Spring 2024

Financial Planning Newsletter

FEATURE

What to Do After Getting Diagnosed with a Serious Illness

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WEALTH MANAGEMENT

Inside the Issue

At Withum Wealth, we understand that addressing health-related financial issues requires both sensitivity and a proactive approach.

In this edition of our Financial Planning newsletter, we dive into various topics that often accompany serious illness.

Inside this guide, you will find essential insights on disability insurance, estate planning, life insurance post-diagnosis, and strategies for itemizing medical expenses. We also discuss the impact of these factors on your overall financial plan.

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WEALTH MANAGEMENT

What to Do After Getting Diagnosed with a Serious Illness

Warning: This article focuses on a distressing but important topic. This is a club no one wants to join…but many will.

"I am 99% sure you have ovarian cancer." Those words are forever imprinted on my memory. My first thought was, can we rewind this tape and rewrite this story? My second and third thoughts were, did I pay my life insurance premium, and will I ever see my grandchildren?

I was 49 at the time of my diagnosis – too young to die. After the initial shock, I shifted into fight mode. I knew how deadly ovarian cancer is—my mom had died from it two years prior. How soon could I get surgery and start chemo? I did not want to waste time. Within a few hours, I had a CT scan and the results were sent to my gynecologist and my friend from college who was a local oncology surgeon. My friend was able to assist me in scheduling my "debulking" surgery (a lovely euphemism) in three days. With my attack plan in place, I turned to an evaluation of my health insurance and financial affairs.

While the temptation may be to do nothing and hide, this is the last thing you should do. Take control of your physical, mental, and financial health. I am 100% convinced that my positive outcome was a result of being informed and choosing the most aggressive treatments at one of the best treatment centers for my cancer. Similarly, my financial house is in order because I took steps to ensure this was the case.

HEALTH INSURANCE

At the time of my diagnosis, I had very good health insurance, but even then, there were many out-of-pocket co-pays. If you are diagnosed with a serious illness, make sure you understand what is covered in terms of your surgeries, treatments/medications, hospital stays, and support services. Make sure you budget for expenses you did not previously have—i.e., Uber rides to treatments, increased co-pays, etc.

EMPLOYMENT AND INCOME

Communicate with your employer/human resources to see and understand your options for sick leave, disability benefits, etc., just in case you need them. If you have a personal disability policy, review this now to update yourself on your coverage. You might not need any of this, but control what you can! It cannot hurt to familiarize yourself with the legal protection you have under the Americans with Disabilities Act (ADA) or the Family and Medical Leave Act (FMLA).

FINANCIAL AND ESTATE ISSUES

Make an inventory of your assets, debts, and insurance and disability policies. This should include who your heirs should call if you become disabled or pass and the passwords on your accounts. Make sure your beneficiaries on your retirement accounts are up to date. You might want to consider putting beneficiaries on your taxable accounts as well. If you have a safe deposit box, make sure you are not the only one who can access this.

If you do not have a will, advance health directive, or a designated power of attorney, meet with an estate attorney and get this done. While this may all be overwhelming, remember you are taking control and making sure your wishes are carried out. An estate attorney can also help you determine if there is anything else you should do at this time.

LIFE INSURANCE

Review your personal and employer coverage and your beneficiaries. With a diagnosis of a serious illness, it is unlikely you'll be able to increase coverage, but check just in case. You might be able to convert term insurance into permanent insurance if your original policy had that option. I did this. I wanted to avoid a situation where I passed just after my term expired. The only thing you might have control over is your beneficiaries. Again, make sure these are in place and accurate.

OTHER ADVISORS

If you do not have a financial advisor and you are the one who does this for your family, consider hiring one now. This will ensure that you have someone looking over your investments in case you are unable to do so. Also, if your out-of-pocket medical expenses become significant, you should consult your accountant to see if you can deduct them. The IRS allows taxpayers to deduct their qualified unreimbursed medical expenses that exceed 7.5% of adjusted gross income.

By finding the best doctors and medical facilities to treat you, and putting a prudent financial plan in place, you give yourself the best odds of a successful outcome. I am extremely fortunate to have been in remission for seven years, and my doctors at Sloan Kettering believe I very well may be cured. This is highly unusual for ovarian cancer, and I attribute it to the immunotherapy trial I was on for five years, as well as the aggressive surgeries I had. I focused on work during my treatment as I could not do much physically, nor did I want to travel. This had the double benefit of allowing me to be very attentive to my clients and keeping me from thinking about my medical concerns. I'm 63 now and have been blessed with my first two grandchildren in the past 15 months. I am beyond grateful for every day that I am here to enjoy them.

