Estate planning

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The Critical 10

Third year of retirement

How much longer will I be able to live independently?

It seems disingenuous and, frankly a bit insulting, to suggest that you should be considering long term care when you are only in your third year of retirement. This is the time when you are generally the most active and want to enjoy the benefits of your hard work and your careful savings plans. It is interesting to note, however, that a 2013 Vanguard study did find that 5 of the 7 top personal concerns retired people of all income levels had were regarding health and care issues.

Important health and care concerns for retired persons

1. The health of my spouse.
2. My own health.
3. A family health catastrophe
4. Spending my final years in a care facility
5. Having someone else care for me in old age

Most individuals use their wealth advisors for conventional advice such as asset allocation, retirement planning or investment recommendations, but it is usually during a time of catastrophic events that clients begin to seek professional advice about long term health care. Thoughtful planning before an event may provide you with better long term results.

Here’s the good news. Census Canada found in 2011 that there is a big misconception about senior care. You will likely stay in private residence for a very long time. A full 92.1% of Canadians 65 and over lived in private residences and over 56% of seniors in their nineties were still living in private residences. Many seniors in later years do require help from family members. In 1999, then health minister Alan Rock estimated that one in five women over age 45 was looking after a family member. In fact it is estimated that 90% of seniors will, at some point, accept care from family.

Long term care does not necessarily mean living in a lodge or care facility. The goal of long term care is to provide as much independence as possible. The services required can be in the form of health or nursing care, rehab or therapy, personal care (bathing, dressing etc.) or homemaking services (meals, laundry, cleaning). Seniors who retire successfully often find ways to relieve the burden of a lot of the physical work such as lawn care or snow removal. These costs are relatively modest compared to the cost of nursing care or rehab.

Long term care insurance is used to offset the costs associated with the care required in the later stages of life. Canadians purchase long term care insurance to protect their retirement assets, to free up funds for charitable giving, or to protect a legacy or family inheritance. Long term care insurance is available to Canadians age 40 to 75 and while the premiums paid are for a defined period, you may be able to buy coverage that lasts for life. There is generally no physical exam required for this sort of insurance but the buyer must submit a detailed questionnaire about his or her health status. The cost of insurance is determined by the age you begin paying the premiums. This is why early in your retirement years you may wish to explore this sort of protection. The cost is also determined by the level of coverage you request, such as a fixed number of years vs. lifetime benefit or inflation protection.

Benefits for this type of insurance are paid tax free, usually after some sort of waiting period that can range from 30 to 180 days from when you become dependent. The definition of dependent is functional limitations or diminished mental capacity to the point that you cannot perform daily activities. An example of which is dressing, bathing etc. These benefits can be paid directly to you, to a care facility or to your personal power of attorney.

There are a variety of different policy options available for the buyer of long term care insurance. The one option you should seriously consider is the return of premium (ROP) option. This option pays out to your estate, tax free, the accumulated cost of your premiums paid if you should die before making any claim against the policy. This is an added cost to the policy and there is no interest paid to the estate for the premiums collected by the insurance company. In this low interest rate environment, there is little opportunity cost to taking this rider and it can provide you peace of mind that the premiums paid will not be a waste of money.

During the early years of your retirement it may be wise to take the time to plan for the later years in life, when you may become dependent on the care of others. Proper planning may allow you the peace of mind to enjoy your retirement a bit more, knowing that you have protected your retirement and estate assets with the living benefit of long term care.

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