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Funding long-term care needs

Clients have more options than you might think

Canadians are living longer, but they aren't necessarily living healthier. This may lead them to re-think their options for long-term care, placing more importance on the value of staying and receiving care at home. But long-term care can be expensive and requires thoughtful planning to meet financial needs. According to CLHIA's Guide to Long-Term Care Insurance, the average weekly cost of living in a LTC facility or in-home nursing care is $500-$900. Only 22% of Canadians think they'll need access to long-term care, but for those over age 80, it's actually around 75%.[1]

Sun Life is here to help Clients plan for the potential financial burden of long-term care.

You may be wondering what solutions you could recommend to Clients. We've provided three options below.

Retain full risk	Share the risk	Transfer the risk
Self-funding	**Combination of self-funding and insurance**	**Insurance coverage that is sufficient to cover all potential financial risk**
Setting aside enough money to pay health costs.	Setting aside enough money to pay health costs up to a certain amount or duration (self-funding), then using insurance to cover the excess.	More robust insurance coverage with a minimal waiting period and/or larger coverage amount.

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Option 1

Retain full risk

Solution	Details
Self-funding	This can be a simple solution, but it's important to understand whether it's the optimal one. Health care costs are growing at a rate that far exceeds inflation, so capital growth is important. Because this protection need could last until death, a substantial sum may be required to fund health costs when Clients need care.

Option 2

Share the risk

Clients who decide to self-fund may wish to pair this solution with any of the risk transfer options. This could provide an income boost if an eligible health event continues beyond the coverage period or amount. By sharing the risk with an insurance company, the Client could self-fund their care initially, but transfer catastrophic risk to the insurer.

Solution	Details
Limited Term Sun Critical Illness Insurance (CII)	Sun CII provides a lump-sum payment if the insured suffers an eligible illness/disability and meets the survival period. One of the 26 covered illnesses is the loss of independent existence (LOIE). We define LOIE as being unable to independently perform at least two of the six specified activities of daily living[2] for a continuous period of at least 90 days, with no reasonable chance of recovery. Clients can share the risk by purchasing a CII policy to cover the risk of a serious illness during working years, then self-fund the cost of illness if it occurs later in retirement.
Sun Retirement Health Assist (RHA)	Sun RHA is an affordable long-term care insurance solution with a focus on planning for health risks that may occur later in life. It requires the same qualification as the CII's LOIE. Clients can share the risk by purchasing Sun RHA to cover costs of illness that occur later in retirement. They self-fund the costs of an illness until RHA benefits apply. Think of it as a type of longevity insurance – perfect for supplementing a self-funding solution. It helps ensure Clients have peace of mind in the event they outlive their savings and require long-term care.

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Option 3

Transfer the risk

Solution	Details
Lifetime Sun Critical Illness Insurance (CII)	Clients can purchase a lifetime CII policy to transfer the risk of a serious illness occurring at any age. This approach helps protect Clients now and in retirement.
Participating (Par) Insurance	Policyholders have four options to access cash in their policy to assist with funding long-term care: 1. **Direct withdrawal of cash value:** is taxable and reduces the death benefit by more than one dollar for every dollar of cash value withdrawn. 2. **Policy loan from the insurance company:** against the cash value of the policy, with a variable loan rate applied (currently prime +2%). Taxes will apply when the loan exceeds the policy's adjusted cost basis (ACB). 3. **Third party loan:** uses the policy's cash values as collateral for a loan from a financial institution. Clients can receive the loan proceeds tax free. 4. Clients may also elect to **receive their dividends in cash**. This will be taxed on the excess over the ACB.
Universal Life (UL) Insurance	UL is one of the most flexible permanent insurance options available. Clients can withdraw their fund values without disrupting their base coverage, provided enough funds remain to cover insurance costs. This can prove invaluable when costly medical needs arise. In general, this is a taxable disposition. UL policyholders may make a tax-free withdrawal if they qualify as critically disabled – either mentally or physically. Like some of the qualifying criteria for RHA and CII's LOIE[3], the Client would qualify if they're unable to independently perform one of the six activities of daily living. Policy loans and third-party loans are also available with UL (see Par section above for details).

[1] Canadian Instituite of Actuaries article *Anticipating the need for long-term care and its cost*.

[2] Activities of daily living are bathing, dressing, toileting, continence, transferring and feeding. Details available in the Critical Illness Insurance Advisor Guide.

[3] Clients may make one withdrawal per eligible disability or illness occurrence, subject to the maximum and minimum requirements. The tax rules in effect when the Client requests a withdrawal will apply and could change at any time.