

The importance of a critical illness recovery plan

TODAY, MORE PEOPLE ARE CONSIDERING EXTRA INSURANCE COVERAGE BEYOND MEDICARE

Nobody wants to think about illness. Yet most of us know someone who has suffered from the financial and emotional devastation caused by an illness such as cancer. Would you be prepared if you – or one of your loved ones – were confronted by a critical illness or a severe injury? Consider your answer very carefully. Facing a critical illness can be one of the most difficult challenges in life. Beyond dealing with the fear and anxiety of coping with the illness itself, consider: finances, meeting the day-to-day needs of your family and much, much more. Whether you are coping with an illness yourself, or caring for someone you love, the demands can sometimes seem overwhelming. Serious financial consequences are also possible. Retirement savings can be severely affected by a critical illness. For example, if you were forced to withdraw a net \$75,000 from your RRSP to deal with the financial needs caused by a critical illness, the actual gross amount of

your total RRSP investment could be reduced by as much as \$134,000 (because of taxes attached to a large, lump sum withdrawal). All of these issues are important but much more important is being able to find – and afford – the resources needed to heal and recover. Timely access to medical, assistance and rehabilitative services can have a significant affect on a person's ability to cope with and recover from a critical illness. That's why you do not want financial issues to be a major consideration when you are trying to find the best possible solutions to a critical illness in your family. For all of these reasons, you should carefully consider critical illness insurance – for yourself and all of your loved ones – as part of your overall insurance strategy. Critical illness insurance in the future will not be the product that we know today. There are many indicators that point to a higher-priced product in the future. In fact,

Canada remains the only country in the world with a critical illness product that still has guaranteed future premiums.

Today, though, if you are diagnosed with and survive a critical illness, critical illness insurance pays a lump sum benefit to use in any manner you choose, providing you with greater financial resources to:

- In Canada, pay for drugs and treatment not covered by provincial health plans
- Outside of Canada, pay for timely treatment that may not be available at home and for your family's travel and lodging expenses

- Reduce your financial stress
- Reduce or pay off debts
- Maintain your business or practice
- Maintain your independence
- Modify your home to better address mobility and hire additional help during recovery
- Allow a family member to take a leave of absence to help you recover

Sooner or later, sadly, we all must deal with the challenge of critical illness in our lives. The most we can do is be prepared ahead of time. Join me for a cup of coffee and a risk management review and let's talk about it.

WHAT CRITICAL CONDITIONS ARE COVERED?

Alzheimer's Disease	Blindness
Benign Brain Tumor	Coma
Coronary Artery Bypass Surgery	Deafness
Heart Attack	Kidney Failure
Loss of Speech	Life Threatening Cancer
Major Organ Transplant	Motor Neuron Disease
Multiple Sclerosis	Occupational HIV Infection
Paralysis or Loss of Limbs	Parkinson's Disease
Severe Burns	Stroke

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The crucial role insurance plays in financial planning

IT'S AN IMPORTANT PART OF RISK MANAGEMENT

Insurance should play a critical role in the "risk management" of your life and financial portfolio. Appropriate insurance coverage is especially crucial if your estate is large and there are many beneficiaries to consider. But insurance can benefit just about everyone, with different needs at different times of life, and you should definitely reconsider your insurance strategy every time you review your financial plan.

Insurance in various forms has been with us for a long time. The earliest known type of life insurance was for the cost of burial that Greek and Roman religious societies provided for their members, although no actuarial calculations were used. The Tontine Annuity System, founded in Paris by the 17th century Italian born banker Lorenzo Tonti, has been regarded as an early attempt to use the law of averages and the principle of life expectancies as the basis for payment of annuities. In the 18th Century, Lloyd's of London evolved out of humble beginnings in a London coffee house

of the same name to eventually become the world's most famous insurance company. It was there that the term "underwriter" evolved, to describe those who signed their names beneath each other on a policy, with the amount of the risk they were prepared to cover.

Today, insurance has evolved to meet a broad spectrum of needs. Life insurance, of course, is probably the most familiar form of insurance and still plays an important role in protecting family dependents from possible financial hardship. Less well understood are the tax advantages of life insurance. You can maximize your investment growth in the tax-sheltered environment of a permanent life insurance policy. The cash equity can also be used for emergencies, as well as for opportunities, and to help supplement your retirement income.

If you're sick or hurt, long-term disability income insurance can be used to replace your income. Critical illness coverage, not so well known or understood, is the focus of much attention these days, given the state of our medical services plan. It is discussed in more detail on page four.

Many people spend a lifetime building and growing an estate, paying taxes all along the way, and still have Canada Customs and Revenue Agency wanting to take a large share at the end of your life. Life insurance can play an important roll in helping people maintain and preserve their estates, particularly when it involves a special asset subject to taxation. Estate equalization strategies using insurance can help parents to treat their children equally in estate distribution, particularly when it is not in the best interest to split up a

large family asset or business.

