in sickness and in health

MANAGING THE POTENTIAL COSTS OF LONG TERM CARE

You meant what you said during your vows. And, as a couple, you've shared your plans and dreams for the future. But have you thought about what will happen if your retirement years don't go as planned?

No one likes to think about it, but as we age we're more likely to get sick. We may even reach a point where we can't take care of ourselves. What if that happens to you or your partner? How will you manage the expenses of long term care?

Les and Sherry, both 60, wonder the same thing. So they arrange to meet with their financial advisor to see how they can prepare for what might lie ahead. Sherry knows first-hand the emotional and financial hardship her mother endured trying to take care of Sherry's father after he developed Alzheimer's disease. Les and Sherry don't want each other to go through similar turmoil.

Stephen, their financial advisor, suggests they consider long term care insurance. He explains that long term care, whether it's home care services or care in a facility, can be quite expensive. It can easily exceed $5,000 per month. He says his clients sometimes assume the government will cover those costs. That's not usually the case. As a result, the financial impact on families can be devastating.

According to Stephen, the choice is simple: you can pay for long term care in the future by drawing down your retirement savings or you can purchase long term care insurance now to help cover the cost of your care. Les and Sherry agree that purchasing long term care insurance to help protect everything they've worked hard to achieve makes sense.

Unlike life insurance, which pays a lump sum to your beneficiary when you die, long term care insurance provides a monthly payment that can help cover the cost of home or facility care.

To be eligible, Les or Sherry must become functionally dependent and satisfy a waiting period. Functional dependence means they require substantial assistance with two of the six Activities of Daily Living or substantial supervision because of a cognitive impairment, such as Alzheimer's disease.

Stephen explains that with some long term care coverage plans, the monthly payment that Les or Sherry receives could be equal to 0.5 per cent to 1.0 per cent of their total benefit amount. The amount varies based on where they receive their care. For example, if they purchase long term care insurance with a total benefit amount of $300,000, they could receive 0.5 per cent of that amount, or $1,500 per month, if their care is received at home. That amount could double if they require facility care, which means they could receive 1.0 per cent of the benefit amount, or $3,000 per month.

The monthly payment can be used however Les and Sherry decide, whether they're being cared for in their home or in a facility. The monthly payment does not depend on the actual cost of their care, so they don't have to report

WHAT IS LONG TERM CARE INSURANCE?

Long term care insurance helps cover the cost of home or facility care if you require substantial supervision or assistance with two of the six Activities of Daily Living, which include:

- Bathing
- Eating
- Dressing
- Toileting
- Transferring
- Maintaining continence

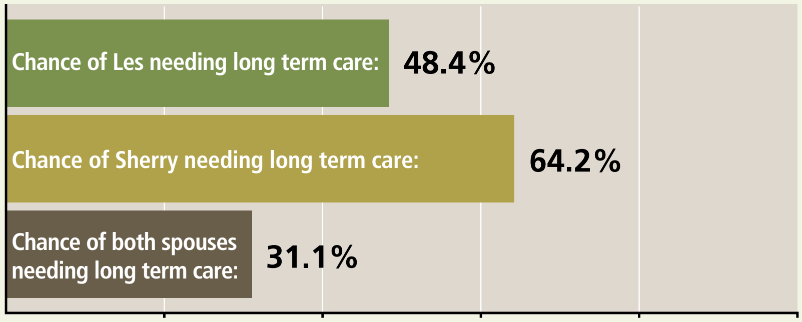
how they're spending the money. They can receive the monthly payment and use it however they want. They can even use it to pay a family member or friend who's helping to take care of them.

Now that Les and Sherry understand the concept of long term care insurance, they ask Stephen for some advice on the type of coverage they should buy. Stephen tells them about a plan that's designed specifically for couples. It offers a shared coverage option that is unique in Canada. Stephen explains that it will provide them with much more flexibility than purchasing two individual plans. It's also a more efficient solution for their long term care planning, since it's impossible to predict which spouse might require long term care at some point.

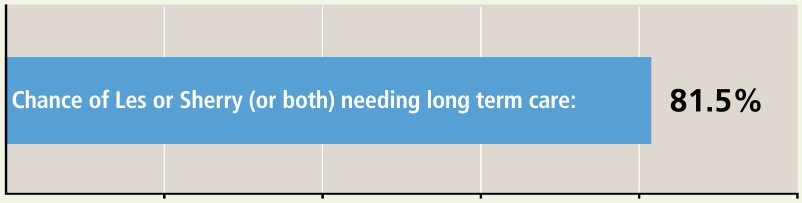
THE CHOICE IS SIMPLE: YOU CAN PAY FOR LONG TERM CARE IN THE FUTURE BY DRAWING DOWN YOUR RETIREMENT SAVINGS OR YOU CAN PURCHASE LONG TERM CARE INSURANCE NOW TO HELP COVER THE COST OF YOUR CARE.

The beauty of the shared coverage plan is that Les or Sherry could receive the benefit – or they could both receive the benefit at the same time. With two separate plans, they would be far less likely to use all the long term care benefits they purchase. Stephen shows them why.

If Les and Sherry purchase two separate long term care insurance plans:



If Les and Sherry purchase long term care insurance with shared coverage:



Figures shown are based on the probabilities of a 60-year-old male or female who hasn't needed care in the past requiring long term care in his or her remaining lifetime. Assumes no waiting period. Source: Munich Re, 2007.

Key advantages of shared coverage for Les and Sherry:

- The long term care benefit is shared by Les and Sherry; one or both of them can be eligible to receive a monthly payment to help cover the cost of their home or facility care
- While either Les or Sherry is receiving benefits, the monthly premium (for the cost of the long term care insurance coverage) is waived
- The long term care insurance coverage can be split into two individual policies[1] in the event of a divorce
- If one of them dies, the long term care coverage would simply continue for either Les or Sherry as a single policy with the remaining balance of long term care benefits; their monthly premium would also be revised

Les and Sherry decide that long term care insurance is a worthwhile investment because it helps them prepare today for what might lie ahead. They also choose a plan that offers shared coverage since it takes the guesswork out of buying long term care insurance. There's no need to figure out who is most likely to need long term care because they will both be covered. And, with shared coverage, there's a much greater chance that at least one of them will receive the benefit amount. •

[1] Revised premiums would be based on original ages and premium rates, subject to any changes in premium that have occurred for policies in force. Some conditions apply.

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