

# Why do you need Long-Term Care insurance?

*BECAUSE SOONER OR LATER ALMOST ALL OF US NEED HELP TO CARE FOR OURSELVES*

Long-term care consists of a wide range of services provided to people who have lost the ability to care for themselves.

An accident, illness or the simple frailty that is the natural result of aging can cause this loss of ability. The personal struggles of public figures like former Superman star Christopher Reeves, whose riding accident paralyzed him for life, or Michael J. Fox's battle with Parkinson's disease have taught us that the need for long-term care can happen to anyone at any time.

And while disability insurance can help meet everyday bills and cover basic needs like food, clothing and shelter, it will not cover the costs of long-term care.

## THE COST OF CARE

There is a tendency for people to underestimate the cost of prolonged long-term care. However, long-term care services can be expensive and can rapidly erode your hard-earned assets. Ultimately, this could affect any inheritance you planned to pass

on to children, grandchildren, or a favourite charity.

Costs vary from province to province. Based on the type of care needed, out-of-pocket expenses in British Columbia can range anywhere from \$813 to \$2,000 per month (based on your income) for ward accommodations in a facility, to over \$350 per day for 24-hour care at home. Private facility care can range from \$2,500 to \$7,000 per month.

Few retirement savings plans can accommodate this kind of expense for more than a couple of years – and rarely for more than one person.

## THE OPTIONS

If you're not financially prepared for long-term care need, your options are limited.

- **Do nothing:** this rarely works and in the end could leave you or members of your family scrambling for assistance.
- **Rely on family and/or friends:** unfortunately, family members today are often located too far

away to help provide care or are not in the economic position to assist with time or money. Few are prepared for the physical and emotional strains of providing this care.

- **Deplete your savings:** as costs today continue to rise to uncertain levels, this option poses a substantial risk for asset depletion. This could leave you unable to pay for the care you need when you need it.
- **Rely on the government:** by essentially becoming a "ward of the state" you lose virtually all control over who provides care and where that care is received. Government programs vary from province to province and by exercising this option, personal choice and freedom are removed from the decision-making process.

## THE SOLUTION

So, what do you do? It's really the only other option: Transfer the financial risk to someone else.

Most of us insure our homes and cars despite the minimal risk of fire, theft or accidents. Still, few insure their future care despite the fact that 20 per cent of people between

the ages of 55 to 74, and 28 per cent of those 75 to 84 have a long-term disability. For those 85 and over, that figure rises to 45 per cent.

Through proper financial and risk management planning you can have the peace of mind that comes from knowing you'll have access to quality care without being a burden to family and friends. Now you can choose to protect your last unprotected risk.

Long Term Care Insurance is an income plan. That means benefits can be used to cover any type of long-term care service including medical care, nursing, or help with personal care like dressing, eating and bathing. Once on claim you don't need to submit receipts or show proof of service.

Care can be provided in the home, in the community or in a facility – including a nursing home – and can even be used to pay a family member or friend. Long Term Care Plans are flexible, simple and can be designed to meet your needs and budget.

*By Zan Romeder  
Zan has a masters degree in Gerontology.*



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## CLIENT QUARTERLY

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# Your health is your most important asset

*MAKE TAKING CARE OF YOURSELF AND YOUR FAMILY AN IMPORTANT PART OF YOUR FINANCIAL PLANNING*



Frank Malinka  
BCom, CFP, CLU, ChFC

**H**ealth is not valued till sickness comes."

So wrote the British physician, preacher and scholar Dr. Thomas Fuller in 1732 and how right he was then – and now.

Too often, we take good health for granted and assume it will last forever. It is, perhaps, a very human weakness to do so. However, if it is prudent to insure our houses, our cars and other possessions, surely it is also prudent to make sensible provision for our own health. Let us, therefore, take a lesson from Dr. Fuller and value our health before sickness comes. Further, let us not assume that our publicly-funded health care system can be relied upon to cover all of our future health needs.

