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HEALTHY ASSETS

As healthcare funding decisions grow more complex, planners can add value by helping clients sort through the variables.

Last year, the drama over President Obama's healthcare reform law was running high. In one famous exchange, Rep. Joe Wilson (R-S.C.) accused the president of lying. In another, Rep. Alan Grayson (D-Fla.) drew gasps for saying that Republicans hope Americans "die quickly" as a solution to the country's healthcare issues. And uncomfortable topics like abortion, euthanasia and race became a staple on the nightly news.

A year later, the intensity of the debate has lessened—somewhat. The Patient Protection and Affordable Care Act was signed into law, although some Republicans continue to fight to repeal it. Most of its provisions won't go into effect for a few years, and people have gone back to the more urgent concerns of healthcare—making the funding decisions that allow them and their families to live long and healthy lives.

In this cover package, we take a deeper look at how advisors can help their clients make these crucial decisions. Suzanne McGee describes the inherent uncertainty of the healthcare planning process, while Ingrid Case discusses the crisis brewing in long-term-care insurance. And with the first baby boomers eligible for Medicare this year, Don Korn predicts planners will be fielding more questions about this complex program. Don also takes a look at the growing popularity of health savings accounts, which may get a boost by 2014, when the healthcare reform law requires most people to have health insurance.

Financial advisors know that nothing can derail a financial plan faster than unexpected healthcare costs. So the right planning at the right time will help keep clients healthy—and wealthy.—*Pat Durner*

MICHAEL RUBENSTEIN

WALTER PARDO, FOUNDER OF WEALTH FINANCIAL PARTNERS: "A HEALTHCARE CRISIS CAN BECOME A FINANCIAL CRISIS."

The Big Question Mark

Is healthcare planning an oxymoron? Amid tremendous uncertainty, advisors have their work cut out for them. **By Suzanne McGee**

There are, as former Defense Secretary Donald Rumsfeld pointed out, known unknowns. There are also, Rumsfeld added, the unknown unknowns. Had Rumsfeld been weighing in on the nature of planning for healthcare expenses in the 21st century, rather than the instability of the situation in Iraq, he may well have been tempted to add a third category expressly designed to address the sheer frustration encountered by financial advisors struggling to help their clients plan for the unplannable.

"One guarantee that I can plan against is that all of my clients are going to die—and so am I—one day down the road," says Walter Pardo, founder of Wealth Financial Partners, an independently owned wealth management firm in Short Hills, N.J., that offers securities through First Allied Securities. "Unless you're a vampire, that's a certainty. The only other near-certainty is that you can't know exactly when or how, and that on its own complicates the planning challenge tremendously."

Pardo has seen this within his own family: his previously healthy 67-year-old father went into the hospital for a minor procedure one day in 1999; that evening, his mother called him to tell him his father wasn't going to survive.

At the other extreme, his father-in-law failed to go into therapy after a knee replacement, and his physical collapse was followed by dementia. "Now he's in a care center, at a cost of $400 a day. He's been there for years and won't be coming out. A healthcare crisis became a financial crisis for my mother-in-law."

THE BREAKING POINT

These kinds of stories are becoming all too common as baby boomer clients age. The actuarial tables promise longer lifespans—but fail to mention the near-certainty that some of those extra years will come with far higher price tags attached. Older Americans will be consuming more healthcare products and services, even as the entities that have traditionally funded or helped to cover those expenses are trying desperately to shift the burden back to the individual.

Just look at what's happening in Pardo's home state of New Jersey. First-term Republican Governor Chris Christie plans to charge state employees 30% of the cost of their healthcare benefits by 2014 and is threatening he won't deliver on a promise to restore homeowner tax credits if the legislature doesn't go along with that plan. There is no way that Pardo or other financial advisor could reasonably have anticipated this kind of move years ago, with enough time to tweak retirement and savings plans to compensate for it—at least, not without a crystal ball.

Advisors nationwide are feeling this dilemma. Their best-laid financial plans can be instantly derailed by either an act of God (a health crisis) or an act of man (a sudden change in the availability or cost of needed medications, treatments or services). Ironically many agree that the acts of God may be easier to plan around.

ACTS OF GOD

Jeff Fishman, president of JSF Financial, a Los Angeles–based planning firm, is currently working with the two sons of a 92-year-old client who's now suffering from dementia. The challenges are pragmatic ones: how to structure the client's assets to ensure that the cash flow is enough to fund the $200 a day out-of-pocket cost for the around-the-clock care he needs.

One issue that has already been addressed is whether the father's estate should continue annual gifting to his two sons—a way of transferring assets tax-free—given the father's medical costs. "I said no, because of the uncertainty. What would happen if something caused those care costs to double? We can't rule it out."

Depending on the client's future health and care needs, Fishman says gifting could resume, but in a different form. "He could gift some illiquid real estate assets instead of the kind of liquid securities that are the easiest things to turn into cash quickly if that is needed."

ACTS OF MAN

The fast-track changes to everything from long-term-care insurance to Medicare is a trickier matter to address, because it's even less predictable than old age and illness. In addition, clients and advisors are grappling with uncertainty over whether President Barack Obama's healthcare reform plan will survive and be funded.

"How do you plan when you don't know what the rules will be, when you can't even imagine what kinds of scenarios might be the appropriate ones to consider?" wonders Matt Zagula, founder of the Estate and Elder Planning Center in Weirton, W.Va. In a handful of cases, a few careful questions will unveil a problem that needs to be planned for, such as the chance that a client's wife, if widowed, would need to pay for her own healthcare insurance premiums because her husband's union coverage wouldn't continue to cover her as a survivor.

