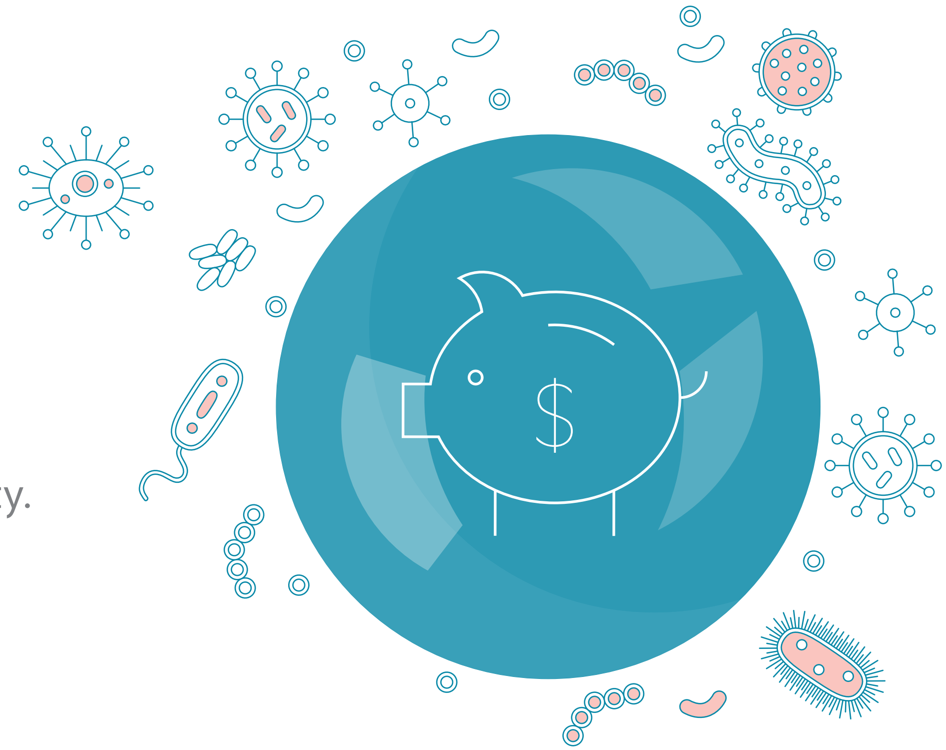

How to build up your financial immune system

An unexpected illness can harm more than your health—it can also undermine your financial security. Here's how you can act now to protect yourself.

IF you find yourself battling a health crisis, the last thing you want to have to worry about is money.

Health care expenses lead to almost one-third of hardship withdrawals from retirement savings,[1] connecting health and wealth in a downward spiral.

Financial worries can turn an already stressful situation into a chronic stressor, and that kind of stress can have serious long-term consequences. Chronic stress can cause symptoms from nausea and headache to insomnia, shortness of breath, and increased heart rate. It can also lengthen recovery time, exacerbate chronic health conditions, and, ultimately, shorten lifespan.

For all of these reasons, the time to prepare for the financial impact of a health crisis is before it happens. Here's how.

Insurance

There are different types of insurance that can help you in the event of a health crisis: health insurance, which is meant to pay most of your health care costs, and other policies that can help you pay ordinary living expenses in addition to health care costs while you're ill. You can sign up for both types of insurance during your employer's annual enrollment period.

It's important to have a level of insurance that gives you confidence that both your health care and financial needs can be met.

Health insurance: When the time comes to sign up for health insurance, review all of your options (even if you like your current plan) and choose the one that best suits you in a normal year. Consider how much health care you tend to use, and compare all of the yearly costs of your alternatives, including premiums and the amount of costs you will be expected to cover. And make sure your current doctors are in-network before you select a plan, unless you don't mind changing providers.

Keep an eye out for a plan that you can pair with a health savings account (HSA). An HSA can help you save for qualified health care expenses and can act as a sort of emergency savings account if you have a health crisis. More on that in a moment.

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If you want to consider what would happen in that worst-case scenario, look for the maximum out-of-pocket cost. This is a cap on the amount of money you will have to pay for covered services in a given year, including deductibles, copayments, and coinsurance. After you hit this cap, your health plan pays 100% of the cost of covered services. Note that if a treatment is experimental or isn't covered for some other reason, it still won't be paid for.

In the end, the "right" health insurance is the one that gives you peace of mind.

Other types of insurance can help you pay your everyday bills. These polices include:

Disability insurance: This type of insurance replaces some of your income if you can't work due to a disabling illness or injury. Many employers offer some amount of short-term and/or long-term disability insurance as an employee benefit, but you also can buy disability insurance on your own. If you are your family's sole earner, it's important to at least consider this type of insurance. A good rule of thumb is to have enough disability insurance to replace 70% of your income if you can't work.