In this issue of Client Quarterly, we explore the benefits of Long Term Care insurance and a Health and Welfare Trust, sometimes referred to as a "Cost-Plus" plan, available to employers and their employees. Both have an important role to play in a comprehensive health care plan that should also be an important part of your financial planning.

The issue of paying for long-term care is addressed in an article provided by Zan Romeder who holds a Masters Degree in Gerontology. Zan discusses both the need for long-term care and a solution for keeping the financial and estate plan intact. Brian Cawley, CA, explains how a Health and Welfare Trust works and how it can complement the benefits provided by a group medical plan.

A Health and Welfare Trust can be used to pay for medical-related expenses in a variety of ways. Most commonly, items not covered or only partially covered by the provincial Medical Services Plan (MSP) or a group benefit plan can be paid for by this trust on a tax-effective basis. Some of these items can be

considered a medical necessity while others, although not strictly necessary, may still be important for our physical and emotional well-being. Cosmetic surgery, for example, can be paid for using a Health and Welfare Trust. Similarly, a trust may pay the costs for a couple seeking to enhance their fertility.

You'll find an extensive list of items covered by a Health and Welfare Trust on the inside pages of this issue. You'll also find a striking example of the benefits available under such a trust in an interview with one of our clients whose autistic children have been able to take advantage of costly therapy and treatment for their condition not available under MSP or a group

medical plan. The tax savings and efficiencies made available through the Trust make this kind of expensive treatment much more affordable.

Ideally, your health care planning should also include Critical Illness Insurance as many leading edge procedures and treatments are too expensive for the Canadian health care system to provide for everyone. Critical Illness Insurance provides tax-free cash so that you can seek that treatment abroad or in private health clinics.

Benefits under Critical Illness coverage can also be used to jump the long line-ups associated with receiving timely treatment and heading south of the border. These benefits can also be used to relieve the financial stress of an illness and help you ease back into your career while keeping your financial plan in tact.

I sincerely hope this issue of Client Quarterly can help to better keep you happy, healthy, wealthy and wise.

## COST OF CRITICAL ILLNESS INSURANCE

The cost for this kind of insurance can be minimized when you exercise the "Return of Premium" feature. If you don't use the coverage, all of your premiums will be returned to you. Your only cost is the lost opportunity of using your funds for other purposes, such as a GIC or bond. With interest rates at historic lows, it makes better sense to protect your health.

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Assante Financial Management Ltd.

Malinka Financial Suite 1588 – 789 West Pender Street, Vancouver, B.C. V6C 1H2

emailus@MalinkaFinancial.com Tel: 604-688-0300 Fax: 604-688-2423

www.MalinkaFinancial.com

# Include a Health and Welfare Trust when you plan a benefit program for your company

Wise employers know the value of happy, healthy employees. That's why it makes good business sense to make sure they are protected by adequate health and dental coverage.

Usually, employers think first of a group medical insurance plan to cover these needs, in addition to the benefits provided by the provincial Medical Services Plan (MSP). However, there are many reasons why such a group plan and MSP coverage should be supplemented by a Health and Welfare Trust (HAWT), sometimes known as a "Cost-Plus" plan. Such a plan can benefit not only the employees of a limited corporation but the owners and family of the company as well.

There are two key reasons business owners should consider a HAWT. First, such a trust frequently provides a wider range of services than a group medical plan. On the opposite page, you can see a list of services available under a typical HAWT. Secondly, there are tax advantages to a HAWT that a group plan does not provide. Simply put, if you are the owner of a limited corporation, you can have the company pay medical-related expenses with company dollars instead of your own after-tax dollars.

This does NOT mean that an employer should choose a HAWT in preference to a group medical plan. Each has their place in a well-planned health insurance scenario. First, though, it's helpful to know what a HAWT is and how it works.

## THE ADVANTAGES OF A HAWT

To understand the advantages of a HAWT, let's look first at what

*IF YOU ARE THE OWNER OF A LIMITED CORPORATION, YOU CAN HAVE THE COMPANY PAY MEDICAL RELATED EXPENSES WITH COMPANY DOLLARS INSTEAD OF YOUR OWN AFTER TAX DOLLARS.*

would happen if a company chose to simply pay an employee for the costs of a \$10,000 medical claim. In such a case, the cost of the claim would be a deductible expense for the company but it would also be taxable in the hands of the employee.

