# Today's Objectives

- To discuss features of **Registered Retirement Savings Plans (RRSP's)**

- To discuss long-term care

## 2. Registered Retirement Savings Plans (RRSP's)

*Turning RRSP's into Retirement Income*

- Contributions may be made to an RRSP up until Dec 31st of the year one turns age 71
- RRSP funds can be transfered into a retirement income plan at any time but there is a deadline; **the latest that RRSP funds can be transferred into a retirement income plan is by the end of the calendar year of your 71st birthday**
- There are **4 options** (latter 3 being considered "tax effective"):
  a) Lump Sum cash payment
  b) Life Annuity purchase
  c) Registered Retirement Income Fund (RRIF)
  d) Annuity Certain

## 2. Registered Retirement Savings Plans (RRSP's)

*Turning RRSP's into Retirement Income*

a) Lump Sum cash payment

- This payment would be fully taxed when paid (as compared to the other 3 options, which allow transfer of RRSP money tax free to another retirement income product)

b) Life Annuity purchase

- (Part or all of) RRSP funds used to purchase a registered life annuity
- The life annuity provides for a specified monthly income which is guaranteed for life of individual (larger amounts purchase larger monthly payments)
- The registered life annuity monthly payments are considered taxable income (fully taxed in the year they are received)
- Historically (until 1978) this was only choice for RRSP funds

## 2. Registered Retirement Savings Plans (RRSP's)

*Turning RRSP's into Retirement Income*

### c) Registered Retirement Income Fund (RRIF)

- (Part or all of) RRSP funds used to purchase a RRIF
- Introduced in 1978 as a choice to allow more control over the investment of the fund
- More flexibility in the timing of withdrawals (vs. annuities)
- ITA stipulates what minimum monthly RRIF payments can be
  - No withdrawal is required in year RRIF is purchased, but there is a minimum annual withdraw amount requirement thereafter
  - RRIF minimum payout (withdrawal) information will follow
- Note that higher payments (or withdraws) can be chosen

## 2. Registered Retirement Savings Plans (RRSP's)

*Turning RRSP's into Retirement Income*

### c) Registered Retirement Income Fund (RRIF)

- With RRSPs money grows tax free, whereas with RRIF, money is fully taxed on withdrawal (RRIF can be viewed as a reverse RRSP)
- A one-time election (when RRIF set-up) can be made by owner to have prescribed factors based on legal partners age

### d) Annuity Certain

- This gives a specified monthly income that is guaranteed to be made until age 90
- The term of the annuity equals 90 less age of annuitant or can be 90 less age of the spouse

## 2. Registered Retirement Savings Plans (RRSP's)

### *RRIF Minimum Payouts*

$$\text{Min. Payment}_{\text{year } x} = (\text{M.V. at beginning of year}) \times (\text{prescribed factor})$$

Prescribed factors (effective 2015+)

| Age | Minimum withdrawal % |
|---|---|
| 71 | 5.28% |
| 72 | 5.40% |
| 73 | 5.53% |
| 74 | 5.67% |
| 75 | 5.82% |
| 80 | 6.82% |
| 85 | 8.51% |
| 90 | 11.92% |
| ≥ 95 | 20.00% |

- **If RRIF owner is < 71**: minimum withdrawal % = 1 / (90 − Y) where Y = age at b.o.y. of the RRIF withdrawal

**Example 3 – RRIF**

- Suppose at age 69, you have $800,000 in an RRSP and you decide to transfer 25% of your RRSP money into a RRIF.
- What are the minimum monthly payments for age 69, 70 and 71 and 72 that you would have to withdraw? Assume the RRIF fund earns interest at an annual rate of 6% and that the only withdrawals made are the minimum amount on each birthday.

**Example 3 – RRIF**

- Age 69:

$$minimum\ withdrawal\ \% = {}^{1}/_{(90-69)} = 4.76\%$$

$$withdrawal\ at\ BOY = 4.76\% \times 800{,}000 = \$38{,}080$$

$$value\ of\ fund\ at\ EOY = (800{,}000 - 38{,}080) \times 1.06 = \$807{,}635.20$$

- Age 70:

$$minimum\ withdrawal\ \% = {}^{1}/_{(90-70)} = 5.00\%$$

$$withdrawal\ at\ BOY = 5.00\% \times 807{,}635.20 = \$40{,}381.76$$

$$value\ of\ fund\ at\ EOY = (807{,}635.20 - \$40{,}381.76) \times 1.06 = \$813{,}288.65$$

