

FOR HEALTH



## A HEALTH CONVERSATION

FEATURING  
LONG-TERM CARE INSURANCE

Life's brighter under the sun



# A CONVERSATION WITH LOIS AND FRANK

Both 60, Frank and Lois have over \$1 million in a non-registered portfolio held in a number of different accounts, asset types and locations. They're interested in consolidating their total portfolio with a single advisor in retirement. They've asked each of their advisors to review their situation and identify opportunities and risks for them to consider.



A 60 year old couple has a 90% chance that one of them will face a serious illness. Over half will experience Alzheimer's, dementia or other condition requiring constant supervision<sup>1</sup>.

Seventy five percent of Canadians believe they'll be personally responsible for the majority of the cost of their health and personal care costs as they grow old.<sup>2</sup>

At current levels of funding, government programs will experience a projected \$590 billion shortfall over the next 35 years as the population ages.<sup>3</sup>

## STEP 1: A CRITICAL QUESTION

### *The advisor asks them:*

*Have you accounted for any required healthcare and personal support expenses in your planning for when you're older? Have you thought about where you'll receive care and the role government programs will play?*

Lois and Frank answer that they wish to maintain their current lifestyle into retirement even as it extends to choices and control over health and personal care. With this in mind, the advisor reviews the choices and costs.

Health care inflation over the past 10 years has been four percent annually.<sup>5</sup>

Each 20 hours of weekly personal support and care currently cost approximately \$26,000 annually. This will increase to \$47,000 over the next 15 years.<sup>4</sup>

On average, an individual will live three years in care. An Alzheimer's patient can live over 10 years in care.<sup>6</sup>

### *Understanding the choices and costs:*

Lois and Frank's advisor outlines the main choices they'll have for long-term care when the need arises:

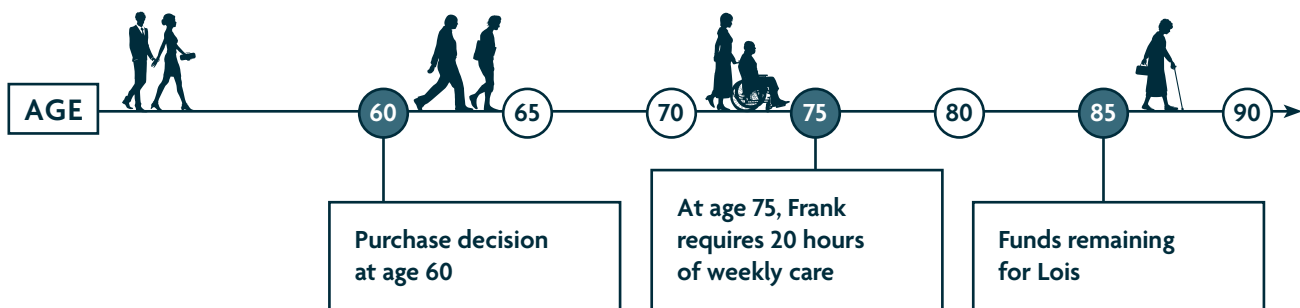
- **The default choice** – A long-term care facility or nursing home – medications and medical support are funded by provincial health care plans, but room and board is the responsibility of the individual. A private room in a provincial facility costs \$25,000 annually on average.<sup>4</sup>
- **The considered choice** – Downsizing to a retirement residence or assisted living community – rent and meals will be \$72,000 a year on average. Any personal support and care is an additional cost. Just 4 hours a day can be an additional \$36,000 annually.<sup>4</sup>
- **The preferred choice** – Care at home for as long as possible is the desire of most individuals and recommended by medical professionals. Eight hours a day of in-home support can cost \$72,000 each year.<sup>4</sup>

## STEP 2: EVALUATING FINANCIAL STRATEGIES

Next, the advisor reviews three financial strategies they might use to prepare for care:

- A. **Self-funding** – allocate a portion of existing assets into a ‘health fund.’ This approach requires discipline and risks underestimating who will need care, when care will begin, how long it will last, and how much it will cost.
- B. **Share the risk** – self-fund initial care and transfer the risk of a catastrophic need to long term care insurance.
- C. **Transfer the risk to insurance** – all risk of an unexpected illness or need for care is transferred to long term care insurance or critical illness insurance if the individual is still in good health.

