# Special Needs Planning

## Multi-generational planning is an exercise of compromise, compassion, and hard work. Adding disability issues to the equation uncovers all sorts of financial risks, **Alison MacAlpine** discovered

For almost 15 years, Karen Roy's father depended on kidney dialysis to stay alive. Twice a week, her mother would have two hours of relief from caregiving through the provincial allotment of homecare support. The children would also step in to give her additional breaks.

One weekend, as her dad's health was declining, Roy, CFP, at Spectrum Financial Strategies in Barrie, Ont., was on duty when her father's diaper needed to be changed. She was fine with taking care of it. He was not.

"That was the most undignified thing that could have ever happened to him," she says. "He called a family meeting two weeks later and said, 'I'm not going to go back for dialysis'. If you don't go back to dialysis you pass away within five days because it is a form of life support. [But] he said, 'I'm not living this way.'"

After the shock and the grief, Roy thought about her parents' situation. If they had been covered by a long-term care insurance policy before her father got sick, they would have been able to afford additional nursing help that could have preserved his dignity and lengthened his life. It's one reason Roy considers the potential future caregiving needs of her clients' parents as she constructs financial plans.

An even bigger focus for her is planning for clients' children with disabilities — and, again, she's motivated by personal experience. When her son Andrew developed a disability at age six, she saw first-hand how complex everything can get. "I'm in this business, and I was having such a struggle to pull it all together," she recalls. "How is someone who doesn't do this business day to day — how are they supposed to make sense of it all?"

Disability may be most financially devastating when it strikes breadwinners, and advisors are right to make sure their clients are adequately covered, but multi-generational disability planning is becoming increasingly important to meet the special needs of clients' parents and children.

The statistics are staggering. One in seven Canadians has a disability — a total of 4.4 million people. More than one million are over age 75 — your clients' parents. More than 200,000 are under age 15 — your clients' children.

"We have an obligation as trusted advisors to bring all of these risks to our clients' attention," says Mark Halpern, CFP, TEP, president at WEALTHinsurance.com and illnessPROTECTION.com in Markham, Ont. "In terms of the costs, it's a black hole."

## GUIDING CLIENTS WITH AGING PARENTS

Life expectancy at age 65 is a reassuring 18.1 years, but just 13.8 of those years will be spent in full health. Considering the high

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odds of experiencing some sort of long-lasting disability as a senior, Jeannette Brox, CFP, asks, "If you had those chances of successfully crossing the street, would you venture out?"

Brox, a senior financial consultant with Investors Group in Toronto, quickly runs some numbers: "If a caregiver is going to charge $25 an hour, times eight hours a day, times seven days a week — there's $1,400. Times 52 weeks — that's $72,800." And that's assuming your client's parents continue to live in their own home.

"Once you're over 60, the risk of long-term care becomes one of the biggest risks to your financial planning," says Tina Tehranchian, CFP, CLU, at Assante Capital Management in Richmond Hill, Ont. "In my mind, it's a bigger risk than market risk for seniors because it can deplete a huge amount of capital if you happen to need care in a long-term care facility."

Long-term care insurance, however, can be expensive. In some cases, where a client's parents couldn't afford the premiums themselves, Tehranchian has recommended that her client cover the costs. "Ultimately [the long-term care costs] would fall on the shoulders of the children, and they either have to take out a long-term care policy, pay a small premium now getting prepared for the future, or be hit with thousands of dollars of expenses [later]," she says.

Halpern has applied this same logic to his personal situation. He has long-term care insurance for himself and his wife — and he's also paying for a policy for his mother-in-law. "It avoids that black hole," he explains. "We'd have to pay for it anyway, so I'd rather pay for it [with] two-cent dollars today as opposed to 200-cent before-tax dollars down the road."

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Sometimes, parents' long-term care costs can have an impact on a client's business, too. "If it's something that the business would be liable for, or diminished by because they'd have to come up with capital from the business, well then they may want to have some [personally paid] long-term care insurance in place" to protect the company, suggests Anthony Windeyer, CFP, a business, insurance, and estate manager at Prospera Credit Union in Vancouver.

In Windeyer's planning, a central question is always, do you want to retain or transfer the risk? "It's OK to retain a risk," he emphasizes. "We just want you to know what your options are." And it's the "people in the middle" — not the very rich (who can afford it) or very poor (who will have access to more government support) — who have to consider most carefully how catastrophic a parent's disability could be to their finances.

