financial success. Not only do you need to be sure you are selecting the best healthcare plan to reduce out-of-pocket expenses and maximize treatments, you also need to understand disability, life and long-term care insurance.

To gain a better understanding of your needs, it's a good idea to speak with an impaired-risk specialist who knows which policies would be best suited for you and to help find the right coverage.

"Never make a decision in a vacuum," says Shenkman. Before purchasing new or additional coverage, thoroughly review your current policies to learn what they cover, how much they can give you and what your best options are. You might assume because you have been diagnosed with a chronic illness that life insurance is not an option or that you are stuck with your current coverage. This isn't always the case!

To illustrate this point, Shenkman uses his wife's life insurance. After she was diagnosed in 2006 with multiple sclerosis, he reviewed her policy and found out he would be able to convert it from a term life into a permanent life policy. If you can do this, you can ensure security for your loved ones if something happens to you. In addition, some whole life policies offer chronic care riders that allow the policyholder to receive a portion of the policy to manage expenses if he or she becomes chronically ill, while still having the security of a permanent life policy.

If you already have a whole life policy, make sure you understand it. Many policies have an accelerated death benefit that will allow you to unlock a percentage of the benefit while the policyholder is still living. Whole life policies have a cash value that you can borrow against. Either of these actions, though, will result in a reduced death benefit.

6. Decide whether you need a financial planner. Because of the complicated nature of retirement planning with chronic illness, you may feel your best option is to seek the help of a professional financial planner. If you choose to use a planner, finding the best one doesn't necessarily mean finding one who specializes in clients with chronic illness. Shenkman advises finding a professional who has integrity and is willing to think outside the box. After you have chosen a planner, it's up to you to provide details about your illness and what your future needs will be.

Retirement Planning Related Websites

- Social Security Benefits Planner: www.ssa.gov/planners/calculators
- Retirement Calculator: www.calculator.net/retirement-calculator.html?cagenow=51&cretirementage=68&clifeexpectancy=85&cssn=1800&cinflationrate=3&ccurrentincome=80000&cretiredincomerate=75&ctype=1&x=33&y=18
- Nerd Wallet: www.nerdwallet.com/investing/retirement-calculator
- Chronic Care Rider: www.newyorklife.com/articles/managing-cost-with-chronic-care-rider

7. Plan your estate. Estate planning is one of the foundations of a good financial plan for a couple of reasons. First, it ensures your affairs are in order in case of your death. More importantly, an estate plan can help manage your finances and healthcare if you become incapacitated.

Two important parts of a good plan include a living will and a durable power of attorney. A living will (also known as an advanced directive) is a legal directive that states your wishes in writing about your medical and end-of-life care if you are unable to do so. With a durable power of attorney, you can authorize someone to handle your finances, pay bills and taxes if you become debilitated.

You Can Plan for Retirement Even with a Chronic Illness

While the above-mentioned obstacles may seem insurmountable when you first start planning for retirement, they aren't! With a bit of financial education and careful preplanning, saving for retirement is possible even with a chronic illness.

ABBIE CORNETT is the patient advocate for *IG Living* magazine.

References

1. Kirkham, E. 1 in 3 Americans Has Saved $0 for Retirement. *Money*, March 14, 2016 Accessed at time.com/money/4258451/retirement-savings-survey.
2. Mitschang, T. Financial Planning for Patients with Chronic Illness. *IG Living*, August-September 2015. Accessed at www.igliving.com/magazine/articles/IGL_2015-08_AR_Financial-Planning-for-Patients-with-Chronic-Illness.pdf.
3. Garland, SB. Planning Checklist for Chronic Illness. *Kiplinger's Retirement Report*, January 2015. Accessed at www.kiplinger.com/article/retirement/T037-C000-S004-planning-checklist-for-chronic-illness.html.
4. Finances in Retirement: New Challenges and Solutions. Accessed at agewave.com/what-we-do/landmark-research-and-consulting/research-studies/finances-in-retirement-new-challenges-new-solutions.
5. Connick, W. How Much Do I Need To Retire? *International Business Times*, April 2, 2017. Accessed at www.ibtimes.com/how-much-do-i-need-retire-4-things-do-keep-steady-standard-living-after-work-2528718.
6. Haotanto, AV. How To Plan For Your Finances When You Have A Chronic Illness. The New Savvy, March 23, 2017. Accessed at thenewsavvy.com/life-changes/death/chronic-illness.