



## Aging Gracefully

Canadians are living longer than ever before. That's excellent news, of course, but as more and more people reach their 80s and 90s, a growing number require long-term care. The costs can be staggering – yet an August 2007 Ipsos Reid poll found that just 55 per cent of us say we're confident we will be able to afford long-term care expenses as we age.<sup>1</sup>

Margaret and Peter are among the 45 per cent who worry about whether they have saved enough to cover the costs if one of them – or both – end up needing long-term care services. He's 65 years old, she's 63 and both are healthy right now, but they're about to retire and have started to think seriously about how they want to spend the coming years. They are considering ways to protect themselves from catastrophic costs down the road.

"I've read that the probability of one or both of us needing long-term care is actually more than 80 per cent,<sup>2</sup> so we want to be prepared," says Margaret. "We're both working now and have lots of savings, but after we retire our income is going to drop and we'll need to use some of those savings to live on. So we're worried about how we'd pay for care if either of us needed it."

<sup>1</sup>[www.ipsos-na.com/news/pressrelease.cfm?id=3605](http://www.ipsos-na.com/news/pressrelease.cfm?id=3605)

<sup>2</sup>Source: Munich Re. Based on the probability 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.

## THE BEST WAY TO COVER LONG-TERM CARE EXPENSES IS TO PLAN AHEAD

One solution for couples in Margaret and Peter's position is to combine two products: long-term care insurance and an Immediate Annuity (IA). Long-term care insurance can help pay the costs of long-term care if either or both spouses require it. This coverage is paid for with regular premium payments. An IA, on the other hand, is purchased with a lump sum today and generates a predictable income stream for one or two lifetimes. This income can be used to help cover the premium payments.<sup>3</sup>

That's exactly what their advisor, Stuart, recommends when Margaret and Peter tell him their concerns. He explains that a shared coverage long-term care insurance policy is an efficient way for them to make sure they're both protected, since they can't predict who will need long-term care. Either or both of them can make a claim and premiums are waived during the period of the claim. If one of them dies, the coverage remains in place for the surviving spouse with a lower premium to pay.

Long-term care insurance can help take care of costs that may otherwise become a tremendous financial burden to couples and their families. Stuart points out that in Ottawa, where Margaret and Peter live, a private

room in a nursing home may cost approximately \$2,100 each month – that's \$25,200 annually. Home care is generally less expensive, but it could cost anywhere from about \$800 each month (\$9,600 annually) for basic assistance with meal preparation, supervision, bathing and dressing to \$5,000 each month (\$60,000 annually) for people who require more intensive and constant care.<sup>4</sup>

Margaret and Peter choose a policy that insures them for up to \$200,000 in long-term care costs, including home care. The annual premiums, based on the specific policy they have selected, will be \$5,104.44 until they reach 100 years of age.<sup>5</sup> They can pay this amount as it comes due, or they can invest a lump sum today – since they have the cash available – to ensure they have enough income each year to make the required payments. They ask their advisor to explain how the second option could work.

A Joint and Survivor IA is the solution Stuart recommends. A single payment of \$90,000 would generate income of \$5,462 annually<sup>6</sup> – enough to cover their long-term care insurance premiums, plus a cushion that can be used to help cover taxes payable on the annuity income (for a non-registered annuity, only \$1,833 of the annual payment would be taxable; for a registered annuity, the full amount would be taxable) or any possible future premium increases.

<sup>3</sup>The premiums are guaranteed not to change for the first five years. After that, and on an annual basis only, premiums may increase or decrease. For this reason, the annuity income may not always be enough to cover premiums. Premium changes will only be made to all similar coverages, not arbitrarily to individual policies.

<sup>4</sup>Source: Manulife Financial and Best in Care, "Long Term Care in Ontario," September 2007.

<sup>5</sup>For the "pay to age 100" premium payment option, no premium changes will be made after the later of: the coverage anniversary nearest the insured's 75<sup>th</sup> birthday or the 20<sup>th</sup> coverage anniversary.

<sup>6</sup>Assumes a Joint and Survivor IA, non-registered, prescribed, with a three-year guarantee effective June 5, 2008.



This income is not affected by changes in interest rates or what happens in the financial markets, requires no ongoing investment management and is guaranteed for as long as either Margaret or Peter is alive. If one or both of them have to make a long-term care claim and the insurance premiums are waived, the annuity will continue to provide a guaranteed income stream. They will be able to use this money for any purpose – for example, to supplement the costs of care or to save for the future.

To help Margaret and Peter understand exactly how long-term care insurance and an IA can work together, Stuart describes a scenario for them. Let's say that in 10 years Peter has a stroke and requires long-term care. After the waiting period has been satisfied, their insurance policy will begin to pay \$2,000 per month (\$24,000 annually) towards Peter's long-term care costs at home. The premiums will be suspended while the claim is being paid, but the couple will continue to receive their annuity payments of \$5,462 each year. Based on the amount of coverage they have selected, long-term care payments could continue for just over eight years.

Once their entire \$200,000 benefit has been paid out, Margaret and Peter can use their ongoing annuity income to help cover their long-term care expenses. If they saved the annuity payments they received while the insurance premiums were waived, they could use them to help pay for about three additional years of long-term care costs. Alternatively, they could use this saved money to help purchase a special type of annuity, an accelerated annuity, designed for people with life-shortening illnesses. An accelerated annuity can provide higher income with a lower premium than a traditional annuity.

While neither Margaret nor Peter likes thinking about the possibility that either of them will require long-term care in the future, both are relieved to know that there is a way to prepare for long-term care costs. Like many other Canadians, they are determined to remain financially self-sufficient as they age, and the solution their advisor has proposed means they will have more resources to choose the type of care they want without relying too heavily on their savings or their children to pay the bills.

Compliments of:

**Manulife Investments**  
With you every step of the way®

Manulife Investments is the brand name identifying the personal wealth management lines of business offered by The Manufacturers Life Insurance Company (Manulife Financial) and its subsidiaries in Canada. As one of Canada's largest integrated financial services providers, Manulife Investments offers a variety of products and services including: segregated fund contracts, mutual funds, principal protected notes, annuities and guaranteed interest contracts. WealthStyles, Manulife and the block design are registered service marks and trademarks of The Manufacturers Life Insurance Company and are used by it and its affiliates including Manulife Financial Corporation. The information contained in this article is not intended nor should it be considered as providing specific legal or tax advice. Individuals should consult with their professional advisors to ensure that any information provided is applicable and appropriate to their specific situation.