Protect your clients against living risks

In 2008, at age 45, Cathy Preston was diagnosed with rheumatoid arthritis. Her mother had suffered from the disease, but her own diagnosis come as a complete surprise. 'I always thought I'd be fine," said Preston, vice-president, life and health insurance, at RBC Insurance in Mississauga, Ont.

Preston's mother had prepared her family for this possibility. "My mother was 36 when she was diagnosed, and the treatment of rheumatoid arthritis at that time wasn't what it is today. She had to leave work, which meant the family had to live on one income. So she always stressed how important insurance was. 'You saw what happened to us,' " she said.

Preston had disability and critical illness coverage in place, and she was able to take three months' leave from work after her diagnosis. "In my mother's day, it was unheard of to return to work after three months."

Her own experience has made her even more passionate about the insurance industry. "Our research shows that 47% of Canadians say they would find themselves in financial difficulties if their pay was delayed by even a week. What would happen if they could no longer earn an income?"

People like to think "It won't happen to me," she noted, "but according to **Statistics Canada**, one in seven Canadians are currently disabled, and one in three will experience a period of disability lasting longer than 90 days in their working lives."

False sense of security

The chances of developing a disability or a critical illness are five times greater than dying before age 65, said **Mark Halpern**, Markham, Ont.-based president of **illnessProtection.com**. "Yet many of us have a false sense of security that the government will take care of us or that we're protected under our employers' plans."

A recent **Edward Jones** survey found a gap between Canadians' intentions and what they're actually doing to protect themselves from loss of income due to illness and disability, and to finance costly care in their final years. Although those surveyed ranked the financial well-being of their families and the quality of their own lives in old age as two top priorities, 77% had not purchased disability insurance, and 89% had not purchased critical illness coverage or long-term-care insurance. And 36% had not purchased life insurance to protect dependent family members upon their deaths. "We're seeing a gap here between intentions and actions," said **James McKeown, Edward Jones**' senior insurance specialist in Mississauga, Ont. "Insurance protects your family's financial security, and it protects what you've worked hard to build."

Disability insurance provides a tax-free monthly payment if your client is temporarily or permanently unable to work at his job due to an accident or illness. Most long-term disability insurance policies pay out until the client turns 65, noted **Susan St. Amand**, founder and president of Ottawa-based **Sirius Financial Services**. "The financial advisor will need to ensure that the client saves enough and has an investment strategy in place to provide for his years after 65.

"Or, should he die, there may be a need for life insurance to provide for his survivors," she added.

Disability insurance is just one component of living benefits coverage. The second component is critical illness insurance, which provides a lump-sum payment if your client is diagnosed with a major illness. Many policies cover cancer, heart attacks, coronary artery bypass surgery and strokes; some cover more illnesses. The money can be used for any purpose the client chooses, such as renovations to his home.

Micheline Varas, Vancouver-based managing partner and senior vice-president of **CustomPlan Financial Advisors Inc.**, has seen the importance of CI coverage many times. One case she remembers well was a single mother who needed to take several months off work after she was diagnosed with breast cancer. "Two years before, she'd purchased a CI policy that covered her for $25,000," Varas said. "It wasn't a lot of money but it allowed her to make her mortgage payments, pay for child care, house cleaning and the difficult chores she didn't have the energy to do. It enabled her to cope with an extremely stressful situation and maintain normalcy in her children's lives. We sometimes forget the importance of smaller amounts of coverage."

A CI payout can also be used by a spouse who wishes to leave his job and care for a terminally ill client, St. Amand added. "A caregiving spouse will probably have no money coming in."

Disability and CI coverage are essential parts

WHAT THIS MEANS TO ADVISORS

Fewer than 25% of Canadian financial advisors have ever sold living benefits policies, said Mark Halpern, president of illnessProtection.com in Markham, Ont. "If they're not talking about living benefits, their clients won't know about them."

Advisors who avoid this area of financial planning are leaving clients very exposed, he added. "What happens if the client has a heart attack but has no critical illness coverage?" he asked. "Either learn about living benefits and start talking about them with clients, or bring someone in to work with them. But don't ignore this area of financial planning. Advisors who do may be held liable."

