

HOW TO AVOID A MEDICAL FINANCIAL DISASTER

The inability to pay mounting medical bills was the main cause for filing nearly half of all personal bankruptcies in 2004, according to a study recently released by Harvard University's medical and law schools. So what can you do to avoid a financial disaster due to medical expenses?

Don't assume you're not vulnerable. Just because you have health insurance doesn't mean you're not at financial risk. In a surprise finding, the study learned that 76 percent of the households that filed for bankruptcy because they couldn't pay their medical bills had health insurance when their illnesses began.

In fact, the study said the majority of the filers were middle-income homeowners. The problem for many was that they lost their employer-provided medical coverage when they lost their job due to the illness. With no paycheck, and mounting medical bills, they frequently turned to credit cards to try to keep themselves afloat, and eventually they could never recover financially.

Try to maintain coverage. Even if you lose your job, try to maintain medical coverage. One option is COBRA, a federal program that requires most employers to allow workers covered under group plans to continue that coverage for up to 18 months after loss of employment.

The downside is that the worker must pay the entire premium, plus administrative costs, which can be very difficult if you've lost your job. The upside is that it can keep major medical bills from piling up and it requires your next employer's insurance company to cover you regardless of pre-existing conditions—something an individual policy probably won't do.

Build an emergency fund. One way to help pay the COBRA premium or high co-pays and deductibles under current employer coverage is to have an emergency cash reserve in place before a catastrophe strikes. Build the reserve (to cover three to six months bare-bones living expenses) through judicious budgeting and diverting any extra income.

Don't skip coverage. Nearly a third of Americans under the age of 65 went without health insurance for a part or all of the two-year period from 2002–2003, according to Families USA. Two-thirds of them went six months or longer without coverage. Some households truly can't afford their own coverage if it's not offered through work, but others who can afford the coverage skip it just to "save money." Don't go without.

Know your plan's coverage. If your plan lists approved doctors and hospitals, study it so there are no surprises later. Using providers not on the approved list, for example, can significantly increase out-of-pocket expenses.

Know which services are and are not covered by you policy, and what the lifetime limits are of the coverage. Talk to your human resources department if necessary.

The Harvard study found that unreimbursed medical bills often piled up even for people with coverage due to high co-pays and deductibles, and unreimbursed expenses such as prescription drugs and physical therapy. The average out-of-pocket medical costs for those filing for bankruptcy ran \$11,854, according to the Harvard study. This is where an emergency fund can make the difference between solvency and bankruptcy.

Don't be rejected. If the insurance company declines to pay for a particular expense, appeal the decline, and be persistent.

Don't automatically choose the "cheapest plan." It may leave serious gaps in coverage and actually be more expensive in the long run. For example, a plan with smaller co-pays and lower deductible or specific coverage—even though the premiums are higher—may make sense if you anticipate certain medical needs, such as starting a family.

Use flexible spending accounts. Employer-sponsored FSAs allow you to contribute pre-tax dollars from your paycheck into an account to later pay for co-pays, deductibles, and qualified medical expenses not covered by insurance. The downside is that any money in the FSA that you don't use during the year is forfeited, so you need to conservatively estimate your anticipated expenses.

Coordinate coverage. Spouses often carry separate coverage at work. It may be less expensive to carry both under one plan, or at least be sure the plans don't duplicate coverage. Otherwise, you're wasting dollars you could stash in that emergency fund.

Improve your health. While you can't always prevent a financially devastating illness, you can reduce your chances of a serious medical problem by staying healthy and minimizing risky behavior.

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