First, though, it is important to note that simply paying an employee \$10,000 would not cover the cost of the medical claim. That's because an employee with a marginal tax rate of 41 per cent, for example, would need \$16,950 of pre-tax income to pay for the \$10,000 claim.

However, if the company has a HAWT, the employer would simply make a payment of \$10,000 through the plan to the health care provider. This amount would be a deductible expense for the company but would not be a taxable benefit to the employee.

At a first-time cost of \$200, the plan would be inexpensive to set up and the only additional charge would be 10 per cent of the cost of the claim, or \$1,000, to be paid out to the administrator of the HAWT. The company would only need to spend \$11,000, plus \$200, to pay for the claim, a considerable savings.

Here's another example:

A business owner sets up a HAWT for the benefit of herself, her family and a few key long-term employees. A year later, her daughter requires braces, a procedure not covered by the existing group benefits plan. The business owner pays the orthodontist the professional fee of \$4,000 and presents the receipt to the office bookkeeper, who makes an appropriate notation in the

trust register. The corporation then makes a payment to the trust of \$4,400 (including the 10 per cent administrative fee) and, in turn, the trust reimburses the business owner for the \$4,000 claim.

Once again, under the HAWT, the corporation would only need \$4,400 to pay the medical expense. If the corporation was paying the owner for the cost of the claim, it would have to pay the owner \$6,800 in pre-tax income to achieve the same results. In effect, the corporation does not have to spend as much to accomplish the same objective.

I should note that my company, Cawley and Associates, uses a HAWT, in addition to a group medical plan. In my case, also, it has played a very important role in lowering the costs of orthodontal work for my children.

## THE ADVANTAGES OF A GROUP MEDICAL PLAN

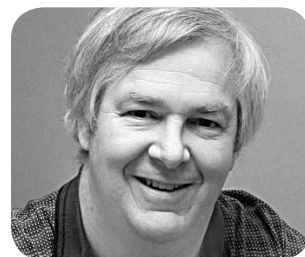
As I mentioned above, one of the major advantages of a HAWT is in covering medical and dental expenses that are not covered by a group medical plan. However, a HAWT is not suitable to cover major medical costs that are more appropriately protected by insurance.

For example, out-of-province health care is a major component of most group medical plans. If you are travelling in the United States and are injured or fall sick, you may be confronted by huge medical costs. If you incurred hospital costs of \$200,000, the corporation would have to spend this amount under a HAWT to cover these costs.

## WHAT'S THE BEST BALANCE?

Every business owner must individually assess the advantages and disadvantages of each in their own particular circumstances. For example, a small business may not require a group medical plan if the spouse of the owner is employed by another firm that provides group medical insurance. Also, if the full range of services provided by a HAWT does not seem necessary, a business owner may choose to purchase only group insurance.

Nonetheless, the owner of any limited corporation should definitely consider both as part of both their business planning and their personal risk management strategy. Consult your accountant and Frank Malinka for an approach that best fits your particular needs.



Brian Cawley, CA

*Brian Cawley has been a Chartered Accountant since 1985 and is currently the principal of Cawley and Associates, an accounting firm. The majority of the company's clients are owner/operator businesses and his company's major function is to assist clients to lower both their personal and corporate income taxes. He can be reached at 604-731-1191.*

# When medical plans won't pay for a treatment or therapy, a HAWT can be your best strategy for re-educing costs



Autism is one of the most heartbreaking conditions that can afflict children — and their parents.

Children with autism exhibit obsessional behaviour such as screaming, biting, pinching or hitting themselves and people around them. They may eat inedible materials, such as sand, gravel, or coins. Or they may suffer severe sleep disruptions that disturb not only themselves but their parents and caregivers.

The financial cost of caring for autistic children is awesome, largely because of the longstanding refusal of the provincial government to include autism as a medical disorder within the Medical Services Plan (MSP). As well, group medical plans do not include autism as an insurable medical condition.

