Your "Golden Years" should be exactly that – golden – and the last thing you want is to be disrupted by financial turbulence. There's a lot to think about when planning for retirement and one area that many Canadians overlook are the costs of health care. In fact, only 9% of Canadians have fully factored in health care costs into their retirement plan[1].

While all Canadian citizens have equal access to coverage for any necessary medical treatments under our healthcare system, there can be many unforeseen long-term costs. The cost of health care has been rising faster than inflation, a trend that is expected to continue. Canadians may also be surprised to learn that our two-tiered system for long-term care means seniors could face year-long wait times to enter publicly-funded facilities while nursing home care, the largest expense for those over the age of 85, is only covered for those with acute illnesses. Being unprepared for these expenses may leave you dipping into your retirement income.

At CIBC Wood Gundy, we can help you address these issues. This report will outline various options available to you and provide you with information on private insurance plans to help maximize your coverage. Having a well thought-out financial plan is the first step to achieving your perfect retirement.

HEALTH CARE COST CONSIDERATIONS IN RETIREMENT

With a strong pension system and a government that covers approximately 70 cents of every dollar spent on healthcare[2], Canada is considered to be one of the best places to spend your retirement years. However, providing such a high level of benefits has come at a cost to the provincial governments who are now dealing with large budget imbalances.

Going forward, provincial governments may have to face the increasing healthcare costs associated with our aging population. Seniors consume 44% of provincial healthcare dollars[3], a figure likely to grow as the senior population increases. Canada's "pay as you go" system, where taxes pay for the services in the same year, will likely result in a smaller tax base supporting the aging baby boomers, especially since they are predicted to live longer than previous generations.

To return to fiscal sustainability, provincial governments have been implementing policies to limit the growth of healthcare spending, most recently with the salary cap for doctors and nurses. Previous governments took cost-cutting to the next level by discontinuing the coverage of various medical treatments, as was the case in the 1990s.

If the provincial governments pursue this initial cost-cutting approach and fail to increase the healthcare system's capacity to serve our aging population, it could reduce the quality of Canada's healthcare coverage. Canadians are currently experiencing long wait times and may have to start to pay out of their pockets as well.

Drug Costs in Canada

After hospital expenses, drug costs are the second largest healthcare expense in Canada. Canadians spend the second most per capita on drugs in the world (spending increased at an annualized rate of 10.1% between 1998 and 2007)[4]. Though each province provides drug plans that cover a wide range of prescription medication, these plans are provincial and only cover the cost of drugs purchased in the same province. Having a private drug insurance plan is one way to obtain more comprehensive coverage.

Going forward, drug spending increases in Canada are predicted to slow to a rate of 4.8% per year[5]. One reason for this is that the patents of drugs that accounted for just over one third of spending in 2009 will expire between now and 2015, which will most likely result in cheaper generic drugs entering the market and helping push down prices.

Although individuals can expect to see decreases in the costs associated with common illnesses, solutions to more serious illnesses such as cancer and autoimmune disease, frequently have newer, more expensive treatment options. These alternative treatments are generally paid for from your own pocket and preparing for the possibility of this additional financial burden can allow you to keep the option available.

HEALTH AND WELL BEING FACILITIES AVAILABLE

Home and Community Support Services

Home and community support services provide care for those looking to remain at home, even when their ability to live independently deteriorates. Personal support workers provide services, such as meal preparation, dressing, grocery shopping, and transportation assistance as well as specialized care in the event of any unique health issues. These services are generally charged on an hourly rate and vary from provider to provider. Subsidies may be available though they are usually for seniors with more acute health problems.

Eldercare Day Facilities

Although family members offer an irreplaceable level of support for seniors who are unable to manage independently, it can be difficult for them to do so while managing careers and other family commitments. An adult day facility may be a viable option to give primary caregivers a rest or to allow them to maintain their day–to-day obligations. It can also provide the person requiring personal attention the additional benefit of social interaction with other seniors.

Eldercare day centres are best suited for individuals who are in poor health, cognitively impaired, or feel isolated in their current living circumstances. Seniors will participate in a variety of well structured group activities, receive care from professionals, and have meals provided for them. Depending on the service provider, the time spent at the centre is usually around six hours. The costs are generally between $20-30 per day, but those who are eligible for subsidies may see this further reduced (depending on your province). For a small fee, transportation services may also be provided. For those with more intensive health care needs, there are centres which offer additional support from health care experts, such as registered nurses.

Long-term Care

7 out of 10 Canadians would rather have an annual physical exam than spend an hour talking about their long-term care needs.

Source: http://www.sunlife.ca/canada

Long-term care (LTC) facilities are for individuals who need comprehensive, 24-hour nursing care. Understandably, most Canadians are reluctant to take the initiative and plan for the cost of LTC; however, by putting off the decision you may be shifting the responsibility to your loved ones in the event LTC care is required. Close to 43% of seniors above the age of 65 will require LTC support in their life[6]. Despite this, only 21% of Canadians are currently factoring LTC costs into their retirement planning and only 8% have a plan that includes insurance and risk management.[7]

Long-term care is classified as an extended healthcare service under the Canada Health Act. The role of publicly-funded LTC facilities is changing as provincial governments limit the expansion of these facilities by reducing the number of registered nurses, maintaining or decreasing the number of available beds, and tightening the qualifications for acceptance into a facility. Even if these policies were reversed, an individual's current wait time of one year will likely increase unless significant expansion of the LTC provision occurs.

