

Lara Austin's

March/April 2013

# Minding Money



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*For the friends and clients  
of Lara Austin of  
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## Wow, DID I EVER LEARN A LOT DOING RESEARCH!

I learned that I never want to get old and I never want to have my kids put their life on hold to look after me in my golden years.

Facing reality, I can't stop aging but I can ensure that in the future my boys and their families (no rush as they are only 11 and 15) will not have to put their lives on hold if I plan properly.

For the last number of months, I have watched both my staff and my clients finagle their way through the health care system as they struggle to look after aging parents or ill family members. Our health care system is optimally designed for the 'fix and exit' strategy. At a certain stage, when a person requires a more extensive level of care, the rules change – including the costs. Unfortunately, many of the good citizens of BC don't understand those costs until they are faced with them directly.

Long term care insurance is gaining momentum as people understand the limitations of the health care system, and like all insurances – is less costly the younger you are. But who at 30 is thinking about their quality of life at 85? Maybe a good dinner topic next time you connect with your adult children?

Also in this issue is a reprinting of a 'Blog' from Mawer Investments Portfolio Manager Jamie Hyndman. While Jamie's comments are directed to Investment Professionals like myself, I felt that his sentiments on Market Projections were very well articulated. My long time clients have noted that I do very little 'market forecasting' in my review meetings and often joke about 'losing my crystal ball'. If you are investing based on what happens in the next six months, you really don't have a sound investment strategy and discipline. The most positive thing you can do for the future health of your portfolio is to have a sound asset allocation and rebalancing strategy. If you're working with an advisor who drones on and on about what's going on in the market in the next year and what the next great opportunity is... well, ask yourself if it is time well spent!

On the back page is the summary of the presentation I'm hosting in March. "Executor Sins and Power of Attorney Prayers" was very well attended in January and I'm expecting an enthusiastic crowd this time.

A big THANK YOU to all who responded to the article in the Comox Valley Record that outlined the challenges for our friends from the south, US Citizens who reside in Canada. The guide "Tax Strategies for US Citizen Canadian Residents" is available by request. I have a presentation set for April 18th which will be another great resource for folks caught in this situation. Cheers,

*Lara D. Austin*

# LIVING BENEFITS - THE BASICS OF LONG TERM CARE INSURANCE

**Long Term Care insurance** is designed to pay for personal care and medical services for someone who has suffered a debilitating illness that leaves a person unable to care for his/herself and is in need of special attendant care at home or in a nursing home.

Long Term Care insurance policies provide coverage for conditions that result in a disability to the insured that makes him/her unable to perform two or more of the activities of daily living (ADL) without assistance. These activities include:

- Walking or managing a walker or wheelchair
- Eating – the ability to consume food that has been prepared
- Bathing – the ability to wash himself
- Using the toilet, including getting to the toilet and on and off the toilet
- Getting into and out of bed – can use equipment to aid himself
- Dressing – the ability to put on and remove clothing
- Personal grooming

Impairments that can trigger payments of benefits may include (but are not limited to) Alzheimer's disease, senile dementia or advanced arthritis. The insurer will rely on the diagnosis of a physician or a firm that specializes in such analysis.

Benefits are paid out when the following types of care are required:

- In home health care – Home health aides, homemakers or personal care attendants

provide health care in the insured person's own home

- Adult Day programs – providing health, social or other support services on a part-time basis when a care provider cannot be present
- Assisted Living Care – facilities that promote independent living to the best of the resident's ability. The resident must be able to get into and out of bed on their own
- Nursing Home Care – provides the highest level of care. Categorized in three levels: Custodial, provides assistance with activities of daily living; Intermediate and Skilled Care involving nurses and medical attendants trained to care for patients who need to be regularly monitored

Benefits are usually paid in the form of a daily or weekly benefit. Coverage may range from \$50 to \$400 per day. Payments may start as soon as the insured person qualifies or include a waiting period of up to one year (decided at time of policy purchase). Benefits can be designed for a fixed period of time or for life.

Policies can include a Return of Premium Rider, which returns the accumulated value of your premiums to your estate should you not require care before you pass away. They can also include Inflation protection.

**Taxation:** As premiums for Long Term care are not tax deductible, the BENEFITS paid are not taxable. Keeping in mind that OAS and Medical premiums are income tested, this is a positive thing!

## THE BIGGER PICTURE AND THE LOCAL PICTURE!

- In 2001, over 430,000 Canadians were 85 years or older – more than twice as many as 1981, and more than 20 times as many in 1921
- The proportion of Canadians over 85 or more is expected to grow to 1.6 million in 2041 - 4% of the overall population
- In the Vancouver Island Health Authority (VIHA) Region people over age 75 accounts for 8.9% of the population in 2009. Currently, most elderly people live in the South, but the largest area of growth for this age group is projected to be in the central area, where we expect a 22.3% increase in residents aged 85 and older by 2013

New Long Term Care facilities will continue to be built and services offered, but will cost much more in the future to use these services.

- According to VIHA 5 Year Strategic Plan (updated 2009), VIHA has 6,500 residential care beds and assisted living units. (VIHA region incorporates a population of 750,000 and includes Vancouver Island, Gulf and Discovery Islands and part of Mainland Vancouver)

Private consulting companies like **[www.keystoneeldercare.com](http://www.keystoneeldercare.com)** can save you time in comparing private and public options and wait times.

## IT COSTS ME WHAT!

### Long Term Care Costs compared to LTC Insurance Premiums

Private coverage in a facility route in the Comox Valley, prices range \$3500 to \$6000 PER MONTH  
Or \$42,000 to \$72,000 per year.  
Personal expenses are extra.

