Are you financially prepared for a medical crisis?

Karin Risi April 2, 2013 4:30 pm

At 39 years old, I was unprepared for breast cancer. With no family history of the disease, I had my first mammogram about a year ago. Two days later, I received a call suggesting that I return to the office for another mammogram. I wasn't worried. The radiologist evaluated the results of my second mammogram, expressed concerns, and "strongly recommended" further testing. Oddly, I still wasn't worried. Less than a week later, I was scheduled for a stereotactic biopsy. Lying facedown on a stainless-steel table, I took note that the nurse was talking to me in an overly soothing tone (the way I sometimes talk to my young daughter when she's teetering on the verge of a meltdown). The nurse squeezed my hand awkwardly as the doctor wheeled a strange contraption toward me. Suddenly, I was worried. A brief phone call from the surgeon a few days later confirmed the diagnosis: "Ms. Risi, you have breast cancer." Three mammograms, one MRI, countless hours of internet research, four "second opinions," two skilled surgeons, and one bilateral mastectomy later … I'm grateful and relieved to be cancer free.

A year has passed since my diagnosis. And while I was emotionally unprepared for cancer, I was reasonably well prepared from a financial perspective. Not because I'm particularly wealthy, nor because I'm a master planner. I'm neither. But, I had the basics covered. And so can you.

The glass is half full, so plan ahead. While any catastrophic illness is difficult to face, the odds are increasingly in your favor that you'll actually survive one. According to the American Cancer Society, the average 5-year survival rate for all cancer types in the mid-1970s hovered below 50%. By 2008, survival rates approached 70%, and they continue to increase with advancements in research, treatment, and early detection.* If the nature of your illness precludes you from working and requires surgery or ongoing treatment, you may experience an extended disruption of income coupled with significant medical expenses. And all of this uncertainty will come at a time when you're appropriately preoccupied with getting well, not tending to your finances. A few things to consider:

Draw from your taxable assets first. Determining the optimal method for depleting your financial resources during a medical crisis can be overwhelming, but there may be a practical rule of thumb to consider. If the extent or duration of your illness requires you to draw on your assets, tap into your non-retirement accounts first (think liquid assets like cash savings and money market funds). You'll want to exhaust your taxable "cash accounts" first, followed by your other investments held in taxable registrations, if needed. In short, protect your retirement savings as long as you can. If necessary, you can investigate the possibility of a hardship withdrawal from your IRA, 401(k), or other employer-sponsored retirement plan. The specific rules pertaining to hardship withdrawals vary, but you may be able to take a withdrawal before retirement without incurring a penalty to cover a portion of your unreimbursed medical expenses. A hardship withdrawal may be the right option, but remember that you'll have to pay income taxes on the withdrawal amount.

Assess (or build) your financial reserves. You may be fortunate to have disability coverage through your employer, but it's not a given. In fact, only 36% of all workers have access to short-term disability coverage. If you're in the lowest quartile of wage earners, that number drops to 17%. And if you're a part-time worker, it's lower still at 15%. In each instance, those percentages drop even lower for long-term disability coverage.** Building an emergency fund is a basic principle of financial planning, and you may need to tap yours if your illness is prolonged or you lack medical coverage. If building an emergency fund hasn't been a top priority for you, I hope my experience gives you the resolve to start now and stick with it, even in small increments. Consider stockpiling 3–6 months of income (or longer, depending on your risk profile) in a short-term investment vehicle that allows you quick access to your money when you need it.

Medical coverage is confusing—ask for help. A sudden and serious illness can turn your life upside down and drag your loved ones right along with you. Often, your partner, family, and closest friends are too distraught to help you sort through the medical maze that accompanies a serious illness. If you're eligible for medical benefits, contact the plan provider as soon as possible to explain your diagnosis and request a dedicated case manager. Many larger insurance companies will offer a single point of contact to help you wade through the mountain of bills you're about to receive and to make sense of which consultations, procedures, and treatments will be covered. A case manager may also help you arrange a payment plan, if necessary.

Get adequate life insurance now. Life insurance covers your immediate obligations—think mortgage, medical expenses, student loans, or other large debts. But, you also need life insurance to cover anticipated *future* expenses. Not sure how much your loved ones might need when you're gone? I'll bet it's more than you think. Just search "life insurance calculator," and you'll find a slew of tools. Regardless of the calculator I used, my existing coverage amount—which seemed like plenty from my healthy vantage point a year ago—now looks a little slim in light of my "survivor" status. And while I would like additional coverage, it will be tough for me to secure at this point. Most insurance actuaries aren't particularly eager to have a young cancer survivor as a future policyholder. But for many (like you, I hope), obtaining sufficient coverage through a term life insurance policy is relatively easy and inexpensive. More importantly, it provides immeasurable peace of mind to have that coverage locked in *before* you face a sudden illness.

Draft a will, and keep it up to date. Regardless of your wealth level, you probably need an estate plan, including a willand living will. You should also establish a durable power of attorney and health care proxy, which, respectively, will ensure that your wishes are carried out regarding your property and medical care. The process can be daunting and I'll admit that it took the birth of our second child a few years ago for my husband and me to finally complete the task. It's a bit of a chore—it takes time, costs money, and forces you to discuss multiple unpleasant scenarios. But, it's also part of being a responsible grown-up. Moreover, I promise you that it's far easier to contemplate the financial issues related to your death when you're *healthy*. Need a jump start? Check out our top ten reasons to create an estate plan.

Don't be so independent. In a few of my prior blog posts, I've written about the underappreciated importance of communication in financial relationships, which can often be emotionally charged for any number of reasons. Trust me, cancer or any other serious illness qualifies as an emotional topic that unfortunately may have financial implications for you or your family. If you're lucky enough (like I was) to have a great partner, now is the time to share your concerns—financial or otherwise—about the medical challenge you *both* will face.

Have you ever faced a serious illness, your own or that of a loved one, that resulted in financial uncertainty or upheaval? What strategies or advice did you find most helpful?

* Cancer treatment and survivor facts and figures 2012–2013. American Cancer Society. p. 8

** National Compensation Survey: Employee Benefits in the United States, March 2012. U.S. Department of Labor, p. 44