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

not good for a large amount of money

not a good idea.

– 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)

no matter when you dies.

– 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. <u>Registered Retirement Savings Plans (RRSP's)</u>

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 can choose how much to withdraw and
- More flexibility in the timing of withdrawals (vs. annuities) when to withdraw.
- 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

possibly shorter than life annuity.
male – late 70, early 80's
female – 4-5 yrs longers than males.

2. Registered Retirement Savings Plans (RRSP's)

RRIF Minimum Payouts

market value

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

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

current age.

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.
  100%.
- 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.

Age 69: percentage = $1/(90-69) = 4.76\%$.

payment: $800,000 \times 4.76\% = 38,000$.

remaining: $(800,000 - 38,000) \times 106\% = 807,635.20$.

Age 70: 5%.

$807,635.20 \times 5\% = 40,381.76$.

remaining $= (807,635.20 - 40,381.76) \times 1.06 = 813,288.65$

Age 71: 5.28%.

$813,288.65 \times 5.28\% = 4$[illegible]$.66$

Module 2 – Old Age
→ Long-Term Care (Long-Term Care Insurance readings)

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 facility.
  - 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

Module 2 – Old Age
→ Long-Term Care (Long-Term Care Insurance readings)

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):

not governmental subsidized.

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

Retirement Home
↓
Nursing Home.

- 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

Module 2 – Old Age
→ Long-Term Care (Long-Term Care Insurance readings)

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

Younger with serious illness may also need LTC

- **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 ADL (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) 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. <u>Income policies (cash or disability plans)</u>

- Remunerate designated daily, weekly, or monthly limit to qualifying claimants, regardless of whether services received
- <u>Pros</u>: most flexible (once eligibility established, benefits paid out)
- <u>Cons</u>: 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)