Lois and Frank identify \$12,000 in available annual cash flow to further evaluate their options.<sup>7</sup>



### A. SELF FUND

\$12,000 annual investment available

Invest in a separate ‘health fund’

Sufficient funds are available to cover Frank’s care

Insufficient funds available if or when Lois requires the same or higher levels of care

### B. SHARE

\$8,200 premium  
The balance, \$3,800 is added to the investment

Sun RHA for both Frank and Lois \$1,000 weekly benefit, 2 year waiting period, unlimited benefit period, with full return of premium at death and auto 3% inflation protection

Sufficient savings to cover first two years of care  
Benefits and waived premiums sufficient to fund Frank’s care and continue until his death

Lois’ policy remains in place  
Savings resume to cover her first years of care  
If the insurance is unused or partially used, the return of premium value flows to the estate

### C. TRANSFER

\$11,605 total annual premium

Sun LTCI for both Frank and Lois  
\$1,400 weekly benefit, 90 day waiting period, unlimited benefit period (no return of premium at death or inflation protection)

Benefits and waived premiums cover Frank’s care until his death<sup>8</sup>

Lois’ policy remains in place with premiums waived<sup>8</sup>



## STEP 3: MAKING THE DECISION

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*The advisor reviews the advantages and disadvantages of each of these financial strategies.*

### A. Self-funding

- ✓ Adequate for low – short term needs – later in life, after a balance has accumulated.
- ✓ Unused funds flow to the estate.
- ✗ Not adequate for meeting the needs of both spouses.
- ✗ Not a solution for the impact of an immediate need early in retirement.

### B. Share the risk

- ✓ Solution is focused on the highest risk expenses of either spouse beyond age 70.
- ✓ Return of premium value flows to the estate if the insurance is not used or used for only a short period.
- ✓ Unused assets flow to the estate.
- ✗ Not a solution for impact of an immediate need early in retirement.

### C. Transfer the risk

- ✓ Meets the need of either spouse immediately.
- ✗ If unused, no benefits flow into the estate.

## LOIS AND FRANK'S DECISION

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- ✓ They have enough resources to self-fund their initial needs.
- ✓ They aren't concerned with their immediate health, but know it will deteriorate with age.
- ✓ They recognize they're vulnerable if their need for care is more complex or lingering.
- ✓ They identify they want a plan that will provide for them both.
- ✓ They also want to manage the impact of their decision on the value of their estate and legacy.

*Sharing the risk is the decision they make:*

1. Set aside a lump sum, and/or contribute annually, to a 'health fund'.
2. Purchase Sun Retirement Health Assist to help with possible significant expenses later in retirement.
3. Extend the return of premium on death benefit on both policies for lifetime coverage.

With this flexible strategy in place, they can retire with confidence. They've lowered the risk of eroding their savings with the cost of future care while, at the same time, protecting their legacy goals.

<sup>1</sup> 2008 Canadian Critical Illness (CANCI) tables published by the Canadian Institute of Actuaries, July 2012 trended to 2014

<sup>2</sup> Sun Life Healthcare Survey Analysis and Clustering, February 2014, prepared by Hill+Knowlton for Sun Life Financial

<sup>3</sup> Canadian Life and Health Insurance Association (CLHIA), 2012

<sup>4</sup> Taking Care Inc., 2013

<sup>5</sup> Sun Life Financial Home Care Survey, 2011

<sup>6</sup> Society of Actuaries, 1984 - 2007 Long Term Care Intercompany Report. Alzheimer's Society, 2009

<sup>7</sup> assumptions: 2.5% after tax growth on the investment; 2015 personal support costs of \$25 per hour and annual health expense inflation of 4%; no premium increase

<sup>8</sup> because both policies have been in-force without a claim for over ten years, Lois's premiums are waived under the Spousal waiver option

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