The most effective financial strategy for dealing with autism is a Health and Welfare Trust, which does include treatment for autism as a valid expense. Lyndon and Sandy Giles, now in their early 40s, only learned about the possibility of a HAWT from another client of Frank Malinka's after they had spent several years claiming a medical tax deduction for the therapy costs of autism

## THE FINANCIAL COST OF CARING FOR AUTISTIC CHILDREN IS AWESOME.

from their taxable incomes. Because this strategy requires more pre-tax earnings to pay the costs of therapy — and includes a deductible threshold — it is not as tax effective as a HAWT.

Even with the tax advantages a HAWT provides, the Giles must still pay most of the therapy costs themselves. In all, including the years before they were enrolled in a HAWT, they have spent more than \$350,000 in after-tax income caring for their two autistic sons, Michael and Jordan, since 10-year-old Michael, their first-born, was diagnosed with the condition when he was three and a half years old.

Lyndon and Sandy have joined with other parents in a legal battle to force the provincial government to change its policy. So far, the group has been successful, winning in both British Columbia's Supreme Court and the Court of Appeal. But the provincial government has appealed the judgement of the Court of Appeal to the Supreme Court of Canada, leaving the situation still in legal limbo — and financially problematic for the parents. That case is still pending.

Despite that, the provincial government is now funding part of the costs for dealing with autistic children through the Ministry of Children and Family Development. For children between the ages of three and six years old, MCFD will pay up to \$20,000 per year for treatment. After the age of six, the ministry will pay up to \$6,000 per child. In either case, it's not enough.

So far, the only effective therapy

for autism that the Giles — and other parents — have been able to find for their boys is Applied Behaviour Analysis, or ABA Therapy, created and developed in the Psychology Department of the University of California, Los Angeles. It is very costly, though, requiring one-on-one supervision and teaching by a specially trained consultant. For both boys, the Giles now pay about \$40,000 per year for therapist and consultant charges.

Lyndon is convinced that the costs are justified and progress has been made although he cannot hope that Michael will ever achieve full independence as an adult. At the most, he hopes Michael will be able to achieve some level of independence in a sheltered home environment. Failing that, he may need to live with his parents indefinitely, perhaps for the rest of his life. Jordan has better prospects. He has achieved very well academically, scoring at the top of his class. He does not pick up social skills

naturally, though, like other children.

Although neither Lyndon nor Sandy was the owner of a company, Lyndon was able to persuade his employer to implement a Health and Welfare Trust. As a result, the couple now pays less taxes and, for the employer, the strategy makes little difference other than that his Employment Insurance and Canada Pension Plan contributions may be less.

*This is a true story but client names and some of the details have been changed to protect client confidentiality.*

## ITEMS COVERED BY WELFARE TRUST

- |                                    |   |                    |
|------------------------------------|---|--------------------|
| • ABA Therapy                      | • health care-related transportation                    | • orthopedic shoes |
| • acupuncture                      | • hearing aid & batteries                               | • orthopedist      |
| • ambulance                        | • hospital bills for semi-private and private hospitals | • osteopath        |
| • artificial limbs                 | • insulin treatments                                    | • oxygen           |
| • blood tests                      | • naturopath  | • pediatrician     |
| • braces                           | • nursing   | • physician        |
| • chiropractor                     | • neurologist   | • physiotherapist  |
| • contact lenses                   | • obstetrician  | • psychiatrist     |
| • cosmetic surgery                 | • O.R. costs in a private clinic                        | • psychoanalyst    |
| • crowns                           | • ophthalmologist                                       | • psychologist     |
| • dental treatments                | • optician  | • psychotherapy    |
| • dentures                         | • oral surgery  | • massage therapy  |
| • dermatologist                    | • organ transplant                                      | • vaccines         |
| • drugs                            | • orthodontics  | • vasectomy        |
| • eyeglasses and laser eye surgery |   | • viagra           |
| • fertility treatments             |   | • wheelchair       |
| • guide dog                        |   | • x-rays           |
|                                    |   | • etc., etc.       |