As you approach the age of wisdom, who will catch you if you fall?

The BMO Wealth Institute provides insights and strategies around wealth planning and financial decisions to better prepare you for a confident financial future.

As the population of Canada ages, the demands placed on the health care system and the need for long-term care options continue to rise. The question of whether Canadians have adequately prepared for their future health and long-term care needs will be answered in the coming years as a wave of baby boomers retire.

There are a number of cultures around the world that associate aging with wisdom. The sharing of wisdom accumulated over a lifetime is at the heart of family life and underpins the strength of their communities. This respect for the elders who pass on their knowledge to future generations is found in countries like China and India, and among Aboriginal Canadians and ancient Romans.[1] In contrast, Western popular culture idolizes youth. Westerners spend billions of dollars every year on anti-aging products and services, trying to prevent themselves from appearing to age.[2] A youthful veneer is seen by many as a shield against the feared effects of aging.

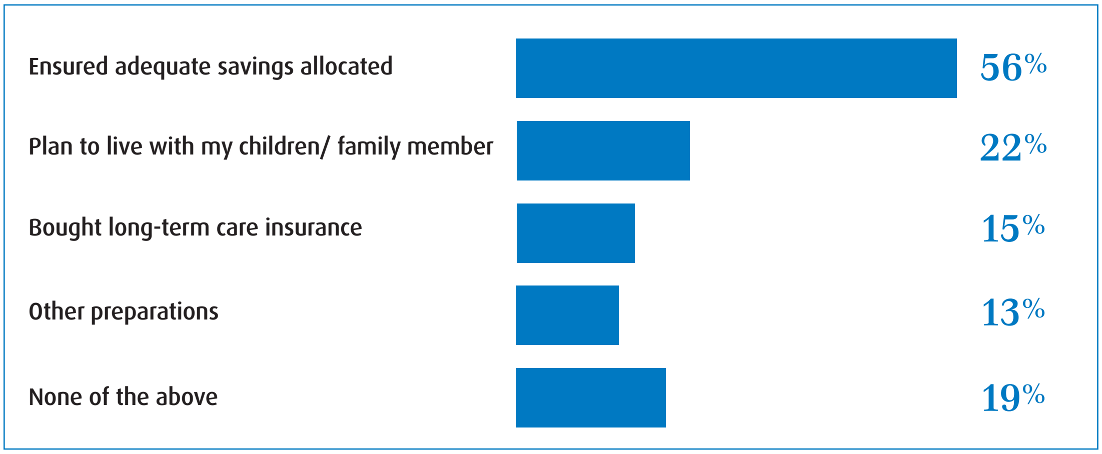
For Canadians, one of the greatest fears associated with aging is not being able to afford or have access to health care services and long-term support when these are required. We also worry about not having enough income or the ability to accumulate the assets needed to support our retirement goals. These concerns lead almost half of all Canadians aged 50 or over that have not yet retired to believe that in the future they will have a lower standard of living than they currently enjoy.[3]

This expectation of a lower standard of living in retirement is driven by a number of factors highlighted in a survey of Canadians aged 45 and older, conducted by the BMO Wealth Institute in June 2015. The survey asked Canadians to name their greatest health-care-related retirement concern and found that 40% of those asked most fear losing their ability to live independently, 17% of people worry about having enough money to pay for adequate health care, and 15% are worried about being able to afford to live in their own homes throughout their lifetimes.[4] Yet, according to the survey, 19% have not made any preparations for the possibility of becoming unable to live independently. The following table shows how those surveyed have prepared for this eventuality.

2 in 5 Canadians fear losing their ability to live independently in retirement.

Meanwhile almost 1 in 5 have not made preparations for the possibility of requiring long-term care.

How Canadians have prepared for long-term care needs.