I leave you with this: difficult though it may be, a serious diagnosis is not the time to put your head in the sand. Attack and plan. Take control of as much as you can.

Alice Gabriele

Alice Gabriele, Senior Portfolio Manager
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Assessing Life Insurance Post-Diagnosis

A serious illness diagnosis confronts you with a series of emotionally and financially challenging decisions. Among these, a crucial task is to take immediate control by assessing your existing life insurance policy (or policies) to ensure they align with your current and future needs. Understanding the benefits, the sum assured, and any added riders that may provide additional coverage in the event of a critical illness is of utmost importance.

Whether any changes should be made depends on the purpose of your policies. If benefits are needed to support a spouse or children, then consider options for making sure the policy will outlast you. Despite the challenges of obtaining a new life insurance policy after a serious diagnosis, there are potential solutions, such as modifying an existing policy. Given the potential impact on your policy's death benefit and coverage needs, you should contact your insurance provider or agent to discuss your options. Inform them of your diagnosis and explore the possibility of modifying your coverage. If you have a term policy, consider converting it to a whole or universal life policy. This conversion allows you to extend your coverage without undergoing the underwriting process, which can be a valuable option if your health continues to decline. Applying for a new term life policy to extend your current policy would lead to much higher premiums due to your health status. However, converting your existing term policy to a permanent one bypasses the underwriting hurdle. As a result, you can secure extended coverage without paying significantly higher premiums.

If you need funds to cover your medical expenses, consider options for accessing cash from your policies to assist with your current needs. Some insurance companies offer riders, which are additional benefits

that can be added to your policy for an extra cost. Some riders allow policyholders to access a portion of their death benefit early to cover medical expenses or lost income. An example is the Accelerated Death Benefit rider, triggered by a terminal illness diagnosis. This rider requires an official diagnosis from a doctor, with most insurers stipulating a life expectancy of 24 months or less. The terms for the amount and frequency of payments are specified within the policy document. A similar but less restrictive rider is the Critical Illness rider. Like the Accelerated Death Benefit, this rider allows early access to a portion of the death benefit for a serious illness; however, the diagnosis does not need to be terminal. It's worth reviewing your policy, as some insurers offer these benefits at no additional cost, while others require an extra fee at the policy's inception. It's also important to note that accessing these benefits early will reduce the amount ultimately available to your beneficiaries.

Another option for accessing cash from a permanent policy is a life settlement. Life settlements involve selling your existing policy to a third party. These third parties, sometimes known as life settlement companies, are generally institutions that hold the policies until maturity or resell them to other investors, such as hedge funds. If you're considering a life settlement, it's essential to research the buyer to ensure they are regulated and properly licensed. Contacting multiple life settlement companies is highly advisable to get a fair quote. This option can provide immediate cash — typically more than the surrender value but less than the net death benefit — which can be used to cover living and medical expenses. However, life settlements come with considerations, such as the loss of the death benefit for your beneficiaries and potential tax implications. It's essential to weigh these risks and benefits before making a decision. If you don't have a financial advisor, now would be an excellent time to consult one to ensure you consider all relevant factors.

Finally, consider the impact on your loved ones. Ensure that all beneficiary designations are current and that the policy will provide for them as intended. This is also an excellent opportunity to have open and supportive discussions with family members about your wishes and financial matters, including the location of policy documents and the details of your coverage. If you're worried that your term coverage may expire too soon, consider converting the policy to whole life. To help cover the additional costs associated with a serious illness, review your policy document to understand whether you have an accelerated death benefit or chronic illness riders. It may be worth exploring a life settlement if you need greater financial flexibility. Despite the emotional difficulty of such conversations, they can offer peace of mind, knowing that you have prepared your affairs and that your loved ones will have one less burden during a challenging time.

Disability Insurance: A Guide for the Unexpected

When faced with a serious illness diagnosis, managing financial health becomes as crucial as addressing physical health. In this context, disability insurance emerges as a lifeline, a critical component in safeguarding your income when you cannot work due to illness or injury. This article will delve into what disability insurance is, how it works, and how it integrates into a comprehensive financial plan, especially when dealing with a severe illness like cancer.

Disability insurance provides financial protection by replacing a portion of your income if you cannot work due to a disability. There are two primary types of disability insurance:

- **Own Occupation Disability Insurance:** This type of policy is designed to pay benefits if you are unable to perform the duties of your specific occupation, even if you can still work in another capacity. For instance, a surgeon who can no longer perform surgery due to a steady hand impairment might be eligible for benefits under this policy, even if she is capable of performing other work.