In most cases, the premium isn't the problem, it's the solution. In this issue of Client Quarterly, we feature the story of one very wealthy individual who has always appreciated the value of insurance. Every year, when he and I review his financial plan, we always reconsider the role that insurance has to play. I hope his story will help you better understand the importance of insurance in your financial planning and I welcome the opportunity to discuss your needs.

JOIN US FOR A CUP OF COFFEE AND A RISK MANAGEMENT REVIEW

These days, a lot of people are taking a hard look at their over-all finances and insurance risk management. Some people want to make sure they have enough coverage while others want to make certain they are not paying for too much coverage. Changes in group benefit plans and the Provincial Medical Services Plan— along with continuing uncertainty about the economy and long-term employment – are creating insecurity for people concerned with what might happen if they were either sick or hurt. We can help. That's why we have instituted our "Cup of Coffee and Risk Management Review Hour" from 8:45 am to 9:45 am, Monday through Thursday. We will offer you a sound opinion on what type and what amount of insurance is right for you. No cost. No obligation. And when you stop by our office, we'll also buy you a cup of coffee. may not have all the answers but we might have one which could be the best financial decision you will make this year.

THE GRANDFATHER & THE GRANDSON

HOW A GREAT FORTUNE WAS BUILT OVER

John Donaldson's grandfather emigrated from Eastern Europe early in the 20th Century. Equipped with only a grade three education, Ed Marcus opened a store in Noranda, Quebec, and successfully operated it for 13 years.

In 1946, Ed came to British Columbia intending to retire. But he was tempted by the possibilities of real estate in the young province and began successfully buying and selling land and property. Within a few years he had built a prosperous commercial real estate company.

John was born in 1960 and Ed took an immediate interest in his infant grandson. For his part, John was fascinated by his grandfather's business and, when he was only three years old, would visit Ed in his offices. The old man took time to explain the business to the child, who was a very quick learner.

"He would show me business documents and explain what they were for, why they were needed," John recalled. "In fact, he was the first person to talk to me about insurance when I was very young. He explained to me why insurance was important and why he had taken out the policies he had. I really was interested in what he had to teach me.

"I was very close to him and he was also my mentor. He asked me if I would work with him and carry on the legacy of the family business. I agreed to do so and began working with him part time, before and after school, or weekends, depending on his needs."

In 1978, John graduated from high school and began attending the University of British Columbia. He continued working for his grandfather part time while he completed a Bachelor of Arts in Political Science. When John graduated, Ed asked him to join the family company full time. John agreed to do so and has remained with the company ever since.

When he began working for his grandfather full time, John established a pattern of hard work and continual self-improvement that continues to dominate his life. Up bright and early, he would be at the company offices by six o' clock. He'd start with maintenance chores — landscaping, opening all the buildings and getting them ready for the day, other odd jobs. Then he'd get on with the "real" business of the real estate company, including tenant relations and other property management issues. During his spare time, John would attend part-time courses at UBC or BCIT, continually improving his knowledge of the business.

Like his grandfather, John believes that education is a critical factor in business success and he continues to take more business courses every year. He has acquired an impressive — and lengthy — array of professional credentials behind his name.

The premium isn't the problem—it's the solution

INSURANCE IS A NECESSARY AND REASONABLY PRICED SOLUTION TO THE RISK MANAGEMENT ISSUES INVOLVED IN PRESERVING A MAJOR ESTATE AND BUSINESS

John Donaldson took over his troubled grandfather's estate in 1988 and grew it from an asset base of about \$15 million to its present worth of more than \$90 million. Today, he owns and manages a real estate company involved in all aspects of property development including owning, leasing and managing commercial properties. As well, he acts as a real estate consultant for third parties, providing counsel on commercial real estate, lease negotiations, portfolio reviews and strategic planning.

He is a very smart, savvy guy in his early 40s who has also worked very hard to achieve his success. Guided by a grandfather who acted as an early and powerful mentor, John acquired the habit of education as a very young boy and never lost the habit. In his field, he probably has more degrees behind his name than just about anyone else in the same business. He has also worked literally night and day on his business to build a large and secure estate for his family. That's why insurance matters so much to him.

"When you come right down to it," he said in an interview, "insurance is basically about estate and wealth preservation."

John wants very much to preserve his estate for future generations.

PRESERVING AN ESTATE

In the 1980s, when John considered the problem of

preserving his mother's estate, he realized there would be a tax liability when his mother passed away. The family business and the estate would both owe taxes. The solution to the problem, he discovered, was to take out a life insurance policy on his mother's life that would pay for the taxes owing after her death.

