
Planning & Insurance - Summary of Meeting

11 messages

Tue, Oct 15, 2019 at 12:00 PM

Hi Michelle & Hans,

Thanks again for taking the time to speak with me Monday evening. I enjoyed our conversation.

The purpose of this email is to summarize (in detail) our conversation. For me, this email is essentially my notes from the meeting and what I will refer back to in future conversations. I apologize for the length, but I hope you find great value in the message

A. Retirement Planning

Based on your current after-tax monthly family income (\$15,000/mth), you are currently allocating over half towards debt elimination, savings and expenses related to your children. Typically, these expenses disappear once you reach retirement. Therefore, we assumed a desired after-tax retirement income of \$7,000/mth (today's dollars), indexed at 2.5%. Essentially, this maintains your current after-tax standard-of-living into retirement. Below are other key assumptions for your plan:

Retirement Age: 60
CPP: We assumed 80% participation in CPP for each of you
Real Estate Growth: 3.0%
Rate of Return on Investments: 5.0%
RRSP Savings: \$23,200/yr
TFSA/Open Savings: \$0/yr

Not included in Plan

Lump Sum Inheritance: Diane | (age 72)
Equity from real estate (or sale of home for retirement)

To achieve your objective you need ~\$2,000,000 of retirement assets by age 60. Based on the projections, your retirement savings will grow to \$1,500,000. More importantly, the required rate of return for your investments is 6.70% (which is attainable -- speak to Ray) . Remember, this does not include any inheritance nor does it include the value of your home (valued \$1,996,065 by age 60 assuming a 3% growth rate).

Option #3: Earn More Return

Estimated increase to portfolio rate of return you will need to earn: 1.70 %

Portfolio Rate of Return: 5.00 %

Required Rate of Return: 6.70 %

Option #4: Save More

Estimated additional amount you will need to save each year: \$33,700.00

Projected Capital at Retirement:

\$1,492,400.00

Required Capital at Retirement:

\$2,004,800.00

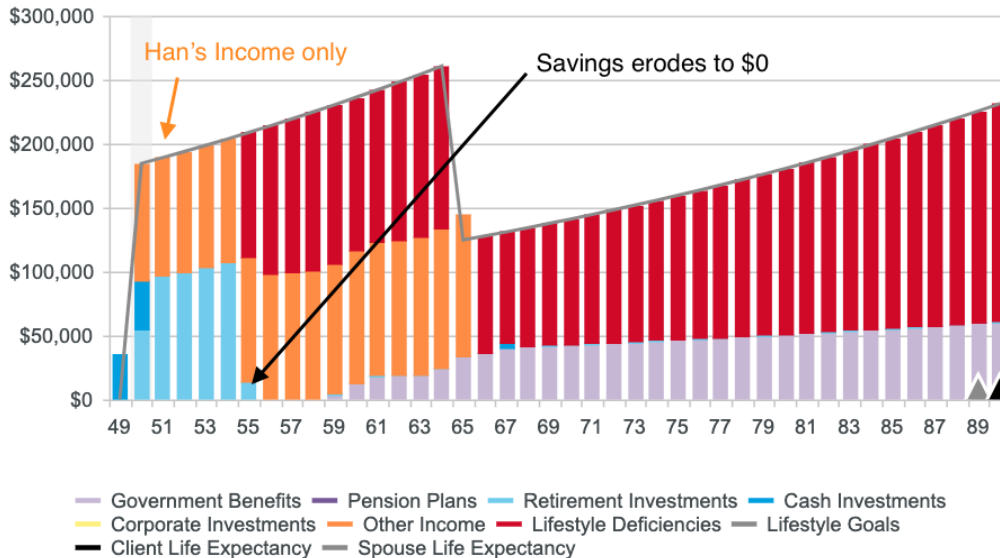
Current Value of Retirement Capital: \$702,000.00

Given you will likely downsize your home, you should have more than enough capital to retire by age 65. Great job!

Stress Test

The purpose of a stress test is to mimic the financial impact of a catastrophic health event. In the event of a permanent disability (caused by illness or injury), you are effectively 'retired' immediately. Here is a list of immediate changes to your retirement plan:

- No more retirement savings
- No more contributions to Michelle's CPP (reduced Michelle's participation rate to 25% from 80%)
- Han's will continue to work full time (orange bars represent Han's after-tax income)
- Income shortfall (while Michelle is disabled) comes from RRSP withdrawals (maintain \$15K/per month after-tax income -- which is current)



B. Long Term Disability Insurance

Long term disability insurance provides after-tax monthly income if you're unable to work due to a disability. Essentially, it's insurance for your ability to earn an income. In my opinion, this is the most important type of coverage for you given your own circumstances (ie. single with a dependants). For example, most professionals (ie. doctors, lawyers, etc) and many business owners maximize this coverage. Personally, I've maximized my own disability insurance because if I don't bring home income, my entire financial situation is in peril (my spouse will never earn as much as me -- she's a stay-at-home mom right now). To learn more about disability insurance go to this link: <https://brianlaundry.ca/long-term-disability>

Fortunately, IBM provided Michelle with 60% coverage (with cost of living adjustment -- which is indexing). This is great news!