But then the what-if problems start to mount. How much will that insurance cost, and at what rate will it increase? Who will provide it, and how secure will it be? All of these, Zagula notes, are questions that simply can't be answered.

Some of his clients are already grappling with that harsh reality, events they couldn't have planned for because neither he nor they ever anticipated them. In one case, a client who receives a weekly injection to treat his Parkinson's symptoms has been told that Medicare will no longer cover the $180 per shot expense. The long-term solution is a drastic one: Create a financial plan that will cover the family's expenses, including the medication, for another five years or so—a spend-down—after which he will be Medicaid eligible. "The drug is covered by Medicaid," Zagula says grimly. "At least for now." And, he adds, for as long as Medicaid itself exists.

Zagula thinks that most financial advisors under-discuss planning for healthcare expenses today. They prefer to focus on their areas of expertise (building and managing portfolios, developing financial plans), or they fear venturing into areas where no solutions—planning or product based—can really be presented as an answer to the uncertainty.

And yet, he notes, healthcare costs can derail the rest of an advisor's efforts in a heartbeat. "They will snatch money away from people faster than anything else."

REEXAMINE EVERYTHING

One of the few things that advisors can do is to take a hard second look at their assumptions. David Cerullo, a wealth planner at First Western Trust Bank in Denver, used to base his estimates of how much a client needed to have accumulated in order to retire on a life expectancy of 90. "We have started projecting based on the possibility that clients who are in their fifties or sixties today may live to be 100."

He is also asking hard questions about family health histories, looking for any clues about whether there's a greater risk of higher healthcare costs because of a family history of breast cancer or dementia, for example. The one certainty in this uncertain world is that whatever happens next is going to require more money. So when thinking about retirement budgeting, Cerullo urges clients to set aside a monthly budget of $500 to $1,500 that they can use to pay for an unexpected increase in an insurance premium.

Nor, he says, should clients just roll that sum back into the general pool if it's not needed in any given month; rather, they should set it aside to help guard against future shocks. "Clients do resist this idea a bit," he admits. "But it's something I feel I have to discuss with them."

SPECIALIZED SERVICES

Many planners—even those who traditionally have shunned selling insurance-related products in favor of developing financial plans—are making themselves more familiar with the array of products that can be used to address part of the puzzle. These range from long-term-care and disability insurance to more complex annuities whose benefits can stretch to cover healthcare emergencies.

SET ASIDE

$500-$1,500

PER MONTH TO PAY FOR AN UNEXPECTED INCREASE IN AN INSURANCE PREMIUM.

SOURCE: DAVID CERULLO, FIRST WESTERN TRUST BANK

Ron Courser, a financial planner in Grand Rapids, Mich., has gone a step further: More than a decade ago, he formed an informal link with a healthcare insurance specialist. "I've known and trusted him for 15 years. He knows healthcare and insurance inside out, which plans and providers will or won't take clients with specific issues," Courser says. "Healthcare is not what I am good at, or want to be good at, and it's complex. So it makes sense to have this relationship with someone who has all the complexities at his fingertips."

ACTUARIAL TABLES PROMISE LONGER LIFE SPANS, BUT FAIL TO MENTION THE NEAR-CERTAINTY THAT SOME OF THOSE EXTRA YEARS WILL COME WITH HIGHER PRICE TAGS.

Still, Courser admits that it's rarely possible to devise a perfect solution to healthcare issues. Even if he could anticipate perfectly what lies ahead for an individual client, that isn't enough. He would also have to know what kinds of reforms are going to be in the minds of politicians like Governor Christie a decade or two from now, and what specific form they will take in practice.

"That's so different from devising a regular financial plan, when the outcomes are more circumscribed by probabilities," Courser laments. Some of his clients don't have enough assets to cope in the event of a real crisis, whether it's the result of a health emergency or a policy shift.

"I never thought I'd hear myself say this, as a financial advisor, but when it comes to healthcare, sometimes 'planning' isn't a word that we can ever use," Courser says. "We just have to hope some things never happen."

Suzanne McGee is a New York–based freelance writer and the author of *Chasing Goldman Sachs.*

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"After the events of 2001 and the Financial meltdown of 2008, I had an awakening, All the investments that I dealt with (Bonds, Stocks, M. Funds…Etc.) are merely a Means to an End. Two events have changed the direction of my practice and of my life. First, My Father died unexpectedly in 1999 leaving my Mother financially shaken and unprepared. Second, my Father in Law's aging physical and mental disabilities made him a permanent resident of a Long term care facility in Queens, NY. I began a Crusade to make sure that families are not ill prepared, as my family was, during this life changing crisis."- Walter Pardo

Wealth Financial Partners is an independently owned wealth management firm based in Basking Ridge, New Jersey delivering personalized service to clients nationwide.

Our independence allows us to offer an unbiased objective approach to best serve your unique investment needs. Our mission is to provide the families and businesses we serve with innovative financial strategies, solutions, and planning that result in confidence in your financial well being and overall quality of life. Making strong commitments to our clients and building life-long relationships are tenets of success at Wealth Financial Partners LLC. The objective of the Wealth Financial Partners is to help clients accumulate and preserve the wealth that extensive education and years of hard work have earned.

Mr. Pardo is a Registered Representative with 7 & 63. He holds a active Health and Life Insurance License in New Jersey, New York, Illinois & California License # is (#0E05940). Walter is a Member of Ed Slott Elite IRA Advisor Group (a group of financial professionals who pay a fee to attend seminars that explore regulations, tax updates and other issues regarding individual retirement accounts.)

Walter currently resides with his wife Suzanne and his two daughters, Isabel and Natalie in Central New Jersey.
Walter might also be found trying to reduce his handicap at Hawk Pointe Golf Club in Washington, NJ.