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Rest in peace to music legend Aretha Franklin and Sen. John McCain, who both died battling cancer in the last month. In tribute to the estimated 1.7 million Americans who will be diagnosed with cancer in 2018, this newsletter is dedicated to financial planning for individuals with chronic illnesses.

Claire Wineland, a 21-year-old inspirational speaker who recently died from complications following a lung transplant, had this to say about living a meaningful life: "Go enjoy it, 'cause there are people fighting like hell for it." Amen, sister.

Speaking of FUN: If you haven't already, you'll be receiving an invitation in the mail to the Bodnar Financial 30th anniversary celebration Saturday, Oct. 20, from 5-8 p.m. We will be toasting to friends and clients at the Museum of Early Trades and Crafts in the heart of downtown Madison. You're not going to want to miss it!

Autumn 2018

The Financial Implications of a Chronic Illness

A Parent-Child Conversation About College Costs

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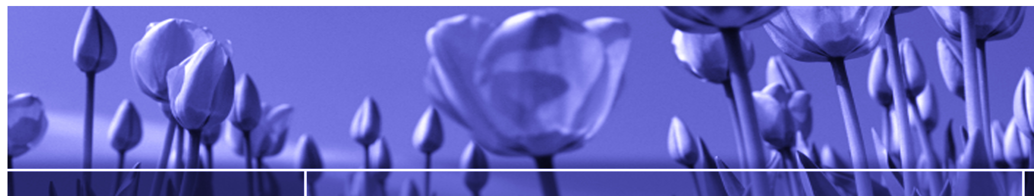
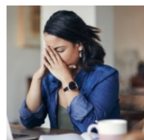


BODNAR FINANCIAL ADVISORS INC
Client Quarterly Newsletter

Have You Made Any of These Financial Mistakes?



As people move through different stages of life, there are new financial opportunities — and potential pitfalls — around every corner. Have you made any of these mistakes?

Your 50s and 60s

1. Raiding your home equity or retirement funds. It goes without saying that doing so will prolong your debt and/or reduce your nest egg.

2. Not quantifying your expected retirement income. As you near retirement, you should know how much money you (and your spouse, if applicable) can expect from three sources:

- Your retirement accounts such as 401(k) plans, 403(b) plans, and IRAs
- Pension income from your employer, if any
- Social Security (at age 62, at your full retirement age, and at age 70)

3. Co-signing loans for adult children. Co-signing means you're 100% on the hook if your child can't pay, a less-than-ideal situation as you're getting ready to retire.

4. Living an unhealthy lifestyle. Take steps now to improve your diet and fitness level. Not only will you feel better today, but you may reduce your health-care costs in the future.

Your 40s

1. Trying to keep up with the Joneses. Appearances can be deceptive. The nice lifestyle your friends, neighbors, or colleagues enjoy might look nice on the outside, but behind the scenes there may be a lot of debt supporting that lifestyle. Don't spend money you don't have trying to keep up with others.

2. Funding college over retirement. In your 40s, saving for your children's college costs at the expense of your own retirement may be a mistake. If you have limited funds, consider setting aside a portion for college while earmarking the majority for retirement. Then sit down with your teenager and have a frank discussion about college options that won't break the bank — for either of you.

3. Not having a will or an advance medical directive. No one likes to think about death or catastrophic injury, but these documents can help your loved ones immensely if something unexpected should happen to you.

Your 30s

1. Being house poor. Whether you're buying your first home or trading up, think twice about buying a house you can't afford, even if the bank says you can. Build in some wiggle room for a possible dip in household income that could result from leaving the workforce to raise a family or a job change or layoff.

2. Not saving for retirement. Maybe your 20s passed you by in a bit of a blur and retirement wasn't even on your radar. But now that you're in your 30s, it's essential to start saving for retirement. Start now, and you still have 30 years or more to save. Wait much longer, and it can be very hard to catch up.

