The TaxLetter®

Vol. 37, No. 5 | Your Guide to Tax-Saving Strategies | May 2019

ESTATEPLANNING

Wealth Preservation

Long Term Care Insurance

Mark Halpern, CFP, TEP

As anyone familiar with Canada's winters can tell you, we do face some harsh realities, and while spring does clear away the snow and ice, there's nothing (short of an untimely demise) that can alter the harsh realities of growing older.

The truth is that we Canadians are living longer, and those over age 100 are now one of the fastest-growing demographic groups in the country.

The huge Baby Boomer cohort, the one we've talked about for years, ensures a growing number of senior citizens for years to come. Statistics Canada projects that by 2021 there will be seven million seniors, representing 19 per cent of total population; by 2041, more than nine million seniors comprise about 25 per cent of the Canadian population.

I've been told that there are three stages to retirement planning. Go-Go, Slow-Go and No-Go. How prepared are you?

Are you prepared?

As we age, most of us require more medical help – in the form of family or outside care (see five stages of care below). Don't be misled by any expectation that our federal government will ante up and pay for these from our health-care system. People must be aware of the facts and prepared to assume responsibility for their financial futures. Just as your house and car require insurance, people need to set aside some of their own money for long-term care expenses.

Unfortunately, the cost of getting the quality of care we need and want can be prohibitively expensive. The current cost of care (either stay-at-home or facility care) ranges anywhere from $4,000 to more than $10,000 a month.

With health care inflation, those numbers can easily double in the next 10 to 20 years to $8,000 or exceeding $20,000 a month.

Caring for aging parents already costs Canadians $33 billion a year in direct out-of-pocket expenses and time off work, a number that will only grow over time, according to a 2017 report by CIBC Capital Markets.

These costs can easily disrupt your own well-planned retirement, deplete your savings and reduce or eliminate funds you have earmarked for your family and favourite charities.

Now that people are living longer, more people than ever could be long on life and short on money with the false expectation that their quality of life will be good as they grow older and that they will inherit a windfall of money from their parents, the greatest saving generation of all time, to their kids, the greatest spending generation of all time.

When ageing parents can't fend for themselves, it usually up to their adult children to take care of them, often footing the bills. I'm seeing more adult children 50-60 years old caring for their parents timewise and money-wise. The

Mark Halpern is a Certified Financial Planner (CFP), Trust and Estate Practitioner (TEP) and one of Canada's top life insurance advisors. He is CEO of WEALTHinsurance.com® and illnessPROTECTION.com®, with special expertise for business owners, entrepreneurs, medical professionals and high-net worth individuals and their families. He can be reached at 416-364-2929, toll-free at 866-566-2001 or mark@WEALTHinsurance.com.

reality is that these adult children will spend more time caring for their parents than their parents did, taking care of them as kids.

A recent Ipsos Reid survey revealed that more than 40 per cent of Canadians believe they will have to care for their parents when they get older. They worry about the personal toll it will take on them in terms of a time commitment, and also worried that their own children may end up in the same situation.

After a lifetime of hard work, conservative investing and meticulous tax planning, it's a tragedy to see savings evaporate and estate values diminished by illness.

Options

This is where planning comes in, especially reviewing options for long-term care insurance (LTC).

LTC insurance benefits commence if you become unable to care for yourself and need assistance to manage daily living activities.

Most plans stipulate that you must be incapable of performing two or more activities of daily living by yourself, such as bathing, dressing or eating or thinking clearly.

But don't be fooled -- LTC isn't exclusively for seniors. You may become unable to care for yourself for 90 days or more at any point in your life – perhaps due to an illness or accident. LTC insurance can cover some of the costs of a care facility or a caregiver in your own home. It can also manage your care and your expenses if you have an unexpected accident – at any age -- that requires assistance from a family member or care giver.

If you are currently healthy and contributing $1,000 a month to your RRSP, consider reducing those deposits to $500 a month, and use the remaining $500 for an LTC policy. It's a defensive strategy that won't create a big hole in your ultimate retirement goals and will make a huge difference if you get sick.