- **Any Occupation Disability Insurance:** Under this policy, benefits are only paid if you are unable to work in any job reasonably suited to your education, experience, and age. This type of insurance has a stricter definition of disability and is generally less expensive than own occupation insurance.

Partial or residual disability insurance riders are also often available. They can benefit individuals who may still be able to work but have had their earning capacity reduced due to disability. This can compensate for a portion of the income lost due to reduced work hours or productivity.

The extent of coverage should align with your living expenses and financial obligations. A common benchmark is coverage that replaces 60-80% of your pre-disability gross income. The duration of benefits also varies:

- **Short-term policies** may cover a period from a few months to a year. Coverage typically starts a few days after you become disabled. These policies can help bridge financial gaps during an initial recovery period.
- **Long-term policies** typically provide coverage that kicks in after short-term benefits run out and generally cover a more extended period, from several years to up until retirement age. The "elimination period" before benefits begin is typically 90-180 days. Premium costs are higher than for short-term policies.

When evaluating your financial need, keep in mind the tax impact. If your employer paid the insurance policy premiums, then you will be taxed on the disability income. On the other hand, if you paid the insurance premiums, then the income will be tax-free.

As the above implies, most comprehensive financial plans incorporate both short and long-term disability policies. Before a crisis strikes, it's essential to understand your current disability insurance status. Consider these questions:

- **Do you have disability insurance through your employer?** Many employers offer some form of disability insurance, but it's often limited. Group policies through employers typically cover only a portion of your income (about 50-60%), and benefits are taxable if the employer pays the premiums.

- **Is existing coverage sufficient?** Compare your current coverage against your actual financial needs. If there's a significant gap, consider a supplemental disability insurance policy. Supplemental disability insurance policies typically cost between 1% and 3% of your annual income, depending on factors such as age, occupation, health status, and the comprehensiveness of the benefits.

If you find yourself facing disability, as you might be in the case of a serious illness diagnosis, taking the proper steps can help ensure you receive the maximum benefits from your insurance:

- **Review your policies:** Understand the specifics of your policies—what constitutes a disability, the waiting period before benefits start, and how long benefits last.
- **Notify your insurer immediately:** Timely communication with your insurer can expedite the claims process. Provide all necessary medical documentation as outlined in your policy.
- **Document your income:** Proving your income is crucial for own occupation policies, especially if your salary varies. Keep detailed financial records.
- **Consult professional(s):** To help navigate complex situations, consider consulting with a financial advisor or a lawyer specializing in disability claims. Meet with a Social Security Disablity attorney to see if you quality for SSDI. If you do, it is important that you file with complete and accurate information or your claim will be delayed or denied. While you can file on your own, an SSDI attorney or specialist will ensure you have the best chance of obtaining benefits. Having private insurance does not diminish your potential SSDI benefits. If you are approved to receive benefits, they will be paid retroactive to your date of filing. While privately received benefits do not reduce SSDI, the benefit amount you receive from a private insurer could be reduced by what you are eligible to receive from SSDI, whether you have filed for and are collecting the money or not.

While the prospect of being diagnosed with a serious illness is daunting, having a robust financial plan, including adequate disability insurance, can provide peace of mind. By understanding what your policy covers, preparing adequately, and knowing the steps to take when a disability occurs, you can secure your financial future and focus on what truly matters—your health.

> ***Call to Action:*** *Review your disability insurance annually as part of your overall financial health check. For personalized advice tailored to your specific needs, consider scheduling a consultation with our financial planning experts.*

Itemizing Your Medical Expenses

Familiarity with tax law is particularly important when you are facing new circumstances. One such situation is medical expenses. Few people track these costs because the standard deduction is high and there are hurdles to deducting medical expenses. However, if your situation changes, it is critical to know when to start itemizing.

Many taxpayers who itemize their deductions still don't find it worthwhile to track expenses because they must first meet a threshold. Medical expenses cannot be deducted until they exceed 7.5% of the taxpayer's adjusted gross income (AGI). AGI refers to total income, including wages, portfolio income, business income, retirement income—everything listed on your tax return. If a taxpayer has an AGI of $100,000, the first $7,500 medical expenses are not deductible. Most accountants tell their clients not to bother tracking expenses unless they are likely to exceed this threshold.

On the other hand, it is worth tracking expenses in years when medical expenses are high. This can happen if you face high deductibles, out-of-network expenses, and/or major illnesses. Medical expenses that can be deducted include health insurance premiums, doctor bills, prescriptions, and costs of transportation to medical visits. A detailed list of which expenses are deductible and those that are not can be found in IRS Publication 502 (Medical and Dental Expenses). Of course, any expenses covered by insurance or paid by someone else cannot be itemized.