3. Not protecting yourself with life and disability insurance. Life is unpredictable. Consider what would happen if one day you were unable to work and earn a paycheck. Life and disability insurance can help protect you and your family. Though the cost and availability of life insurance will depend on several factors including your health, generally the younger you are when you buy life insurance, the lower your premiums will be.

Your 20s

1. Living beyond your means. It's tempting to splurge on gadgets, entertainment, and travel, but if you can't pay for most of your wants up front, then you need to rein in your lifestyle, especially if you have student loans to repay.

2. Not paying yourself first. Save a portion of every paycheck first and then spend what's left over, not the other way around. And why not start saving for retirement, too? Earmark a portion of your annual pay now for retirement and your 67-year-old self will thank you.

3. Being financially illiterate. Learn as much as you can about saving, budgeting, and investing now and you could benefit from it for the rest of your life.

See disclaimer on final page

The Financial Implications of a Chronic Illness

There's no such thing as a one-size-fits-all financial plan for someone with a chronic illness. Every condition is different, so your plan must be tailored to your needs and challenges, and reviewed periodically.

All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.

The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased.

When you live with a chronic illness, you need to confront both the day-to-day and long-term financial implications of that illness. Talking openly about your health can be hard, but sharing your questions and challenges with those who can help you is extremely important, because recommendations can be better tailored to your needs. Every person with a chronic illness has unique issues, but here's a look at some topics you might need help with.

Money management

A budget is a useful tool for anyone, but it's especially valuable when you have a chronic illness, because it will serve as a foundation when planning for the future. Both your income and expenses may change if you're unable to work or your medical costs rise, and you may need to account for unique expenses related to your condition. Clearly seeing your overall financial picture can help you feel more in control.

Keeping good records is also important. For example, you may want to set up a system to help you track medical expenses and insurance claims. You may also want to prepare a list of instructions for others, such as a trusted friend or relative, that includes where to find important household and financial information in an emergency.

Another step you might want to take is simplifying your finances. For example, if you have numerous financial accounts, you could consolidate them to make it easier and quicker for you or a trusted advisor to manage. Setting up automatic bill payments or online banking can also help you keep your budget on track and ensure that you pay all bills on time.

Insurance

Reviewing your insurance coverage is essential. Read your health insurance policy and make sure you understand your copayments, deductibles, and the nuts and bolts of your coverage. In addition, find out if you have any disability coverage, and what terms and conditions apply.

You might assume that you can't purchase additional life insurance, but this isn't necessarily the case. It may depend on your condition or the type of life insurance you're seeking. Some policies will not require a medical exam or will offer guaranteed coverage. If you already have life insurance, find out if your policy includes accelerated (living) benefits. You'll also want to review beneficiary designations. If you're married, make sure that your spouse has adequate insurance coverage, too.

Investing

Having a chronic illness can affect your investment strategy. Your income, cash-flow requirements, and tolerance for risk may change, and your investment plan may need to be adjusted to account for both your short-term and long-term needs. You may need to keep more funds in a liquid account now (for example, to help meet day-to-day living expenses or use for home modifications, if necessary), and you'll want to thoroughly evaluate your long-term needs before making investment decisions. The course of your illness may be unpredictable, so your investment plan should remain flexible and be reviewed periodically.

Estate planning

You might think of estate planning only as something you do to get your affairs in order in the event of death, but estate planning tools can also help you manage your finances right now.

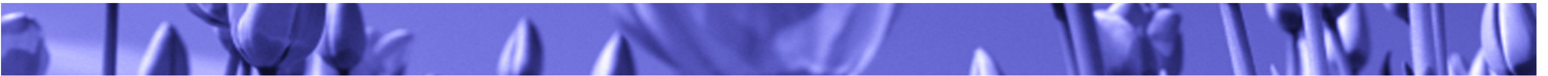
For example, a durable power of attorney can help protect your property in the event you become unable to handle financial matters. A durable power of attorney allows you to authorize someone else to act on your behalf, so he or she can do things like pay everyday expenses, collect benefits, watch over your investments, and file taxes.