Some LTC policies include or provide an optional return of premium benefit. In those cases, if you don't make a claim, the insurance company will return to your beneficiaries all of the premium payments you have paid.

Depending on the insurance company, premiums usually vary after a certain time period but are usually locked in for about five years.

Selecting the proper LTC policy requires the experience of a knowledgeable and experienced advisor. The market landscape has materially changed in the last few years, during which time some major insurers, such as Manulife Financial, RBC Insurance and Desjardins stopped selling LTC insurance products.

Other options

But if you feel, for whatever reason, that LTC is not the way to go, there are other options to consider. For those who are satisfied they can manage their own long-term care with their current savings, think about buying an inexpensive joint and last-to-die insurance policy that can replace the money you may spend on health care. Regardless of what happens to you healthwise, it can guarantee your ability to leave something in the estate for your children and/or favourite charities.

If you don't want to go the LTC route, another form of long-term care – at least for the time being – is to use critical illness insurance as long-term care. Many insurers have a long-term care definition as one of their covered conditions. So, if a person buys critical illness coverage and over time, can't do two of the six daily activities or has cognitive impairment (the same requirements for LTC to kick in), the insured can then access the funds through the CI (critical illness) policy to pay for their at-home or facility care. Using this method, people will usually receive a monthly cash flow, not the typical lump sum equated with critical illness.

You never know, however, how long this definition will be available inside new policies. Most assuredly, those who already have their policies will be grandfathered, but it's unsure how long new policies with this definition will be available.

If you are a Boomer, or an adult child with Boomer parents, this is the right time to talk to your family about getting LTC, while your parents are still healthy and independent.

For business owners, LTC can provide you with funds that you may no longer be able to access under new passive investment income rules.

Whatever your age or stage in life, consider long term care as part of your total protection portfolio to make the harsh realities a little easier financially.

This is not a DIY project, get professional help before you commit to any insurance policies. Our experienced advisors are available across the country to help you.

IN A BOX:

The five specific stages of care (courtesy of Sun Life)

1. You may have chronic health problems and disabilities, but you are still moving pretty well on your own, without help. In fact, many people will fiercely defend this ability to fend for themselves even if you are just trying to be nice.

2. Slowly, these health problems take a turn for the worse and even simple tasks of daily living become more difficult or painful. Family members need to step in and provide some of the everyday necessities and begin to think about alternate care.

3. At this stage, you may rely increasingly on family members or friends to prepare your meals, clean and even help you bathe. Family members may start bringing personal support care workers into your home for both their sense of security and yours.

4. Now comes the time when you become almost totally dependent on others and what you need outstrips the family's ability to help.

5. At this, the "dependence" stage, a person requires extensive care needs and the only route to follow is a long-term care facility with skilled nursing and extensive personal care. ❏

Mark Halpern is one of Canada's top life insurance advisors, a Certified Financial Planner (CFP), Trust and Estate Practitioner (TEP) and CEO of WEALTHinsurance.com®.
He guides successful business owners, who are already challenged for time, through the complex process of ensuring the people and organizations they care about are taken care of.
If you are like his other successful business owner clients, you are looking to reduce your tax obligations, preserve your wealth and leave a legacy. Incompletions rob us of energy. Mark collaborates with your professional advisory team to achieve your desired outcomes. His approach is simple. He makes sure what is important to you gets done. He gets you organized, provides a big picture view of your financial affairs, determines your strategy and helps you take action. He will simplify the complicated, so you and your family can rest easy. He can be reached at 416-364-2929, toll-free at 1-866-566-2001 or Mark@WEALTHinsurance.com.
Visit WEALTHinsurance.com
Get your FREE Estate Planning Toolkit at WEALTHinsurance.com/toolkits.html
The 2019 Toolkit now includes:
Estate Directory
Estate Planning Checklist
Executor Duties Checklist
Business Owners Planning Guide
Visit MarkHalpernBlog.com and sign up for free updates.