To provide long term disability coverage for Hans, the maximum allowable coverage is around \$5,000/mth (after-tax) and the cost is about \$400/mth. Given Michelle is the primary earner/saver, I think you need to decide if insuring Hans makes sense (to discuss)

C. Critical Illness Insurance

This type of insurance provides a tax-free lump sum if you are diagnosed with Cancer, Heart Attack or Stroke (or any of the 25 covered conditions). This coverage provides an injection of capital to use for any purpose you wish (ie. medical expenses/treatment, debt elimination, lost savings, etc.). Coverage is also payable on a monthly basis if you have an accident and cannot perform 2 of the 6 activities of daily living (dressing, bathing toileting, eating, transferring and cognitive impairment).

In my professional experience, I've managed more claims for critical illness insurance than any other insurance product (life insurance included). Critical illness insurance is often the most difficult coverage to acquire. Coverage cannot be purchased for any pre-existing conditions or illnesses (family history also plays a role in getting an approval).

Since the long term disability insurance hedges yourself for retirement, you want to use critical illness insurance as a tool to pay for immediate costs associated with your condition (ie. home renovations) or to eliminate/pay down your mortgage.

For \$100,000 of coverage (each), the cost for a plan is approximately \$183/mth (for higher coverage amounts simply multiply the cost).

To learn more about critical illness, go to: <https://brianlaundry.ca/critical-illness>

D. Life Insurance

Attached to this email is the life insurance needs analysis that we created together. Given our conversation, we agreed that immediate capital is required for a home purchase for the surviving spouse (\$400,000) and to fund future education costs for your two children

(\$100,000). The other contributing factor was to make sure there was some income replacement for the surviving spouse. Included below are two examples of income replacement and the capital required (today) to achieve the desired result:

Lump Sum Needs	Hans	Michelle
Mortgage Balance	\$400,000.00	\$400,000.00
Line of Credit	\$0.00	\$0.00
Loans and Credit Cards	\$0.00	\$0.00
Children's Education Funding Shortfall	\$100,000.00	\$100,000.00
Final Expenses	\$0.00	\$0.00
Other Capital Needs	\$0.00	\$0.00
Capital Needed	\$500,000.00	\$500,000.00
Monthly Income Replacement Needs	Hans	Michelle
After-Tax Additional Income Needed to Maintain Survivor's Lifestyle	\$5,000.00	\$5,000.00
Number of Years Above Income Amount Will Be Needed	10	30
After-Tax Additional Income Needed While Children Are Still Dependent On Survivor	\$0.00	\$0.00
Number of Years Above Income Amount Will Be Needed	25	25
Investment Rate of Return You Expect to Earn	5.00 %	5.00 %
Rate of Inflation to Be Applied to Income Needs	3.00 %	3.00 %
Capital Needed	\$551,098.56	\$1,380,916.54
Available Capital	Hans	Michelle
Creditor Life Insurance	\$0.00	\$0.00
Group Life Insurance	\$0.00	\$0.00
Individual Life Insurance	\$0.00	\$0.00
Liquid Investments	\$0.00	\$0.00
Excess / (Deficiency)	(\$1,051,098.56)	(\$1,880,916.54)

Depending on how long you want to replace income (10 years, 30 years or pick any amount) the total amount of life insurance differs. Currently, Michelle has \$1.4M with her employer (which is terrific). The only drawback is that the life insurance coverage is linked to employment (you lose coverage if you change employers). That said, it seems that Michelle has a sufficient amount of life insurance.

Hans, the cost for \$1,000,000 of 10 year term life insurance is approximately \$130/mth.

E. Next Steps

From an insurance point-of-view, I think it makes a lot of sense to increase Hans' life insurance. I'm also suggesting that you look closely at critical illness insurance. Ultimately, if you keep plowing ahead, everything will be fine. Insuring yourselves for critical illness makes a lot of sense. I'd probably have a higher coverage for Michelle (ie. mortgage amount) and a lower amount for Hans.

I think it makes sense to re-group and chat about the insurance component in more detail.

Let me know if you have some time during the week of October 28th? How does Wednesday the 30th at 6pm look for you?

In the meantime, if you have any questions, please email me or call anytime.

Talk soon!

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