"The plan was essentially very simple," John said. "My accountant and other professionals analyzed the value of my mother's estate, including the family business. With those numbers it was possible to assess what the estate taxes would be when my mother passed away. We then acquired a policy from the London Life Insurance Company that would provide the cash required to meet that government requirement."

Frank Malinka was then an agent for London Life, where John was primarily insured. He took over John's file in 1988. "Frank fine-tuned our existing policy and made it work really well," John said.

For very good reasons, Frank continues to advise clients that insurance can play a critical role in preserving an estate after death. "Despite today's lower capital gains taxes, paying these taxes using life insurance is like paying pennies on the dollar — eliminating your taxes at a significant discount," Frank advises. "Clearly, not everybody has the desire or, in some cases, the obligation to maintain an estate and

do everything possible to prevent it from being broken up. But for those who care enough to pass the baton to the next generation, insurance provides an excellent solution."

LIFE INSURANCE

A key component of a well-planned estate must be life insurance. "In my will and estate planning my first priority is my wife," John said. "She will survive to care for the children and she will need to make important decisions about the future of the estate and the family business. I do not want her to be worried about monetary issues during the necessarily difficult time after my death."

Strategic planning review Now operating his own practice, Frank continues to serve as John's financial consultant. Every year, during their review of John's financial plan, he and Frank assess whether the plan includes adequate risk management in the form of insurance coverage. They take great care in the planning. Three generations of John's family are protected in order to preserve the estate in its entirety. The family business, which currently employs dozens of people, will also be preserved as a functioning entity in the event of his death.

"I have sufficient insurance to provide for any tax liabilities, family security and charities that I wish to support," John said. "I also needed to protect my business so that my wife would not necessarily be forced to wind it down after my death. It's very important that she have the option to not just sell everything and close it because literally hundreds of people would be affected —tenants,

office staff, contracted people and employees. It's just not a business that should be wound down quickly."

CONFRONTING THE 'BIG QUESTIONS'

John is able to take a very rational approach to his insurance needs but recognizes that some people can find this hard. "The difficulty in talking about insurance is that you have to face your own mortality. You have to confront great 'What if' questions like, 'What if my family was not fully provided for, what if my business was not able to carry on without me, etc.?' Emotionally, as well as mentally, these are tough

issues to consider. "Smart and focused business people know these decisions are critical but may still avoid them. Just as some people will avoid questions about

whether they have a will in place, or whether they have made instructions for the guardianship of their children, or how they want to be buried. You can't avoid bringing up the big questions when you bring up the smaller ones. And many people just can't face the big questions." The key to John's approach is personal responsibility coupled with sound business and personal financial planning.

"I would consider it irresponsible for

me not to make adequate provision for my family and my business," he said. "I feel responsible for my family, my employees and my contractors. The death of one person should not wipe out everything I have worked for during my entire life. Most importantly, though, my wife and family will be able to pass through a period of mourning without having to worry about any financial considerations."

A STRATEGY FOR RISK MANAGEMENT

When it comes to business and financial planning, John always includes insurance as a strategy for risk management.

"If you build an asset you should secure that asset. It's really as simple as that in business and the principle also applies to managing your wealth and estate. You do it partly through insurance and partly through building a sound portfolio."

"Insurance should be considered part of the infrastructure of any financial plan," John believes. "If you build an asset you should secure that asset. It's really as simple as that in business

and the principle also applies to managing your wealth and estate. You do it partly through insurance and partly through building a sound portfolio."

Naturally enough, a byproduct of a wise insurance strategy should be peace of mind and John has been able to find that through his planning.

"Knowing that my business and personal affairs are well planned and that insurance is in place to manage the risk makes me feel

like a much better business person because I am making decisions for the short and long terms based on factors that are important at the time and in accordance with my strategic plan. I don't need to factor in any considerations for insurance needs because those decisions have long since been made."

PARTNERSHIP INSURANCE

John recently entered into a business relationship with a key employee of his company. Naturally enough, he applied the principles of risk management to this new business venture as well.

"We carry partnership insurance on each other so in the event that something happens to one of us, the estate or family of the other partner will be able to buy out the partner's interest in the business or retire the debt on the property so there is no crisis or need to dispose of anything.

For example, if I died my partner would get a million dollars from my partnership policy and he would be able to say to my estate: 'If you want to hold the remaining share and continue doing business with me, that is fine or, if you like, I will buy you out at fair market value.'

This kind of insurance is particularly important for someone like my partner, who does not have a large asset base at this time in his life. His wife and son will be protected from any outstanding debt that might remain after his death. They

This is a true story about a client of Malinka Financial. However, the client's name and some of the details of the story have been changed to protect our client's confidentiality.