"There's no right or wrong answer," Windeyer says. "Have a full plan done so you're clear on what the risks are, and then you can make a decision as to if you want to retain all the risk, some part, or none."

Looking beyond long-term care, there are other costs clients should keep in mind as their parents age. Medication, for example, can be very expensive, and Brox emphasizes that benefit plans often cap drug costs so in retirement, your clients' parents may discover they're not as protected as they thought they were.

**When Karen Roy's son Andrew became disabled, she was grateful she already had a rider for him on her life insurance policy that will let him convert to a $250,000 permanent insurance plan in the future. Without that in place, life insurance would have been out of reach for him post-disability.**

Halpern recommends either an individual health plan or a health spending account to bridge gaps.

For advisors, keep in mind that until disability strikes at or close to home, advance preparation can be a hard sell. "Insurance is a discretionary expense unless it's house- or car-related," says David Yurich, CFP, RFP, CLU, TEP, president at Sound Financial Strategies and director, private client group, at HollisWealth in Sudbury, Ont. "The average Canadian lives from paycheque to paycheque, and if it's a toss-up between housing, food, mandatory taxes, and insurance, insurance is the loser here." In his experience, premiums — rather than needs analysis — often dictate coverage.

If they're not insured, or are underinsured, clients should build a good cash cushion for their parents' future care needs, advises Tehranchian. "Many Canadians are stretched when it comes to debt as well, so they may not even have enough room in their line of credit," she points out.

Some basic tax planning can help, too. Your clients may be able to claim the caregiver amount (up to $4,608 in 2015) if a parent or grandparent born in 1950 or earlier shares their home, has little income (a maximum of $20,343 in 2015) and is dependent on them because of physical or mental impairment. Meanwhile, their parents may be able to reduce their tax bill by claiming the disability amount, if they qualify for the disability tax credit, as well as medical expenses.

## STRUCTURES FOR CHILDREN WITH DISABILITIES

When Roy's son became disabled, she was grateful she already had a rider for him on her life insurance policy that will let him convert to a $250,000 permanent insurance plan in the future. Without that in place, life insurance would have been out of reach for him post-disability. Because she lives in Ontario, where Henson Trusts are recognized, the next step was to see a lawyer and set one up as part of her estate plan to keep his inheritance in the hands of a trustee and protect his access to government programs.

"I walked out of there thinking, my son is taken care of," she admits. It took years for information to trickle through to her about other strategies for parents of children with disabilities that should be coordinated with the Trust. In fact, even though she's in the industry, Roy didn't apply for the disability tax credit until a decade later, when her son was 17. "I went back 10 years to redo my tax returns," she smiles. "I got a whopping large refund cheque from the government!"

She says that, like her, many parents of children with disabilities aren't taking prompt advantage of all the available supports because they don't know about them and don't have the time or energy to investigate. For example, one of the richest supportive programs is the Registered Disability Savings Plan (RDSP). Available since 2008, it's notoriously underutilized, employed by only about 15 per cent of 500,000 eligible Canadians.

"There is no reason why anyone in this country that qualifies for the disability tax credit should not open an RDSP," insists Steven Williams, a tax consultant with The Small Business Accountants in Calgary. He has made it a mission to get the word out through his website, rdsplan.ca, and connect parents of children with disabilities to advisors across the country who can help them.

RDSPs top up contributions with a matching Canada Disability Savings Grant of 300 per cent, 200 per cent, or 100 per cent, depending on a family's income and the amount contributed. A Canada Disability Savings Bond of up to $1,000 annually is also available to those with low incomes — and requires no contribution at all. Withdrawals must not start until 10 years after the last grant or bond was collected to avoid clawbacks. However, the money can be used for any purpose (unlike money from a Henson Trust, which can only be used to pay approved disability-related expenses) and, in most provinces (Quebec and Prince Edward Island are the exceptions), withdrawals in any amount do not affect benefits.

What's the optimal time to contribute? Williams says the sooner the better: "If the family's got a high income, $1,000 gives them $1,000 [today]; if they wait until the kid's 19, $1,500 gives them $3,500. That's a much better return on their dollar, but the $1,000 that they could have gotten 15 years ago could have grown to way more than $3,500 [over that time]."

## CRITICAL, COORDINATED PLANNING

The RDSP can complement a range of other strategies. For example, a high-functioning disabled child who plans to pursue post-secondary education may also need contributions to a Registered Education Savings Plan (RESP), suggests Roy.