## Example 3 – RRIF

- Age 71:

  $withdrawal\ at\ BOY = 5.28\% \times 813{,}288.65 = \$42{,}941.65$

  $value\ of\ fund\ at\ EOY = (813{,}288.65 - \$42{,}941.65) \times 1.06 = \$816{,}567.82$

- Age 72:

  $withdrawal\ at\ BOY = 5.40\% \times 816{,}567.82 = \$44{,}094.66$

  $value\ of\ fund\ at\ EOY = (816{,}567.82 - \$44{,}094.66) \times 1.06 = \$818{,}821.55$

1. Old Age and the Problem of Long-Term Care

- Many elderly people are able to care for themselves but a significant number will require some form of assistance at some point in their later years
  - While in a few cases required care in old age is still provided by family members through extended family living arrangements, mostly this is no longer the case
  - There is a demand for Long Term Care (LTC) Services

- According to a 2008 report by the Council on Aging in Ottawa, 43% of those over age 65 will require long term care and spend time in a nursing home or long-term care
  - The average length of stay in a nursing home is 3 - 4 years
  - 20% (or 1 in 5) will stay more than 5 years

1. Old Age and the Problem of Long-Term Care

- **Long Term Care (LTC) is costly** and can easily lead to economic insecurity in old age
  - It can cost up to $22,000-$31,000 per year to stay in a nursing home and $25,000-$70,000 or more to stay in a retirement home
  - Home care can easily add up to $35,000-$65,000 a year (e.g. meal prep, personal care, skill nursing) depending on level of services required
- While **provincial health insurance plans** cover doctor, hospital and various diagnostic and treatment services, they **exclude long term care** (LTC)
  - LTC services are provided separately and the delivery of these services varies widely by province (will review Ontario provisions)
- Cutbacks to existing LTC government subsidies are common across all provinces

2. Old Age Care (including LTC) in Ontario

- Personal and nursing care provided by LTC homes are funded by government, but patients pay for their own room and board
- Local **Community Care Access Centers (CCAC) responsible for deciding who receives subsidized care** (nursing home or in home care)
  - Have to apply to the CCAC and there are wait lists

- **Ontario Nursing home costs are set by the Ministry of Health**
  - Costs paid (i.e. non-subsidized) by those living in nursing homes (July 2018 numbers):

| Accommodate Type | Monthly Co-Payment |
|---|---|
| Basic/standard (3 or 4 ward bed) | $1,848.73 ** |
| Semi-Private | $2,228.63 |
| Private | $2,640.78 |

** Some further subsidies for those with very low income

2. Old Age Care (including LTC) in Ontario

- Nursing home waitlists can be a barrier for those that are eligible
- There is **no government subsidization for** those living in **Retirement Homes**
  - Those with less needs often live in retirement home (don't qualify for nursing home but unable or not comfortable living on their own)
  - Also those on a nursing home wait list may stay in a retirement home in the interim

- It can cost anywhere from $25,000-$70,000++ yearly to live in a retirement home

## 2. Old Age Care (including LTC) in Ontario

- Ontario Private home care costs (for those with no subsidies)

| Service | Rate (per hour) |
|---|---|
| In home meal preparation | $15- $34 |
| Personal care (bathing, dressing) | $15 -$35 |
| Skilled Nursing | $30- $100 |
| 24 hour live-in care | $9.58 - $54.00 |

# Review

- Class on February 26 will be review for the test
- The following questions are ones I selected from prior tests – we may not have time to cover them all
- We may also cover some questions selected by students – if you have specific questions, ask them
- Answers to the questions are posted on OWL

For **Q4b), Practice Test #1**, recall that:

*Annual Contribution Limit*

- Complete RRSP annual contribution limit formula is the net sum of 4 components: **A + B + C - D** (often only 1st two components apply) where:

  A = unused contribution room from the previous year (carry-forward)

  B = [lesser of 18% earned income, max for that year] less PA for preceding yr where PA = pension adjustment (included on T4 slip)

  Note: both earned income and PA are based on previous year

  C = Pension adjustment reversal (PAR) for the year

  D = Net Past Service Pension Adjustment (PSPA) for the year

For **Q6d), Practice Test #1**, recall that:

*OAS Eligibility*

ii. New or "Post-1977 Residency Rules"

