Sun Critical Illness Insurance

Imagine the impact

A conversation with Sam and Anita

Sam and Anita, both age 45, want to make sure they'll be able to meet their lifestyle goals in retirement. They're maximizing their contributions to company pension plans, registered retirement savings plans (RRSPs) and tax-free savings accounts (TFSAs) to fund their basic needs in retirement. They also want to build their savings to help fund their retirement lifestyle goals; they've allocated $40,000 in their non-registered account for that purpose. They're working with their advisor to assess the risk and plan for the effect a serious illness could have on their goals in retirement.

Did you know?

For an average 45-year-old couple, the risk of at least one spouse suffering a serious health condition is:

- 61.5% when they're building for and beginning retirement before age 70, and
- 90.7% while they're working and continuing throughout their retirement until age 95.*

* Based on data from the Canadian Pensioners' Mortality Table (published by The Canadian Institute of Actuaries, 2014) and the 2008 Canadian Critical Illness Tables (published by The Canadian Institute of Actuaries, July 2012.)

Step 1: **A critical question**

The advisor asks Sam and Anita if they've considered what impact a serious health event may have on their employment, lifestyle, family and financial future if it occurs now or in retirement.

Sam and Anita realize a serious illness would significantly change their finances. During recovery they'd likely experience a decrease in income and higher expenses. To handle the financial impact, they may need to withdraw from their savings. With this in mind, the couple's advisor helps them review their options for managing the risk.

Understanding their options

If one of them becomes seriously ill, Anita and Sam will need to make decisions about managing treatment and recovery. Understanding their choices and the financial implications can help them develop a financial plan so they can focus on recovery. Let's look at some of the decisions they'll need to make if Sam becomes ill.

Taking time off to recover

Sam will need to take time off work for treatment and recovery and Anita will want to take time off work to provide care. They need to consider:

- How will this affect their incomes? Will there be enough money to cover expenses?
- When Sam returns to work, how will his time off affect his career path and decisions? Will he have lost salary growth, bonuses or advancement opportunities?
- Will Sam be able to return to his job, or will he want to take a job that's less stressful or has fewer physical demands?

Sam and Anita need to consider the impact of a year off work and how that would change if Sam is diagnosed with a condition that requires more recovery time.

Treatment and care

Many treatment and recovery expenses aren't covered by provincial health plans. Sam and Anita would have to pay those costs using other sources. Out-of-pocket expenses are difficult to estimate and will depend on:

- Sam's diagnosed condition,
- the location and availability of treatment options,
- his current group or personal health insurance coverage, and
- his expectations for care during recovery.

Other expenses

There may be other expenses. For example, treatment time and appointments can lead to:

- costs for gas, car maintenance, parking and accommodation to receive treatment,
- time off work for a travel companion or caregiver, and
- additional housekeeping and child care.

If Sam's health issues lead to early retirement, it may become difficult for him and Anita to save as much as planned, especially if they have to deal with increased health-care costs.

Step 2: **Evaluating financial strategies**

The advisor reviews three financial strategies Sam and Anita might use to prepare for a serious health event:

1. Self-fund

Set aside money each year to build assets that will be used to fund retirement lifestyle goals. If necessary, these savings will be used to help cover costs while recovering from a serious illness or to cover other emergencies. If these savings are reduced, they may not achieve their lifestyle goals in retirement. There's a risk of having to pay costs using other sources if an illness occurs early.

2. Share the risk

Buy a critical illness insurance plan specifically to help cover the risk of a serious illness during their working years and early retirement. Then self-fund the cost of the illness if it occurs later in retirement. The estimated amount of income (including salaries and bonuses) they'd lose while taking time off work to recover affects the insurance amount each chooses.

3. Transfer the risk

Purchase a lifetime critical illness insurance plan to transfer the risk of a serious illness occurring at any age. This approach protects them now and in retirement. The critical illness insurance benefit amount purchased reflects the cost of recovery and how it might inflate over the next 40 to 50 years.

