

## When life challenges you, a plan can be critical

Janet remembers where she was when she heard the news. She was outside chatting with her neighbour when her daughter yelled out the front door, “Mom, telephone. It’s Aunt Susan.” Janet went into the house thinking she’d have her weekly conversation with her older sister when, in reality, what she was about to hear would rock her world.

“There’s no easy way to tell you this,” said Susan. “I have breast cancer.” Janet remembers every detail of the next moment –the darkness that seemed to descend into the room, the annoying buzz of a lawn mower somewhere in the distance, the overwhelming panic that started in the pit of her stomach and worked its way up into her consciousness.

Two years later, Janet can talk about the moment calmly. The outcome for her beloved sister was positive – surgery, radiation and chemotherapy followed by

cancer-free check-ups every six months. But she thinks she’ll always remember that feeling of panic.

“I started thinking, what would happen to my family if my husband or I got sick? How could we afford to keep going?” Janet says she knew she had to do something about it. Then, earlier this year, she heard from a friend about a new kind of insurance – critical illness insurance – that helps protect you if you get sick. She called her advisor and set up an appointment for the following week.

Janet and her husband, Rick, went to visit their advisor, Paul. He listened to her story and shared his own – about his best friend’s wife. They commented on how most people know someone who has faced a critical illness. Paul had reports<sup>1</sup> that showed that for women aged 30, the probability of dying before age 65 is 10.2 per cent but the chance of getting a critical illness is 22.6 per cent.

Paul also used an example to show Janet and Rick the impact a critical illness could have on their long term finances – first without and then with a critical illness insurance policy.

<sup>1</sup> Source: munich Re, 2008.

## WITHOUT CRITICAL ILLNESS INSURANCE

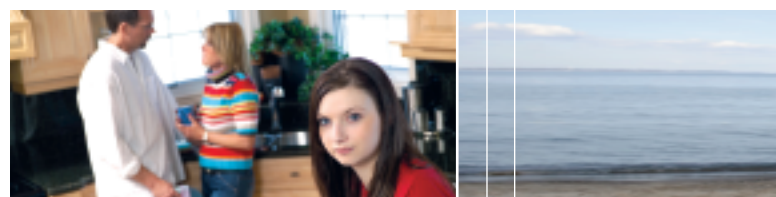
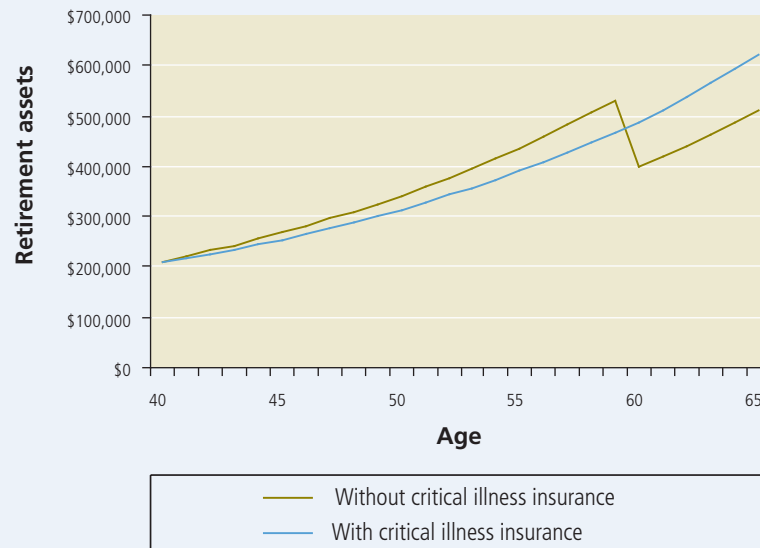
- Let's say Rick has saved \$200,000 in retirement assets by age 40 and he is diagnosed with cancer at age 60, by which time his portfolio exceeds \$520,000; because he is unable to work, he uses \$150,000 of his retirement assets to pay his expenses while he recovers
- By age 65, his retirement assets have been reduced by more than 28 per cent<sup>2</sup>

## WITH CRITICAL ILLNESS INSURANCE

- In this example, Rick uses a portion of his retirement savings to fund \$150,000 of permanent critical illness insurance for an annual premium of \$1,865<sup>3</sup>
- That annual premium, which is the equivalent of just under one per cent of Rick's initial retirement assets of \$200,000, will help protect his retirement portfolio from the expensive health shock of cancer

<sup>2</sup> Assumes a five per cent after-tax annual return on \$200,000 with no further contributions. "Without critical illness insurance" assumes \$150,000 is withdrawn at the beginning of year 20. "With critical illness insurance" assumes \$1,865 is deducted from the retirement assets each year for 20 years to pay the insurance premium.  
<sup>3</sup> Assumes Rick is a non-smoker and selects Return of Premium on Death rider.

## THE IMPACT OF A CRITICAL ILLNESS ON RETIREMENT ASSETS



Janet really didn't need much convincing. She'd seen first-hand how her sister and brother-in-law had struggled to keep their heads above water when Susan was sick. Janet didn't want to have to worry about the same thing happening to her household.

Rick didn't need much convincing either. His co-worker's father had a stroke a few months back and he had been hearing stories of how his colleague had to dig into his retirement savings just to keep afloat.

Rick asked if there was a plan that would also cover the costs of long term care. Ten years older than Janet, he's more sensitive to the idea of aging. Furthermore, recent newspaper articles about the state of long term care facilities had him thinking he would like to be able to pay for private care when the time comes.

Paul told him they could either buy a separate long term care insurance plan, which would cost a bit more but would provide them with better coverage, or they could consider a critical illness plan with a long term care benefit built into it.

He went on to describe a few options from different companies, but Janet and Rick were leaning towards the plan that incorporates long term care insurance into a critical illness policy. And while all plans stated that the insured has to be functionally dependent to claim the long term care benefit, one particular plan stated that the functional dependence doesn't have to be permanent.<sup>4</sup> In other words, under this plan it would be possible for the insured to access the long term care benefit more than once and still access the remaining

<sup>4</sup> The insured needs to satisfy the 180-day waiting period.

amount of critical illness coverage. As an added benefit, the amount of money Janet and Rick will receive each month doubles if the care is through a long term care facility.

And the clincher? After the 20<sup>th</sup> coverage anniversary, the permanent plan allows them to exercise the option to change their plan to a separate, comparable long term care policy based on their age at that time and with limited medical evidence, as long as they qualify.

Both Janet and Rick take a minute to absorb this. They can get a permanent critical illness plan that will help them if they get sick (if they choose, they can also pay for a rider that gives them their money back if they don't) and offers them the option of getting standalone long term care insurance in the future. Seems like the best of both worlds and the answer they're looking for. Paul starts the process rolling so they can get their insurance in place soon.

Janet and Rick head back to their car, each deep in thought. Rick is thinking about how pleased he is that his family will be looked after no matter what life throws their way. Janet is thinking about her sister and, as she gets into the car, she realizes that finally, after all this time, the panic is going away.

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