IN HOME Private care: up to \$200/day. May be extra for overnight or special circumstances. Math on 24hrs/7 days a week care \$73,000 year.

If you go the Public route, Assisted Living is 70% and Complex Care is 80% of Net Income.

### Long Term Care Premium Comparison

ALL Based on the following coverage:

- \$750/week,
- 90 Day waiting period,
- Unlimited Benefit Period (pays for life once started),
- Return of Premium Rider

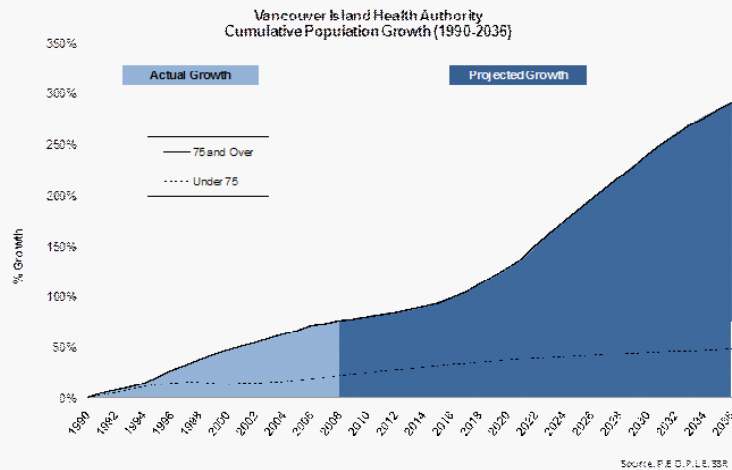
A 59 year old woman would pay \$4,056/year for 15 years (total paid \$60,851).

A 69 year old man would be \$6,792/year for 15 years (total paid \$101,880).

A 41 year old man would pay \$1,550/year for 15 years (total paid \$18,600) and includes Inflation adjustment feature.

A 31 year old man would pay \$1,058/year for 15 years (total paid \$15,870) and includes Inflation adjustment feature.

Figure 3: Cumulative Population Growth (1990-2036)



## EXPECTING FAT TAILS

The beginning of the calendar year is forecast season in the investment industry. Numerous financial organizations poll investment managers like ourselves and ask for our opinion on a wide variety of measures. Questions such as, “what is your expected annual return for the TSX index?” are standard fare.

Invariably, when the survey results are released to the investment community a month or so later, they are effectively all the same. The answer to the above question for example is almost always that the TSX is expected to return somewhere between 5% and 10% this year.

What’s interesting about this is that it’s almost always wrong. In the last 50 calendar years, the TSX returned between 5% and 10% on only 8 occasions, or roughly 16% of the time.

So what’s going on here? Why are investors lead to believe this fallacy?

The error being made is the assumption that investment returns are normally distributed in the short-term. They are not. There are unpredictable, extreme events that occur in the capital markets on a very regular basis that trigger the typically human reactions of

either fear or greed. These inevitably lead to market booms or crashes. The resultant short-term return distribution therefore is one that has “fat tails” at either end, not the nice symmetrical bell shape we yearn for.

Unfortunately, the assumption that market returns are normally distributed is widely used throughout the investment industry. Many investment advisors will cite the long-term average of about 8% as a reasonable expectation for returns in the coming year. Then the advisor will be surprised when their client comes in for a portfolio review meeting in December and is mad that the markets were down 15%! I would say the client has every right to be mad. What the advisor should have said was that, “market returns in any given year are extremely variable, so you must be prepared for anything in the short-term.”

Awareness of the wide variance in investment returns will go a long way in setting reasonable expectations and delivering positive client experiences.

*Reprinted with permissions from Jamie Hyndman, Mawer Investment Management Ltd. February 25, 2013.*

## UPCOMING PRESENTATIONS:

### How to Survive in a 2% World

GIC Rates at 60 year lows. A practical look at what income options are available to you, how income is taxed and how to measure risk.

**March 19 and April 23 (2013) 2pm**

**Comox Valley Visitors Centre, 3607 Small Road, Cumberland, BC**

### The 5 Secrets of a Successful Estate Plan

If you wrote a Will 15 years ago and think you have an 'Estate Plan' - Think again! A purposeful look at the components of a successful plan and how to address issues like spendthrifts or blended families.

**March 21 and April 25 (2013) 2pm**

**Comox Valley Visitors Centre, 3607 Small Road, Cumberland, BC**

### NEW: US Estate Tax for Canadians

*Presented by Mo Ahmad, Trowbridge Professional Corp - a firm that specializes in US and International Tax Services*

What to expect when you die holding property in the US

**April 18 (2013) 10am**

**Comox Valley Visitors Centre, 3607 Small Road, Cumberland, BC**

US Citizens Living in Canada - US citizens and greencard holders - filing obligations penalties and strategies

**April 18 (2013) 2pm**

**Comox Valley Visitors Centre, 3607 Small Road, Cumberland, BC**

PLEASE RSVP for ALL of the presentations that you wish to attend.  
lara.austin@rbc.com or 250-334-5606.

#### **Reminder** – TFSA ROOM for 2013 is \$5,500

TFSA's are TAX FREE and PROBATE free on your passing which makes them an excellent Estate planning opportunity.

To find out your current TFSA room, by contacting the CRA directly (1-800-959-8281), or go to the [CRA website](http://www.cra.gc.ca).

#### **Before You Phone...**

Find out when your tax slips are arriving by visiting [www.LaraAustin.com](http://www.LaraAustin.com) and click TAX REPORTING GUIDE to find:

- Tax mailing dates
- Tax Information Checklist
- Sample Tax Reporting guide
- Other great resources



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