

Living Benefits: A case for Disability, Critical Illness and Long Term Care Insurance



Statistically, at most ages, the risk of suffering a disability, a critical illness or needing some type of long-term assistance due to failing health is greater than that of death. However, if we were to ask what the average Canadian has done to mitigate their financial exposure against this fact, the answers would be concerning.

The solution may be found in Living Benefits. Living Benefits can be described as products that pay a financial benefit while you are alive. It can take on one or more of the following forms: Disability Insurance, Critical Illness Insurance and Long Term Care Insurance. The underlying promise of insurance is the sharing of risk between the insured and insurance company. A Living Benefit product not only shares the financial risk, but also the emotional toll associated with the loss of health, independence, and in some cases, dignity.

DISABILITY INSURANCE

If our ability to generate income is compromised by either an accident or sickness, we need to replace that income. The question is: "What do you have in place today to replicate the income you are generating while working, if you were to become disabled?" If your assets cannot replicate your income, then you are running a risk of putting not only yourself but those that depend on you in jeopardy.

After a specified waiting period, disability insurance provides tax-free monthly income, typically guaranteed to age 65. The insurance company cannot cancel it, and once the monthly amount is approved, the insurer cannot lower it regardless of any occupation changes.

The main benefit is the definition of disability. For the executive or professional, the definition of disability applies to your regular occupation and not just "any" occupation. Most, if not all, group disability contracts offer a regular occupation definition for the first two years. What this means is that if you cannot perform the duties of your regular occupation, the disability payments will continue; however, after 24 months, the definition typically changes to an "any" occupation definition. In this situation, if you are unable to perform the duties of any gainful occupation for which you are reasonably suited by education, training or experience, the insurance company will continue to pay. This is a very restrictive definition of which most executives and professionals are unaware. Personally owned disability insurance eliminates this from happening and is completely portable should you leave one employer for another.

Depending on the insurer, additional benefits may include cost of living adjustments, return of premium, grouped discounts and an option to increase your monthly benefit amount without any further evidence of medical insurability.



CRITICAL ILLNESS INSURANCE

Unlike disability insurance that provides a tax-free monthly income in the event of accident or sickness, critical illness insurance provides a lump sum tax-free benefit in the event of suffering and surviving a covered critical illness. Medical technology has dramatically increased the survival rate of people who have suffered a critical illness; however, once the physical trauma has been addressed, survivors are often left to cope with the toll that is placed on their finances and family when they survive. The most common critical illnesses covered include, but are not limited to, cancer, stroke, heart attack, bypass surgery, multiple sclerosis, major organ transplant, paralysis, Alzheimer's and Parkinson's. Most insurance companies cover over 24 illnesses. Once you have either suffered or been diagnosed with a critical illness that is covered and survived more than 30 days, you will be eligible to receive the lump sum benefit. Most plans offer benefits ranging from \$10,000 to \$2.5 million. Individuals may use the benefit as they see fit, and most Canadians would use the benefit to do a number of things:

- › Access quick and cutting-edge medical services within Canada, the U.S. or another country
- › Pay off debt such as their mortgage
- › Pay for child care or home maintenance and meal preparation costs during recovery
- › Pay for drugs not covered by provincial plans
- › Pay for necessary home modifications that may be required to assist the person to function as normally as possible after their illness and/or to accommodate a permanent disability (e.g. wheelchair ramp, widening doorways)
- › Pay for unplanned expenses
- › Ensure they don't incur debt as a result of the illness
- › Maintain one's retirement fund so it can continue to grow (or continue to make RRSP contributions)
- › Maintain non-registered savings and children's education funds

The other benefit of some plans is that a 100% return of premium is offered if the policy is not used and, unlike disability insurance, you do not need to be gainfully employed to obtain coverage.

LONG TERM CARE INSURANCE

The good news is that most of us will live to celebrate our 80th birthday; however, the news that is disconcerting is that we will likely need some form of long-term care. Associated with needing long term care is the financial risk of covering the expenses of funding the care, whether it be at home or in a care residence.

Long term care insurance provides a regular benefit if you lose the ability to care for yourself and require the assistance of another person. This case can be provided in a nursing home, or in your own home. What policyholders most often state is the dignity they gain by having their children "manage" their care, rather than "deliver" their care.

Benefit amounts typically range from \$50 to \$300 a day and are triggered by cognitive impairment and/or the inability to independently perform two or more Activities of Daily Living which are bathing, dressing, feeding, toileting, maintaining continence and transferring position.

Having the financial resources available to afford professional caregiving can considerably ease the burden for all involved. A long term care insurance policy that finances, in whole or in part, the kind of care desired, can provide significant peace of mind. Long term care insurance creates an income stream that can help individuals:

- › Make the right choices for care
- › Utilize the best care options available
- › Avoid asset erosion
- › Unburden family members
- › Prevent or postpone nursing home admission
- › Maximize their dignity, privacy and independence

› For more information about protecting your financial security with Living Benefits, please contact us.



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