"On the education side I can get 20 per cent grant dollars from the government, and on the disability side I could get up to 233 per cent," she says. "But an RESP is going to help when the child is ready for education. The RDSP is a long-term savings plan; it's not going to help until 20, 30 years out. So you have to merge those together: should we be doing only one for now and then tap into the other later?"

Advisors need to examine each case from multiple perspectives, including wealth planning, tax planning, and estate planning, and make sure decisions in one area don't adversely affect others. Geoffrey Zaldin, president of Special Needs Financial in Toronto, once saw a situation where a grandparent left $180,000 outright to a child with a disability. Suddenly, the child was no longer eligible for the provincial Ontario Disability Support Program (ODSP) — yet $180,000 wasn't enough to generate an equivalent stream of income without depleting the capital.

"Had it been set up properly," Zaldin says, "that money could have gone into an RDSP or into [both] an RDSP and an inheritance trust or even a Henson Trust and been utilized for the individual, and they would have still been entitled to receive the ODSP and maintained their principal amount."

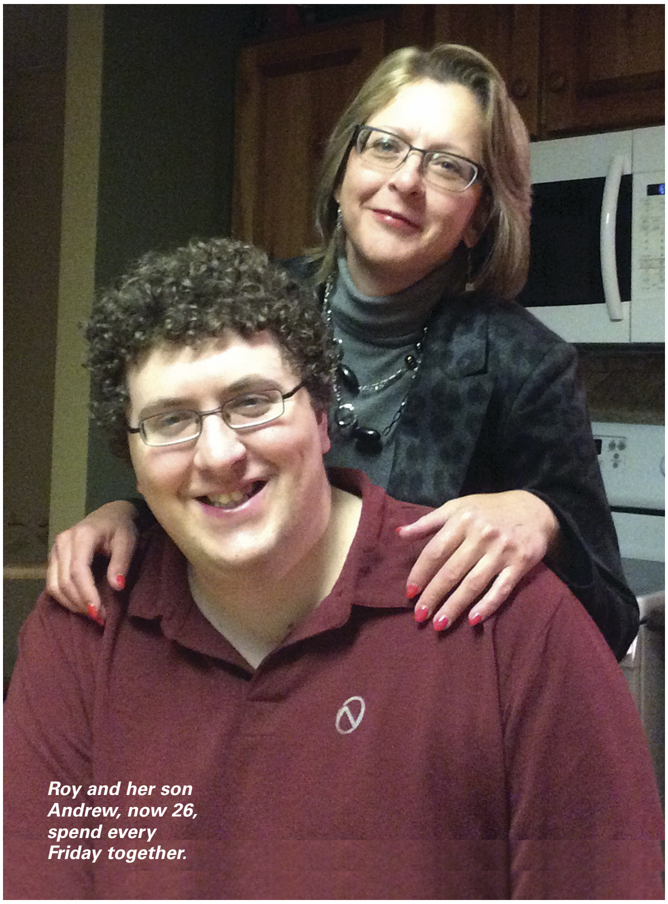
Williams adds that a parent's RRSP can roll over into a child's RDSP, but for modest estates it may make more sense to turn the RRSP into an annuity that pays into the RDSP annually to attract RDSP grants. He also recommends that advisors and their clients check their assumptions at the door. One couple he worked with intended to leave half their estate to a daughter with a disability, and to split the remaining half between their two sons. After all, their daughter would have bigger expenses, right? Williams helped them calculate her needs and it turned out that 25 per cent of the estate would be sufficient.

"We want to make sure that the needs of that child are taken care of, of course, but at the same time we don't want to alienate the ones that really are going to be helping her," he says. Leaving more to the sons is an elegant way to bypass resentment.

## ADVOCATE FOR YOUR CLIENTS

Multi-generational disability planning can help clients manage the financial repercussions of disability affecting loved ones up and down the family tree. It can also take a tremendous weight off their shoulders. Caregivers are always on call, says Zaldin, who himself has a daughter with a disability, and constantly advocating — with schools, with doctors, with government agencies — can be exhausting. That's what makes his work so rewarding.

"To be able to have a conversation with somebody and review their account and find out they're entitled to thousands of dollars more in refunds, and that there are programs they're not utilizing, and that you can help make it easier and more enjoyable for individuals that have a lot of issues that they have to deal with," he says, "is wonderful."



*Roy and her son Andrew, now 26, spend every Friday together.*

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