A living trust (also known as a revocable or inter vivos trust) is a separate legal entity you create to own property, such as your home or investments. The trust is called a living trust because it's meant to function while you're alive. You control the property in the trust and, whenever you wish, can change the trust terms, transfer property in and out of the trust, or end the trust altogether. You name a co-trustee such as a financial institution or a loved one who can manage the assets if you're unable to do so. There are costs and ongoing expenses associated with the creation and maintenance of trusts.

You may want to have advance medical directives in place to let others know what medical treatment you would want, or that allow someone to make medical decisions for you, in the event you can't express your wishes yourself. Depending on what's allowed by your state, these directives may include a living will, a durable power of attorney for health care, and a Do Not Resuscitate order.

Review your plan regularly

As your health changes, your needs will change too. Make sure to regularly review and update your financial plan.



A Parent-Child Conversation About College Costs

A weighty decision

Most teens are not financially experienced enough to drive a $100,000 or $200,000 decision, especially one that has the potential to impact them for most or all of their 20s or longer. So parent guidance is critical.

If you're the parent of a high school student who's looking ahead to college, it's important to have a grown-up conversation with your child about college costs. A frank discussion can help both of you get on the same page, optimize the college search process, and avoid getting blindsided by large college bills.

An initial conversation: a, b, and c

As a parent, you need to take the lead in this conversation because most 16-, 17-, and 18-year-olds are not financially experienced enough to drive a $100,000 or $200,000 decision. One approach is to start off saying something like: "We will have saved 'a' when it's time for you to start college, and after that we should be able to contribute 'b' each year, and we expect you to contribute 'c' each year." That will give you a baseline of affordability when you start targeting colleges.

A more in-depth conversation: borrow x, pay back y

Once you start looking at colleges, you'll see that prices vary, sometimes significantly. If a college costs more than a + b + c above, you'll have to fill the gap. The best way to try and do this is with college grants or scholarships (more on that in a minute). Absent grant aid, you'll need to consider loans. And here is where you should have a more detailed conversation with your child in which you say: "If you borrow 'x' you will need to pay back 'y' each month after graduation." Otherwise, random loan figures probably won't mean much to a teenager.

You can use an online calculator to show your child *exactly* what different loan amounts will cost each month over a standard 10-year repayment term. For example, if College 1 will require your child to borrow a total of $16,000 at 5%, that will cost $170 each month for 10 years. If College 2 requires $24,000 in loans, that will cost $255 each month. A loan amount of $36,000 for College 3 will cost $382 per month, and $50,000 for College 4 will cost $530 a month, and so on. The idea is to take an abstract loan amount and translate it into a month-to-month reality.

But don't stop there. Put that monthly loan payment into a larger context by reminding your child about other financial obligations he or she will have after college, such as a cell phone bill, food, rent, utilities, car insurance. For example, you might say: "If you attend College 3 and have a student loan payment of $382 every month, you'll also need to budget $40 a month for your phone, $75 for car insurance, $400 for food..." and so on. The goal is to help your child understand the cost of real-world expenses and the long-term financial impact of choosing a more expensive college that will require more loans.

Even with a detailed discussion, though, many teenagers may not be able to grasp how their future lives will be impacted by student loans. Ultimately, it's up to you — as a parent — to help your child avoid going into too much debt. How much is too much? The answer is different for every family. One frequently stated guideline is for students to borrow no more than what they expect to earn in their first year out of college. But this amount may be too high if assumptions about future earnings don't pan out.

To build in room for the unexpected, a safer approach might be to borrow no more than the federal government's Direct Loan limit, which is currently a total of $27,000 for four years of college ($5,500 freshman year, $6,500 sophomore year, and $7,500 junior and senior years). Federal loans are generally preferable to private loans because they come with an income-based repayment option down the road that links a borrower's monthly payment to earned income if certain requirements are met. Whatever loan amount you settle on as being within your range, before committing to a college, your child should understand the total amount of borrowing required and the resulting monthly payment after graduation. In this way, you and your child can make an informed financial decision.