One category that deserves special attention is long-term care expenses. These are costs associated with chronically ill individuals, defined as someone who cannot perform at least two of six "activities of daily living" without assistance. These activities are bathing, eating, dressing, toileting, transferring, and continence. Long-term care also applies to individuals needing care due to cognitive impairment. Long-term care services can be expensive and are not covered by Medicare or health insurance. Therefore, taxpayers in this situation may be eligible for a major deduction and should track expenses carefully. While costs covered by a long-term care policy cannot be itemized, premiums on such policies are deductible up to a specific amount.

Please consult your tax advisor if you expect to face major medical expenses. It is essential to make sure you meet the requirements for deductibility, such as the duration of medical need and who can provide the care. Medical expenses can be onerous. Be sure to take advantage of whatever tax benefits are available for these costs.

Estate Planning Considerations

While having an estate plan in place is always important, it becomes essential to review it if you have been diagnosed with an illness, especially those conditions that gradually impair cognitive abilities and decision-making capacity. These are not easy conversations, but they will need to take place to protect you and your loved ones and to ensure your wishes are being honored. If you do not have an estate plan, it is critical that you work with an estate attorney to create one.

START EARLY

It is important to begin the process as soon as possible after diagnosis to allow you to participate in the planning process and express your wishes regarding medical decisions, distribution of assets and other important matters.

Create or review/update your Last Will and Testament

Read all your existing estate documents. Items to focus on include:

- Who will function as executor or personal representative to handle your estate?
- Who are the beneficiaries of your estate (your will does not apply to retirement or other accounts that have named beneficiaries or accounts that transfer to another person according to titling)
- If you have a trust, who is the current trustee and who are the successor trustees.

ACCOUNT REVIEW

Review your retirement accounts to make sure they the beneficiaries you desire. Review Taxable accounts for correct titling or registration. One situation that can be common is when someone created a trust and has all the proper estate planning documents but failed to retitle their individual or joint assets in the name of the trust.

DESIGNATE A POWER OF ATTORNEY

A power of attorney is a legal document authorizing a person to manage your financial affairs. If you are not ready to grant that power immediately, a springing power of attorney becomes effective in the event of incapacity. If you do not have a trusted person in your estate plan as a power of attorney, you need to indicate one as soon as possible. Similarly, if your loved one that has been diagnosed with an illness is your power of attorney you should consider having an alternate person. It is important to select a person who understands your values and preferences and that you implicitly and explicitly trust as they will be able to make financial and legal decisions on your behalf such as manage your finances, sell property, and execute legal documents. It is also advisable to name a back-up successor agent for power of attorney in the event your original power of attorney is unable to act.

Durable Power of Attorney - This is a form of power of attorney that continues to be effective even if you become incapacitated. Keep in mind that any power of attorney will cease with the death of the person who grants the authority.

HEALTHCARE ADVANCE MEDICAL DIRECTIVES

Advance medical directives are legal documents that outline our wishes and preferences and apply only if you are unable to make decisions. They serve to communicate a person's healthcare wishes ahead of time. Advance Medical Directives are comprised of two components:

1. Living will – this document tells doctors how you want to be treated if you are dying or permanently unconscious and cannot make your own decisions about emergency treatment.
2. Health care surrogate – this document names a person you trust as your proxy to make medical decisions when you are not able. Examples of the medical decisions that this person could make on your behalf include.
   - Do not intubate (DNI)
   - Do not resuscitate (DNR)
   - Medical orders for Life-Sustaining treatment (MOLST)
   - Organ and tissue donation

Early planning can help you communicate your wishes regarding medical care and financial matters. Communicate with all family members involved. Put all important documents in one place and make sure your trusted contacts know where to find them.

Being diagnosed with an illness is an overwhelming experience for everyone involved, and it may be difficult to think beyond the day to day. However, taking steps now can help prepare for a smoother tomorrow.

We hope that you have found this newsletter helpful and informative. Although it can be difficult to discuss these topics, we want to emphasize the importance of planning ahead. As always, our team is here to support you in reviewing and strengthening your financial plan, especially during uncertain times.

For more information, be sure to check out our monthly podcast, **'Amplified Wealth: According to Plan'** where we hold insightful conversations on timely financial planning topics with various members of our Financial Planning Committee.

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Need More Information? Please do not hesitate to contact a member of the Withum Wealth Management Team with any questions or concerns:

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