- Need 40 years of residence in Canada after age 18
- Notes
  1. A Proportionate benefit is payable for those with 10 to 40 years of residency after age 18.
  2. If not residing in Canada in year prior to turning 65, then need at least 20 years of residency (after age 18) to qualify for proportionate benefits
  3. Those that were 25 years or more on July 1, 1977 (and resided in Canada prior to July 1, 1977) can be assessed under old or new rules (whichever gives best benefit)

For **Q1a), Practice Test #2**, recall that:

*GIS Benefits*

i. Single, widowed, divorced or separated pensioners:
   - The maximum monthly GIS benefit is currently **$916.38**
   - This maximum is reduced by $1 for every $2 of other monthly income over and above the OAS pension
   - Currently **if reported income is $18,600+, no benefit**

ii. Married, spouse not eligible for OAS or spouse's allowance:
   - The maximum monthly benefit is also currently **$916.38**
   - This maximum is reduced by $1 for every $4 of combined income (over and above OAS pension)
   - Currently **if reported combined income is $44,592+ , no benefit**

For **Q2b), Practice Test #2**, recall that:

CPP Retirement Pension Benefit (RPB)

- CPP RPB are adjusted upwards/downward if you retire after age 65/before age 65 (adjustment changes recently phased in)
  - If start to receive **payments after age 65** (postponed retirement, PR) → benefit is now **increased by 0.70% per month** older than age 65
  - If start to receive **payments prior to age 65** (early retirement, ER) → benefit is now **reduced by 0.60% per month** younger than age 65
  - QPP differs a bit (ER factors for those with less than max benefit)

For **Q2c), Practice Test #2**, recall that:

CPP Retirement Pension Benefit (RPB)

- A **post retirement CPP benefit (CPP PRB) adjustment** was recently introduced
  - Can earn a PRB for each year CPP contributions made (while being paid CPP pension), same age adjustments as above
  - The post retirement benefit is **2.5% (or 1/40) of max CPP payable, adjusted for a person's age and actual earnings**

For **Q2d), Practice Test #2**, recall that:

CPP Survivor Benefit Payments

c) Pension to Eligible Spouse/Common Law Partner

- There is a flat rate plus an earnings related component
- Until now, this was most complicated benefit to explain, but some simplification and now simplification (part simplified shaded in blue below and these changes are fully in effect in 2019)
- There are differences between CPP and QPP survivor benefits

CPP Survivor Benefits

| ***Partners (survivor) age*** | **Survivor Pension** | **2020 Maximum** |
|---|---|---|
| 65 or more | **60% of deceased's calculated CPP Retirement Pension** | $705.50 = 0.6*(1,175.83) |
| Less than 65 | **Flat rate PLUS 0.375*contributors 'CPP RPB'** | $197.34 PLUS 0.375*(1,175.83) = $638.28 |

# Today's Objectives

- To discuss long-term care
- To discuss the economic problem of poor health
- To discuss government plans for medical needs

Recall that:

- According to a 2008 report by the Council on Aging in Ottawa, 43% of those over age 65 will require long term care and spend time in a nursing home or long-term care
- **Long Term Care (LTC) is costly** and can easily lead to economic insecurity in old age
- While **provincial health insurance plans** cover doctor, hospital and various diagnostic and treatment services, they **exclude long term care** (LTC)
- Local **Community Care Access Centers (CCAC) responsible for deciding who receives subsidized care** (nursing home or in home care)
- There is **no government subsidization for** those living in **Retirement Homes**

3. What is Long-Term Care (LTC)?

- **Essential elements of Long Term Care (LTC) are:**
  - The need for medical, personal, or social services
  - The need can be the result of an accident, illness, or frailty
  - LTC services are provided by other persons, either paid or unpaid, at home or in a nursing home

- **LTC includes: nursing home care, home care & community care**

3. What is Long-Term Care (LTC)?

- **LTC services** are services that **assist an individual in performing the essential activities of daily living or "ADL's":**
  - Eating
  - Bathing
  - Dressing
  - Going to the Bathroom
  - Transferring (e.g. moving from a chair or out of a bed)
  - Maintaining continence

3. What is Long-Term Care (LTC)?

**There are 3 basic types of long-term care (LTC):**

i. Skilled (Professional) Care
   - Needed for medical conditions that requires care from skilled medical personnel (e.g. registered nurse, therapists, etc.)
   - This care can be provided in a nursing home or a patient's home

ii. Personal Care
   - Assistance with a person's ADLs (eg. eating, dressing, transferring,...)
   - See ADL list above

iii. Supervisory Care
   - Care for those with a cognitive impairment (such as Alzheimer's or dementia) and who generally need verbal reminders for daily activities, supervision, and sometimes protection