If there's any silver lining here, it's that parents believe their children may get more out of college when they are at least partly responsible for its costs, as opposed to having a blank check mentality. Being on the hook financially, even for just a small amount, may encourage your child to choose courses carefully, hit the books sufficiently, and live more frugally. Later, if you have the resources, you can always help your child repay his or her student loans.

Target the right colleges

To reduce the need to borrow, spend time researching colleges that offer grants to students whose academic profile your child matches. Colleges differ in their aid generosity. You can use a net price calculator — available on every college website — to get an estimate of how much grant aid your child can expect at different colleges. For example, one college may have a sticker price of $62,000 but might routinely offer $30,000 in grant aid, resulting in an out-of-pocket cost of $32,000. Another college might cost $40,000 but offer only $5,000 in grant aid, resulting in a higher $35,000 out-of-pocket cost.

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What are the new rules for 401(k) hardship withdrawals?

The Bipartisan Budget Act passed in early 2018 relaxed some of the rules governing hardship withdrawals from 401(k)s and similar plans. Not all plans offer hardship withdrawals, but the ones that do will be required to comply for plan years beginning in 2019.

In order to take a hardship withdrawal from a 401(k) or similar plan, a plan participant must demonstrate an "immediate and heavy financial need," as defined by the IRS. (For details, visit the IRS website and search for Retirement Topics - Hardship Distributions.) The amount of the withdrawal cannot exceed the amount necessary to satisfy the need, including any taxes due.[1]

Current (pre-2019) rules

To determine if a hardship withdrawal is qualified, an employer may rely on an employee's written statement that the need cannot be met using other financial resources (e.g., insurance, liquidation of other assets, commercial loans). In many cases, an employee may also be required to take a plan loan first.

Withdrawal proceeds can generally come only from the participant's own elective deferrals, as well as nonelective (i.e., profit-sharing) contributions, regular matching contributions, and possibly certain pre-1989 amounts.

Finally, individuals who take a hardship withdrawal are prohibited from making contributions to the plan — and therefore receiving any related matching contributions — for six months.

New rules

For plan years beginning after December 31, 2018, the following changes will take effect:

1. Participants will no longer be required to exhaust plan loan options first.

2. Withdrawal amounts can also come from earnings on participant deferrals, as well as qualified nonelective and matching contributions and earnings.

3. Participants will no longer be barred from contributing to the plan for six months.

[1] Hardship withdrawals are subject to regular income tax and a possible 10% early-distribution penalty tax.

I just received a large bill for a recent hospital visit. How can I check whether it's accurate?

In today's complex world of medical billing, you may have difficulty understanding exactly which procedures you're being charged for, or what the billing codes on your hospital bill mean.

The first step in determining whether your bill is accurate is to know exactly what your insurance does and does not cover. Review your health plan's coverage brochure or contact your insurer to find out about your plan's coverage exclusions or limitations, expenses that are fully or partially covered by your plan, and the ramifications of using an out-of-network provider.

Another helpful tool is an explanation of benefits (EOB). The EOB will provide you with a variety of information, such as the dates and type of services provided, the amount that was billed by the medical provider to the insurance company, what the insurance company paid to the provider, and the amount that wasn't covered and for which you are responsible. Review your EOB and compare it to your medical bills. If you find any discrepancies, contact your medical provider's billing department.

Unfortunately, errors are a common occurrence in the medical billing industry. As a result, it's always important to request an itemized bill, as opposed to just a summary of charges, from a medical provider. An itemized bill is critical when it comes to identifying billing errors because it will detail each medical procedure for which you are being charged. Once you've received your itemized bill, check to make sure that all of your identifying information (e.g., address, date of birth), dates of service, and insurance information are correct. In addition, you'll want to check for common billing errors, such as charges for duplicate procedures or incorrectly coded procedures.

If you find an error on your bill, contact the billing department of the medical provider to request a corrected insurance claim and/or bill. Be prepared to explain the mistake to the billing representative and provide copies of billing records that illustrate the billing error.

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