Critical illness, cancer, hospital indemnity, or accident insurance: Your employer may offer insurance that pays out under very specific circumstances, such as hospitalization or a cancer diagnosis. These are sometimes called supplemental, or gap, insurance policies. While health insurance helps pay for most of the cost of care, one of these other policies would pay you a lump sum you could use for anything—covering out-of-pocket medical expenses, getting additional help around the house, paying household bills, whatever you need. The amount of benefit you choose is one of the things that drives the cost of the coverage.

A few things to consider about these types of insurance:

- Study these offerings closely if you have a family history of heart attack, stroke, cancer, or other illness, or if you have done genetic testing that indicates you may be at risk.
- The details, including the circumstances under which the policy pays out, vary significantly from one policy to the next. Some only pay out for a narrow range of illnesses, such as cancer, but would not pay out for another serious illness. Look closely at the type of coverage you're offered and weigh your risks.

Fight for yourself

A confident health care consumer can both keep their costs down and get the most out of their health insurance. If you need help with this, many employers offer some kind of patient advocacy benefit, which can help you navigate the system. These advocates will help you find the care you need, navigate the system and your insurance, and help you with billing. This is one of those workplace benefits you should get familiar with now, before you have an urgent need.

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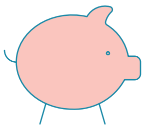
- You may not need a policy like this if you have disability insurance to replace a large percentage of your income if you can't work.
- If you have a substantial emergency fund, this type of extra insurance may not be necessary.



Savings

Perhaps the best way to protect your financial health is to make sure you have enough savings set aside for just this sort of emergency.

Emergency fund: Fidelity suggests having 3-6 months of expenses socked away for use in case of a major emergency—think health crisis or job loss, rather than car trouble. How much do you need? If you're single but have family backup, you might be comfortable with 3 months of savings. However, if you have a spouse, kids, and a mortgage or if you worry about replacing a lost job or other income quickly, you might feel better with 6 months or even more. Make your savings automatic through direct deposit if you can, and try to save in an account that pays some interest but is still readily available if you need it.

Health savings account: You may think of your HSA as a way to pay current qualified health expenses and get a tax break, and that's true.

But it also can act as a savings account for health emergencies. Money you contribute tax-free[2] to an HSA carries over from year to year, allowing you to accumulate significant savings in case of large health expenses. You may even be able to invest the money to help it grow. When you withdraw the money to pay for qualified medical expenses—whether it's 5 years from now or 25—it is also tax-free.

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Borrowing

In some cases, borrowing to pay for an emergency may be necessary if you don't have financial reserves to cover it. You can prepare in advance for that, too.

If you own a home, it can be good strategy to open a line of credit on your house to give you a backup source of funds at a low interest rate. (This can also come in handy in all kinds of situations that aren't health-related.) Your payment is based on how much you've borrowed at any given point in time, as well as your current interest rate, so shop around to get the lowest rate.

Note that it's extremely important to consider the potential consequences of borrowing against your home. There may be financial, legal, tax, and estate implications. If you default on the loan, you could even lose your home.

The bottom line

Planning ahead is key. If you're diligent about saving for emergencies, bolster your savings with insurance, and keep some low-interest credit available as a last resort, you'll be more financially prepared for a health emergency. And that knowledge can help keep a stressful situation from becoming even worse.

If you're caught unprepared

If you haven't planned ahead, your options are more limited, but you should do everything you can to avoid toxic debt like high-interest credit cards or, worse, payday loans. This type of debt can be extraordinarily stressful, on top of everything else you're dealing with. But you do have some options:

- Talk with your health care provider. Be honest about your situation. You may be able to **negotiate a lower cost and/or request a payment plan** to give you more time to pay.
- You may still be able to open a **home equity line of credit** on your home or consider refinancing. If you have substantial equity, you might consider a cash-out refinance. You can potentially lower the interest rate on your loan and gain access to a substantial amount of cash, assuming you feel good about your ability to keep up on the payments.
- Finally, if you have a retirement account at work, such as a 401(k) or 403(b), you may be able to **borrow from it as a last resort**, if you feel confident you will be able to pay it back. Taking a loan is preferable to taking a hardship withdrawal, which can seriously impact your ability to retire with confidence. Check with your workplace savings plan provider to see what options are available to you.

[1] Fidelity Investments recordkept data as of 12/31/2019, eCertified participant web entries.

[2] With respect to federal taxation only. Contributions, investment earnings, and distributions may or may not be subject to state taxation.

Fidelity Investments Institutional Operations Company LLC, 245 Summer St., Boston, MA 02210

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