Note: 12% of LTC comprises of skilled care, other 88% is (ii) or (iii)

4. Long-Term Care Insurance

- Several elderly will rely on family support or pay for long-term care out of their savings/retirement income savings
- One solution to the challenges of Long-Term Care is **Long-Term Care Insurance**
- Long-Term Care Insurance was introduced in the 1980s in the U.S. and in the early 2000s in Canada
- While more popular in the United States, **Long-Term Care Insurance sales in Canada have not yet gained much traction**
  - It is a costly and complicated product (exclusions/conditions)
  - Only few insurers offer this product (risky, hard to price)
  - Misunderstanding of what is covered by provincial medical plans
  - Preference to plan for long-term care needs with savings for retirement income (one strategy: deplete RRSPS, other savings first, then look to value of home to cover LTC in your 90's if needed)

## 4. Long-Term Care Insurance

### 3 Types of Long-Term Care Insurance Policies

i. Reimbursement Policies

- Some or all out-of-pocket long-term care expenses are reimbursed (receipts required) up to a designated daily, weekly or monthly limit
- Pros: least expensive and most efficient policy type
- Cons: least flexible

ii. Indemnity Policies

- Remunerate eligible recipient for designated daily, weekly or monthly amount, provided qualified expenses have been incurred
- Indemnity amount is typically a daily amount (if you spend les, you keep it, if you spend more you have to pay the difference)
- Pros: priced well, more flexible than (i) and because proof of care is required, there's less chance of elder abuse and fraud
- Cons: not as flexible as (iii), more prone to premium increases

4. Long-Term Care Insurance

**3 Types of Long-Term Care Insurance Policies**

iii. Income policies (cash or disability plans)

- Remunerate designated daily, weekly, or monthly limit to qualifying claimants, regardless of whether services received
- Pros: most flexible (once eligibility established, benefits paid out)
- Cons: most expensive and most prone to rate increases (no incentive to get off claim), most susceptible to fraud

4. Long-Term Care Insurance

**LTC insurance Policy exclusions and limitations**

- Mental or nervous disorder or diseases (other than Alzheimer's or dementia)
- Alcohol or drug addictions
- Illness or injury caused by an act of war
- Treatment that government provides or covers
- Intentional self-inflictions (incl. attempted suicide)
- Pre-existing conditions - these are sickness or injuries that started or occurred prior to issuance of the policy

## 4. Long-Term Care Insurance

**LTC Insurance Policy Coverage details are critical to understand**

- Most policies will have limits on what they pay (could be maximum amounts per year or for 'life of the policy')
- Benefits usually paid by the day, week, or month, e.g. daily nursing home benefit of up to $100 per day, or weekly home care benefit of up to $350 per week

**"Benefit Triggers" important part of the LTC insurance policy**

- Benefit triggers describe how and when benefits are paid
- There are usually different triggers for home care coverage than nursing home care
- Activities of Daily Living (ADLs) are the most common trigger, e.g. policy pays benefits when unable to perform 2 of 6 ADLs
- Cognitive impairment - policy usually pays benefits if certain memory tests cannot be passed

## 4. Long-Term Care Insurance

**Why LTC Insurance has not grown in Canada as initially envisioned:**

- Lack of understanding about what provincial plans cover in terms of LTC needs
- Product Costs and complexities
- Restrictive Provisions (examples)
- No premium guarantees (often premium is only guaranteed for 5 years, after which it can change)
- Underwriting is seen as painful and complex
- Only 2 Canadian Insurance Companies currently sell this product (risks hard to price)
- Insurance agents/brokers attitudes on the need for this product (strategies with savings and Retirement Income and planning for LTC needs with this in different ways)
- Competition with other products such as life insurance and retirement income products (to provide for LTC needs)

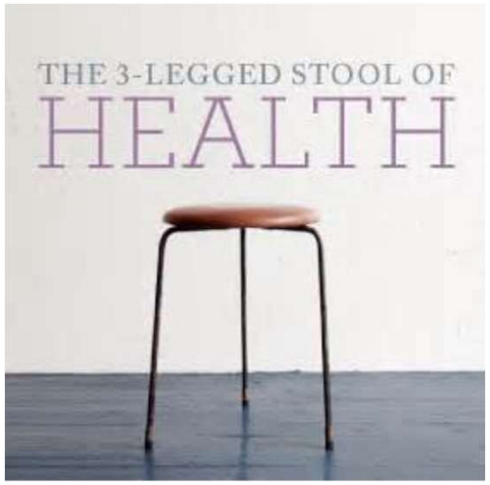
Recall that:

- One of the major causes of economic insecurity is poor health, which can be categorized as follows:
  - Among the elderly (Module 2 – Long Term Care)
  - Due to medical reasons (Module 3)
    - Insecurity is caused by additional expenses not covered by provincial health plans (drugs for example)
  - Due to a disability (Module 4)
    - If they cannot work, a person suffers a loss of income
    - May be able to return to work part time or at a different job $\Rightarrow$ could lead to insufficient income

## Economic Problem of Poor Health – Medical Needs

- **When a person is sick or in need of medical treatment**, they require one or more of:
  - Hospitalization, or
  - Treatment from a medical practitioner (e.g. doctor), or
  - Drugs, or
  - Other medical (non-drug) needs
- **Additional health needs** include:
  - Dental needs
  - Vision care
- **The cost of these needs can be very high**
  - Without proper insurance protection or other sources, these costs would have to be covered by an individual's private savings

## Attacking the Problem of Poor Health – Medical Needs

- The **Three**-Legged Stool of Poor Health – Medical Needs
- 

**?****

**I – Government – Provincial Plans**

II – Employer - Group Benefit Plans

III – Individual – Individual Health Insurance

** Not everyone has access to these

## Government Plans

1. Canada vs. U.S.A.

- **In the USA,** about 13.4% of the population has no private or public health insurance (over 43 million people)
  - There is no universal health care coverage (with Obama's affordable care Act it got a bit closer)
  - U.S. system is mainly private and decentralized
  - U.S. is one of very few developed countries with no universal program

## Government Plans

1. Canada vs. U.S.A.

- **In Canada (Canadian Government Health Care Plans):** Canadians receive basic hospital and medical care through a system of provincial government plans
  - While the provinces and federal government are "partners", they are not equal partners (due to falling federal funding levels)
  - Increasing health care costs and decreasing funding (both federal and provincial) are forcing governments to make difficult decisions

## Government Plans

1. Canada vs. U.S.A.

- **Some challenges with our Government Health Care Plans:**
  i. Waiting time for service may be long
  ii. Required facilities may be unavailable
  iii. Spending priorities may reflect political priorities and not what the individual may want

- It is interesting to note however, that **life expectancy is greater in Canada that in USA** (and Canada has lower infant mortality rate)

## Government Plans

2. Canada's Health Care System – Legislation history

- Our federal government created the national health care system
  - Hospital Insurance Act in 1958
  - Medical Care Act in 1968
  - **1984 Canada Health Act (CHA)** replaced both of the above
    - defined primary objective of Canadian health care policy as "to protect, promote and restore the physical and mental well being of residents of Canada and to facilitate reasonable access to health services without financial or other barriers"
    - CHA gave **federal government** the power to **impose financial penalties on provinces that do not allow reasonable access to essential care services**

## Government Plans

2. Canada's Health Care System – Legislation history

- National health care system
  - Initially the federal government paid 50% of the costs if the provinces' health plan met certain criteria (but those days are long gone)
  - Administration and delivery of health care falls under provincial jurisdiction
  - All provincial plans must provide for insured health services as defined by **The Canada Health Act (CHA)**

## Government Plans

3. Canada's Health Care Act (CHA)

- **CHA** sets **criteria** and conditions **that a provincial health program must meet to be eligible for "unreduced federal funding"**:
    i. Public Administration
    ii. Comprehensiveness
    iii. Universality
    iv. Portability
    v. Accessibility

## Government Plans

### 3. Canada's Health Care Act (CHA)

- Criteria and conditions:
  - i. Public Administration
    - Must be administered on a non-profit basis by a public agency accountable to the provincial government
  - ii. Comprehensiveness
    - Must cover all necessary hospital and medical services and there is an extensive list of what these are
    - Provinces are encouraged (but not required) to include additional extended health care services
  - iii. Universality
    - Plan must be universally available on equal terms and conditions
    - All eligible residents must be covered for insured health services

## Government Plans

### 3. Canada's Health Care Act (CHA)

- Criteria and conditions:
  - iv. Portability
    - Plan must be portable across the provinces (intended to cover emergency care)
    - Waiting period for new residents must be ≤ 3 months
  - v. Accessibility
    - Insured services must be provided on uniform terms and conditions for all residents
    - Everyone must have access to services without any financial impediments

– All provinces met these requirements by 1971