

# The High Cost of Long Term Care... How Long Can Your Family Afford It?

By Michael J. Ondercin, CFP, B.Math

**Canadians today are living longer than in previous generations.** While that's a positive trend, it brings with it a much greater responsibility to finance the long term care our parents need.



**Both nursing home care and home health care can be expensive** – and trying to budget for an unknown period of time simply adds to the stress. What if your parent is among the 20% of nursing home residents living in a home for longer than 5 years<sup>1</sup>?

**All of Canada's 10 provinces have user fees for nursing homes**, meaning that funding for accommodation may be paid partially by the resident's province. However, where residents don't qualify for government funding, or where they want control over the level of care received and the type of accommodations, these user fees are borne entirely by the resident

or the resident's family themselves. Resident's fees vary significantly from province to province, from a low of \$11,900 annually for a private room in Alberta to almost \$160 a day – or a whopping \$57,240 a year in Nova Scotia.<sup>2</sup>

**Private nursing homes, like any private residence, can charge according to market conditions**, while government-regulated homes have specific guidelines. In Ontario, a single room cost is regulated at about \$22,000 a year; a privately assisted living facility can cost in excess of \$40,000<sup>1</sup>. Add to that the extra cost of a wheelchair or walking aid, specific therapy costs that may not be covered under the government plan, incidentals such as incontinence supplies ... and all of a sudden the remaining retirement years don't look as financially carefree as once imagined.

**The emotional toll is taxing for both parents and their children** – somewhere between worrying about dying too soon and living too long comes the financial stress of watching hard-earned savings dwindle.

The problem hits particularly hard among our so-called "sandwich generation" – the significant

number of post-war baby boomers trying to juggle long term care costs for their parents with education costs for their kids, plus planning for their own retirement.

So how best can you manage your parents' assets to make sure that the financial burden for the level of long term care required doesn't drain your resources too?

**There are two options to consider:**

The first option is to fund ongoing nursing care expenses from the elderly person's estate – the sale of their house, car and other assets. The problem with this is that the assets are finite while the costs are open-ended, so if the person ends up living longer than expected, the family will quickly run into financial problems at an already difficult time of life.

Add to that the erosion of any monies meant to be left as an inheritance, and the drawbacks of this plan are obvious.

**"... somewhere between worrying about dying too soon and living too long comes the financial stress of watching hard-earned savings dwindle."**

An appealing second option is to purchase an annuity, or guaranteed income plan. The advantage of this option is that

## How Long Can Your Family Afford It continued...

the cost of providing a specified monthly income is fixed up-front, no matter how many months or years the income needs to continue.

### **Recently introduced in Canada by Manulife Financial is one such plan designed especially for nursing care. The Manulife Nursing Care Income Plan**

was created as a guaranteed income alternative for people with serious health conditions who are funding their own expenses.

It works like a traditional annuity in that the investor exchanges an up-front investment for a guaranteed monthly income for life. In this case, however, the investment necessary to provide the desired income is much lower than the cost of a traditional annuity, due to the fact that the annuitant suffers from a serious health condition.

**For an 86-year-old man who recently suffered a stroke, the difference in total cost to the family might look something like this:**

Specifically, if a medical condition reduces life expectancy, such as cancer, stroke, chronic heart disease or Alzheimer's, the individual qualifies for a lower up-front investment to provide the same lifetime income – or a higher lifetime income for the same initial investment as a “healthy” investor.



**The proceeds of a Nursing Care Income Plan** can be used specifically to fund nursing home fees, pay for homecare or other assistance, or simply to maximize the remaining retirement income

for people with serious health conditions. The money can be used for any purpose – there are no restrictions on how the income is spent.

Manulife's new product should be well received, given the comfort it can provide a family facing expensive long term care costs. Its appeal is in its practicality – an initial investment of \$25,000 or more buys a guaranteed monthly income for life.

**The immediate benefits are obvious:**

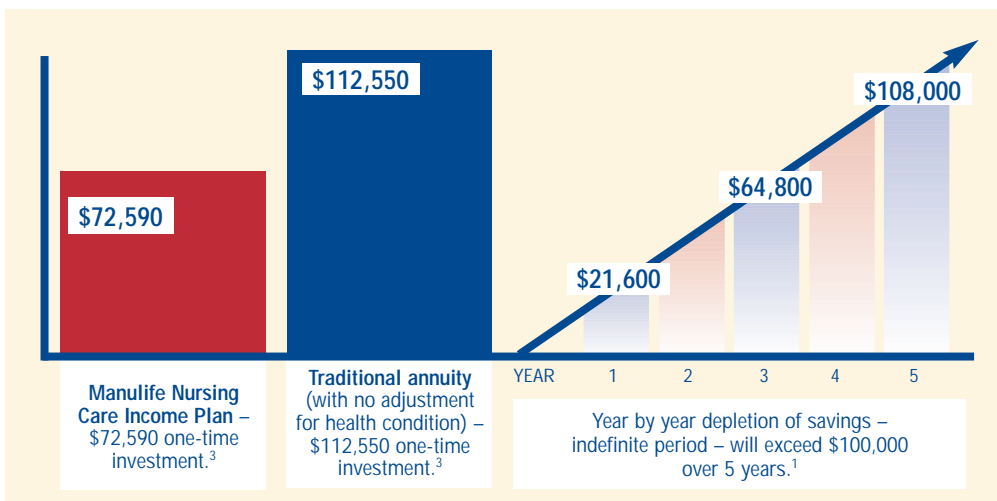
#### **1. EMOTIONAL RELIEF:**

The Nursing Care Income Plan helps cover the cost of long term care, relieving family members and their parents of the uncertainty of having to budget for costs that could carry on for an unknown period of time... potentially draining the savings accounts of both generations.

#### **2. FINANCIAL RELIEF:**

Since living costs can be covered for the rest of the elderly person's life, the balance of their assets are available for other purposes – to guarantee an inheritance or investigate other investment vehicles as part of their total financial planning picture.

**If your family is facing the need for long term care for an elderly family member, making sure they're financially prepared is a great place to start.**



<sup>1</sup> Federal Superannuates National Association (www.fsna.com) 2002. <sup>2</sup> Government of Alberta (www.gov.ab.ca) – Alberta Health and Wellness, 2001. <sup>3</sup> The up-front investment stated is based on an 86-year-old male who recently suffered a severe stroke and requires level 2 skilled nursing care. Upon death, payments cease and there is no cash value. Figures shown as of July 16, 2002 are for illustrative purposes only and are not guaranteed. Interest rates are subject to change and full medical underwriting is required upon application.