Living benefits insurance has traditionally been a market for younger advisors with younger clients, said Joe Wellman, Toronto-based assistant vice-president, living benefits distribution, at Canada Life. "It's a great opportunity for young advisors entering the business," he said. "It's also an opportunity for older advisors who want to build an attractive book of business that they can pass on when they retire." (RM)

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– Cathy Preston

of your clients' financial plans, noted **Audrey McFarlane**, a financial advisor at Edward Jones in Victoria, B.C. When she starts work with a new client, McFarlane finds out what assets he has, including whether he has living benefits coverage under his employer's plan. Then she determines what his goals are and creates his financial plan. "Insurance has to be part of it," she said. "What will happen if his income stops due to a disability or a critical illness? He'll have to live off the savings he was setting aside for retirement."

She added that the client's financial plan – and its living benefits component – needs to be reviewed after every major life event.

Most Canadians don't have enough savings to take them through even a few months without an income, said **Joe Wellman**, Toronto-based assistant vice-president, living benefits distribution, at **Canada Life**, referring to a **Statistics Canada** report released in March that noted a new high for consumer debt: Canadians are now spending $1.63 for every dollar they earn. "The financial impact of being without an income is even greater for high-income clients," he added. "A 35-year-old professional earning $120,000 a year who suffers a long-term disability stands to lose $3.6 million in income by age 65, and that doesn't take cost-of-living increases into account."

Clients who have living benefits coverage under group plans at work should look closely at the coverage these plans provide, said **Paul Lalonde**, Montreal-based vice-president and national manager of the estate and insurance advisory group at **BMO Nesbitt Burns Financial Services**. They'll need to ascertain what percentage of their salaries are covered by the plans; he noted that some plans are capped at $3,000 or $5,000 a month. "For highly paid clients, this may not be enough to cover their lifestyles. They may want to supplement these plans with individual coverage."

Self-employed and small-business-owner clients are especially vulnerable because they don't have coverage at work, Lalonde added. "And it's always a challenge to talk to young people – who are paying down mortgages and saving for children's education – about living benefits. It's an additional expense, but these are the very people who couldn't get by for a year without an income."

"We wouldn't dream of not insuring our homes and our vehicles," St. Amand added, "but many say it costs too much to insure our incomes."

Lalonde suggested that advisors look into cheaper alternatives for cash-strapped clients, such as CI products that only cover the three major illnesses – cancer, heart attacks and strokes – "because about 90% of claims are for these three," or opting for reduced coverage. "Any coverage is better than nothing."

The risks of not having living benefits coverage are even more serious than not having life insurance, Wellman said. "Without an income, the client will not be able to provide for his family, and he'll also have the expenses for his own care."

Varas noted that disability and CI coverage can be a form of savings. "Many plans offer a return-of-premium option that can be triggered if no claims were made over a certain number of years. The premiums are returned, tax-free, and can be used to supplement children's education or the policy holder's retirement. The client is building a safety net on two levels."

Advisors will have to make changes to the client's portfolio mix if he suffers a disability or a critical illness, St. Amand said. "The client's risk profile may change. If he's risk-averse, he will want lower-risk investments—which will mean lower returns."

Long-term-care insurance

Long-term-care insurance is the third component of living benefits coverage. It provide funds for on-going care in a variety of settings, at home or in care facilities, for individuals unable to perform the activities of daily living: walking, dressing, bathing, eating, toileting and transferring from bed to chair.

LTC insurance has not taken off in Canada as it has in the U.S. where premiums are tax-deductible. Varas attributes this to the naïve trust many Canadians place in their government. "Many Canadians still believe government plans will assist with the cost of LTC should the need arise," she said.

"And many of us don't realize there are different levels of care," St. Amand added. "Consequently we may not understand the cost of not having coverage."

"What LTC coverage gives you is peace of mind," Varas said. "You feel you will have control over your care in your final years. You'll have your dignity and your independence. And you can potentially save a lot of money on your care."

As our population ages and develops age-related health problems, the cost of care in the final years will undoubtedly rise. "We used to say the wealthy didn't have to worry about LTC coverage," Halpern said. "But LTC facilities that now cost $4,000 to $10,000 a month are bound to double in the next few years. Even the wealthy are starting to sit up and notice."

Pooling coverage

If cost of premiums is an issue for your clients, St. Amand suggested looking into partial coverage "say $100 a day instead of $300." Or pooling coverage between spouses.

Some insurers offer return-of-premium options that pay a death benefit to the policy holder's beneficiaries equal to the sum of the LTC premiums or the sum of the premiums less any claims that were made. Varas said these riders can increase the cost of coverage significantly and she generally doesn't recommend them. Halpern suggested putting money into life insurance instead.

LTC coverage should ideally be purchased when your client is in his 40s, not in his 60s or 70s when premiums will be much more costly.

■ ROSEMARY MCCRACKEN