This results in a greater number of seniors paying to enter for-profit, private or semi-private facilities which are significantly more expensive than public facilities. For example, in 2009 the average bed in a private-pay facility in British Columbia was $56,616 per year; however, some private LTC facilities can cost $7,000 or more a month. This number will likely only increase in the future.[8]

When planning for LTC, the first step is to determine the price range you are comfortable with, taking the current LTC facility costs into consideration and factoring in future possible costs of such facilities. Keep in mind that paying more for a facility doesn't always guarantee a higher level of service. For instance, an important indicator of quality service is the ratio of registered nurses to seniors. Another consideration is that the monthly fee you see may not cover the cost of everything; drugs, meals and transportation may be additional expenses, which can quickly eat up your finances.

Long-Term Care Insurance

Thanks to advances in medicine, conditions that were once mortal are no longer fatal. Though living with these conditions may be challenging, the addition of LTC insurance may relieve some of the burden. LTC insurance protects your retirement assets from depletion when paying for expensive care. By paying a premium over a predetermined number of years, you receive financial support when you are unable to perform two or more of the activities of daily living, which include bathing, dressing, feeding, toileting, transferring and continence.

There are several options when considering LTC insurance. You can purchase policies that pay benefits for a designated number of years or an unlimited lifetime benefit. It's important to first determine how much you are willing to pay for a LTC facility prior to selecting the benefit amount you think is appropriate for you.

To learn more about incorporating LTC insurance into your financial plan, talk to your CIBC Wood Gundy Investment Advisor. CIBC Wood Gundy Investment Advisors work alongside industry-leading professionals, such as CIBC Wood Gundy Estate Planning Specialists*, to address all your investment needs.

*Financial Security Advisor in Québec

1 in 20 Canadians over age 65 and 1 in 4 of those over age 85 are affected by Alzheimer's disease. The reality of Alzheimer's disease is such that, as the disease progresses, full-time care will be needed.

Source: http://www.alzheimer.ca/

Critical Illness Insurance

If you develop a serious, life-threatening illness, your financial stability could be in jeopardy. Critical Illness (CI) insurance is designed to provide you with financial support if you are diagnosed with an illness covered by your plan. Provided you meet the criteria in your policy, you may be eligible to receive compensation 30 days after surviving the onset of a critical illness or required surgery. Generally, once your claim has been paid to you, the critical illness insurance policy will cease and no future claims for subsequent critical illness can be made on the policy. The insurance carrier doesn't control how the CI benefit is used so payments can be spent in any way you wish. Unfortunately, a serious illness can strike at any time and having CI insurance can protect your financial resources. With CI insurance, you can remain focused on your recovery. It is important to read and understand contract details as the rules may vary from one CI insurance provider to another.

Stroke: There are 50,000 strokes in Canada each year, of which, 10% are so severely disabled they require long-term care.

Source: http://www.heartandstroke.com/site/c.ikIQLcMWJtE/b.3483991/k.34A8/Statistics.htm

Travel Insurance

Whether you want to escape Canada's drawn out winter or just want to see the world, traveling means you will be exiting Canada's healthcare system. As a result, medical costs associated with a sudden illness can become overwhelming if you are unprepared. Travel insurance is the preferred option for many seniors looking to gain peace of mind. Coverage amounts may vary from $1,000,000 up to $10,000,000.

MAXIMIZE YOUR RETIREMENT

Complete financial planning for your retirement includes preparing for the rising out-of-pocket health care expenses as well as any potential illnesses. Ensure your retirement years are spent your way by taking the time to educate yourself about the various coverage plans, including those from your province, pension, and insurance.

In addition, examine your own health risk level by reviewing factors like your personal medical history, your family's medical history as well as your eating and exercising habits. If you feel that you are at risk, talk to your CIBC Wood Gundy Investment Advisor about critical illness or long-term care insurance.

Also, consider developing healthy eating habits and exercising regularly. By living a healthier lifestyle, you reduce your risk of incurring health-related costs and can make the most out of your retirement years.

How We Can Help

We know it's not always possible to predict the road ahead, but your CIBC Wood Gundy Investment Advisor, along with a CIBC Wood Gundy Estate Planning Specialist*, can help you put the right strategies in place so that you can achieve your retirement goals.

Don't wait – contact your CIBC Wood Gundy Investment Advisor today to take control of your retirement health tomorrow.

*Financial Security Advisor in Québec.

[1] http://www.sunlife.ca/canada/v/index.jsp?vgnextoid=56da3cfc9dc18110VgnVCM1000002dd2d09fRCRD

[2] http://www.erudit.org/revue/ijcs/2010/v/n42/1002179ar.html?vue=integral

[3] http://cihi.ca/CIHI-ext-portal/internet/en/Document/spending+and+health+workforce/

[4] http://www.cihi.ca/CIHI-ext-portal/pdf/internet/DRUG_SPEND_DRIVERS_EN

[5] Canadian Institute for Health Information (CIHI) -Drug Expeniture in Canada, 1985 to 2010

[6] http://www.erudit.org/revue/ijcs/2010/v/n42/1002179ar.html?vue=integral

[7] http://cihi.ca/CIHI-ext-portal/internet/en/Document/spending+and+health+workforce/

[8] http://www.cihi.ca/CIHI-ext-portal/pdf/internet/DRUG_SPEND_DRIVERS_EN

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