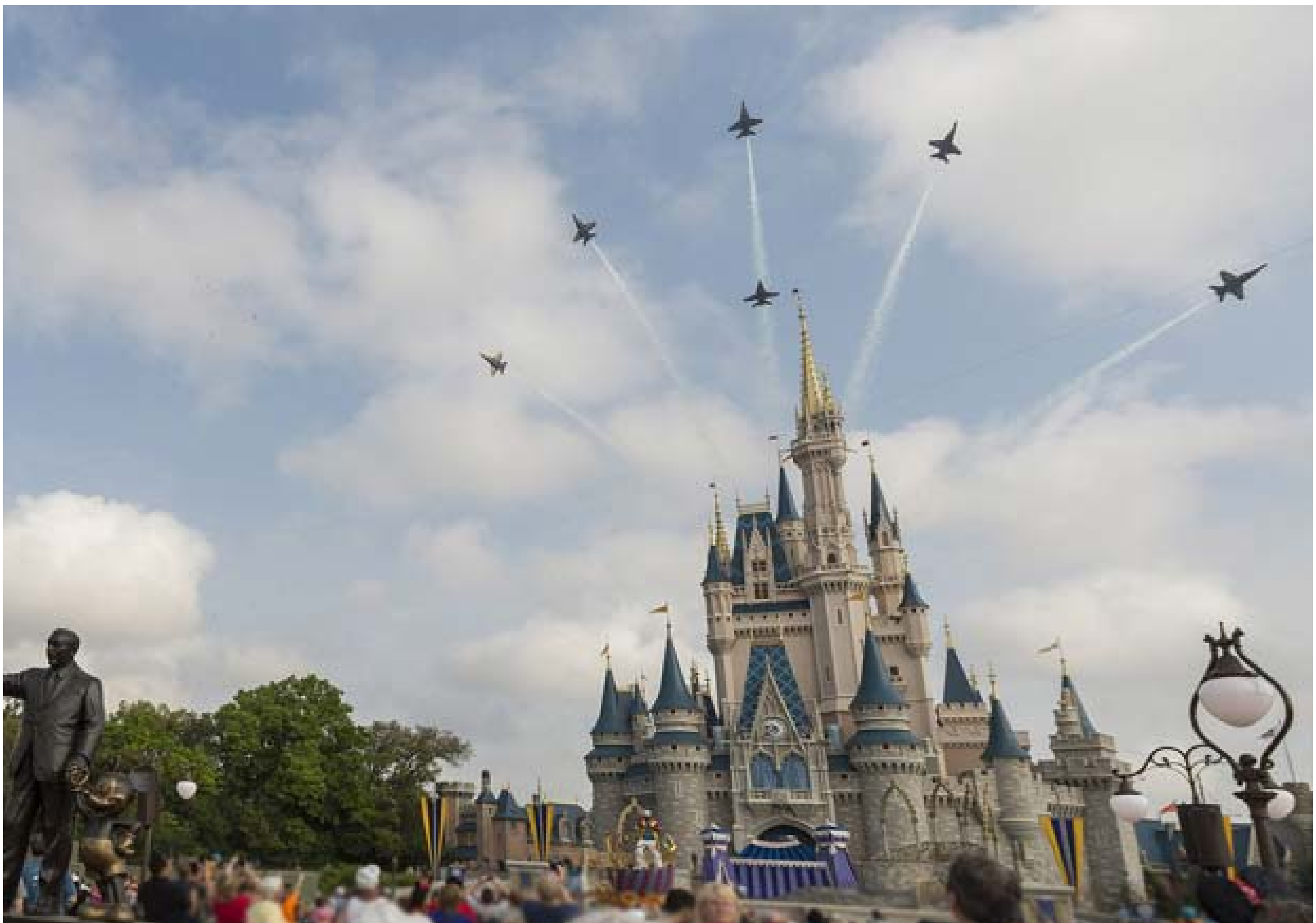
FINANCIAL POST

The real Cinderella story: A financial fairy tale without the happy ending

Garry Marr | March 20, 2015



Cinderella is a financial nightmare.