Comparing Sam and Anita’s options

Sam and Anita start with $40,000 in non-registered assets and identify $8,000 in annual cash flow as available to evaluate their options.**

	45	50	55 56 57	60	70
	Sam and Anita start planning their retirement strategy.	Sam and Anita are in good health and continue with their strategy.	Sam is diagnosed with cancer. He requires $140,000 over three years.	After Sam has recovered, they continue with their strategy to manage future serious health conditions.	In early retirement, Sam and Anita focus on meeting their goals and being prepared for any age-related, serious illness that may occur.
1. Self-fund	$40,000 They contribute **$8,000** each year to their non-registered assets.	$89,000 They’re building their non-registered assets. If either of them suffers a serious illness in the near future, they may need to access funds from other sources to help with expenses.	Recovery	$50,000 Deposits stopped and withdrawals were made in the three years of Sam’s recovery. **$8,000** annual deposit to non-registered assets resumed at age 58.	$159,000 They have accumulated non-registed assets. If spent on their lifestyle there may be no funds to assist with a serious illness in the future.
2. Share the risk	$40,000 Sam purchases **$150,000** Sun CII T75 with ROPD and ROPC/E – age 65 Anita purchases **$100,000** Sun CII T75 with ROPD and ROPC/E – age 65 Total premium **$6,899** leaving **$1,101** deposited annually into non-registered accounts.	$52,000 Critical illness protection is in place and non-registered assets are building to fund their future retirement lifestyle.	Recovery	$125,000 Sam’s **$150,000** Sun CII benefit covered expenses during recovery. Anita keeps her Sun CII coverage. Their non-registered assets were untouched and continue to build.	$65,000 $227,000 Total non-registered assets **$292,000** Anita cancels her coverage and receives the returnable premium amount of **$65,000**. These funds and their non-registered savings are available in the event of a serious illness or to pay for lifestyle expenses.
3. Transfer the risk	$40,000 Sam purchases **$150,000** Sun CII lifetime with ROPD. Anita purchases **$150,000** Sun CII lifetime with ROPD. Total premium **$6,497** leaving **$1,503** deposited annually into non-registered accounts.	$54,000 Critical illness protection is in place and non-registered assets are building to fund their future retirement lifestyle.	Recovery	$128,000 Sam’s **$150,000** Sun CII benefit covered expenses during his recovery. Anita keeps her Sun CII coverage. Their non-registered assets were untouched and continue to build.	$225,000 $75,000 Anita’s critical illness insurance remains in place as protection against a future illness. The ROPD benefit will be paid to her beneficiary if the coverage is in place but unused at Anita’s death.

Non-registered assets | Return of premium on death (ROPD) value | Return of premium on cancellation or expiry (ROPC/E)

** The financial strategies the advisor presents to Sam and Anita are based on a beginning non-registered balance of $40,000. The before tax growth rate is 5% and the couple has a marginal tax rate of 45%. Sam is diagnosed with cancer at age 55 and requires three years to recover. They need $140,000 to cover the costs of Sam’s illness during his recovery. Costs may include lost income, out of pocket health-care expenses, travelling to receive treatment and other expenses.

Step 3: **Making the decision**

The advisor reviews the advantages and disadvantages of each of these financial strategies with Sam and Anita.

1. Self-fund

- ✓ After they build up their non-registered assets, their plan can withstand the financial impact at the time of illness.
- ⊗ They may not have enough funds if an illness strikes early.
- ⊗ If either of them becomes seriously ill, their plan may not help them meet their retirement lifestyle goals.
- ⊗ They may not have sufficient funds for both spouses.

2. Share the risk

- ✓ The critical illness insurance benefit creates more choice and options if they become ill.
- ✓ A serious illness will have less impact on their future plans.
- ✓ The return of premium on cancellation (or expiry) is available if the insurance isn't used.
- ⊗ They won't have critical illness insurance coverage if they get sick later in retirement.

3. Transfer the risk

- ✓ Their protection is in place for life.
- ✓ If they don't use their coverage, the return of premium on death benefit will be paid to the beneficiary.
- ⊗ Their long-term savings goals are reduced, and less is available for their retirement lifestyle spending.

69% of retired Canadians did not stop working on the date they planned. Of those who retired earlier than expected, **41%** cited personal health as the primary reason.[1]

[1] 2014 Sun Life Canadian Health Index

Tax and the critical illness insurance benefits

The Sun Life interpretation of the *Income Tax Act*: The Sun Critical Illness Insurance benefit will be tax free, because we believe our product conforms to the requirements governing sickness or accident insurance policies in all provinces. The return of premium benefit will be tax free if the amount does not exceed the premiums the recipient paid and the premiums were not deductible expenses. Our interpretation is based on information provided by the Canada Revenue Agency, which may change.

Questions? We're here to help.

Contact your Sun Life representative for more information.

Sun Life

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