Cinderella isn't just a fairy tale, it's a personal finance nightmare.

I took my 10-year-old to see the classic story, which just came out on the big screen for the umpteenth time. My teenager took a pass on the Disney movie, but not before asking me, "What's it about anyway, dad?" He was hoping for some sort of gritty reboot with a new twist.

Sorry. The message was the some – at least for me. The parents fail to provide for their only child with any type of life insurance and the father has to keep working after the mother dies, so he can't stay home. The dad ends up remarrying, creating a blended family, but doesn't bother with a prenuptial agreement. He doesn't even have a will.

So what happens? Like a large percentage of Canadians who hope some miracle will solve their financial woes, Cinderella lands her own lottery ticket in the form of a wealthy prince who will take care of her forever and ever.

You doubt there are people who think this way in real life? Think again. A Bank of Montreal survey conducted in 2014 found 34% of Canadians believe winning the lottery will fix their retirement problems, 14% counting heavily on the long shot.

It's not a one-time blip. BMO says the percentage of people hoping the lottery will solve their problems has been in the same range in other surveys. Somebody has to win, right? You can go ahead and bank on a one-in-14 million chance of winning Lotto 6/49 … or you can start some planning.

Let's begin with insurance. It's almost a must for anyone with children because you have to figure out a way to provide for them should a parent die.

"If Cinderella's father had a policy on his wife, he wouldn't have had to travel as far in order to make a living," says Mark Halpern, an insurance agent who runs illnessprotection.com.

In the movie (spoiler alert for my teenager who says he doesn't know the plot), the father dies while abroad in an effort to make more money to maintain his residence he now shares with his second wife, Cinderella's stepmother, and her two children.

"The truth is, without insurance there's a good chance [Cinderella] could have ended up living on the street and going to some shelter for her survival," says Mr. Halpern, who sees scenarios like this every day.

A typical story is the person who tries to sign up for life insurance after they've become critically ill with a disease, making it almost impossible to be approved for a policy or creating premiums that simply are not affordable.

He says the rates for a 45-year-old healthy, no-smoker to get $1,000,000 of life insurance with a 10-year term would be as little as $75 a month for a man and $70 for a woman.. Don't forget insurance payouts are not taxable so that money can go pretty far.

"If you don't have enough money, you can just have a term policy until Cinderella can fend for herself," says Mr. Halpern, adding a more expensive permanent policy that doesn't expire and guarantees a lump sum of cash is better, if you are wealthier.

But it's not just life insurance. Mr. Halpern says disability insurance is a shortfall in most financial plans and the reality is most people get sick before they die. You could also opt for a critical illness policy that pays you a lump sum 30 days after being diagnosed with certain illnesses.

You can't just stop with insurance. Cinderella's father created a raft of legal problems by remarrying without any sort of agreement, says Toronto lawyer Les Kotzer, author of The Wills Lawyers: Their Stories of Money, Inheritance, Greed, Family and Betrayal.

He's heard the Cinderella story, without the happy ending, in his office over and over again. Children are often told by their parents not to worry that they are leaving the money to a second spouse because that person will take care of them.

"You really have to be careful when you remarry," says Mr. Kotzer. "For starters, if you ever remarry, marriage revokes your will. Even if he had left a will leaving everything he had to Cinderella, the moment he remarries it revokes everything."

He suggests a prenuptial agreement that sets out that your spouse will accept your will when you die.

Mr. Kotzer also cautions against joints accounts and home ownership with a spouse because it will mean everything goes to them. "It doesn't matter what goes in the will," he says, adding spouses have six months to elect against the will under Ontario law. "The answer is if you want to protect your kids, you do a prenuptial agreement. You've just got to plan."

Chris Buttigieg, senior manager of wealth planning strategy of BMO Financial Group, said people just have to start taking ownership of their financial lives and not hope for a miracle.

"I buy a lottery ticket but I buy it for a dream. I pay one dollar for the dream. It's not a dollar investing in your future," says Mr. Buttigieg.

That takes real planning and money. There's no prince waiting to save most of us.