Source: BMO Wealth Institute survey by ValidateIt Technologies Inc., June 2015

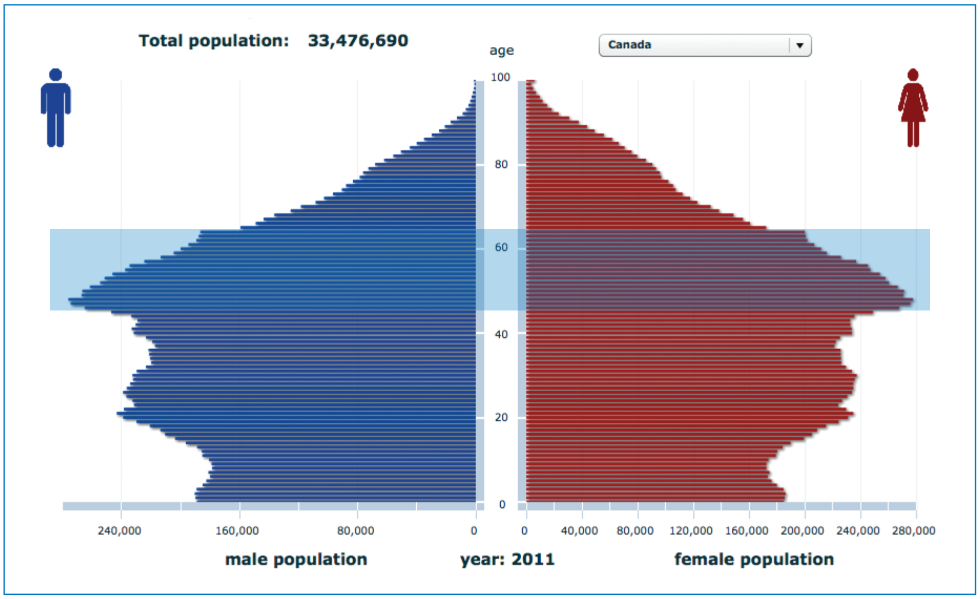
The ability of provincial governments to fund ever-increasing health care costs is also challenged, in part, by the fact that the first wave of baby boomers (Canadians born between 1946 and 1965) is reaching retirement age. Health care spending continues to increase at a rate in excess of inflation[5] and now accounts for approximately 40% of all provincial government expenditures.[6] In Canada about 45% of all health care expenditures are for people age 65 and over.[7] These financial pressures, driven by increasing demand, could make health care and long-term care services harder to obtain in the future.

45% of Canadian health care expenditure is for people age 65 and over.

The population is aging

Today, almost 15% of the Canadian population is aged 65 and over. The senior population as a proportion of the overall Canadian population will continue to grow – it will be another 15 years before the tail end of the baby boomer generation reaches 65.[8] The following Statistics Canada graphic (based on 2011 census data) shows that the aging of the baby boom generation (**highlighted**) will lead to a much larger senior population in the years to come.

Age pyramid for the population of Canada, 2011.



Source: Statistics Canada, censuses of population and Population Estimates Program, 1921 to 2011. Total population counts originate from the census for census years. Between census years, total population counts were extrapolated using the annual rates of population growth from the Population Estimates Program. For all years included between 1921 and 2011, the age structures are those of the Population Estimates Program.

As the population in Canada ages, the demands placed on the health care system and the need for affordable long-term care options will increase. All of this is happening at a time when government budgets are already stretched, and personal resources are needed more than ever to meet retirement goals.

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Caring for our parents

Not only are we aging, but many of us are also members of the sandwich generation. This term is used to describe people who are facing the demands of caring for their aging parents while still raising their own children.[9] More information about this difficult situation and strategies for dealing with its challenges can be found in the BMO Wealth Institute feature Sandwich Generation. There is no better example of life events coming full circle than the experience of the sandwich generation. Just as our parents once cared for us, we may one day end up providing long-term care for them, reversing the roles in a similar fashion to those cultures mentioned earlier.

Long-term care can be defined as services to assist with the activities of daily living.[10] As Canadians, we are generally unprepared for the costs of long-term care, and most of us don't even know what the potential costs could be. Consider the story of Mr. Leung. At the age of 72, he has developed dementia and requires continuous supervision and assistance to take his medications, to eat and to dress. While members of his family can care for him mornings, evenings and on weekends, further assistance is required during weekdays. The following table shows that the cost of providing supervision and ensuring his safety in the home environment can be significant – in this example costing about $35,000 per year.

Long-term care can be defined as services to assist with the activities of daily living.

Services required for home care	Hours per week	Services covered by government subsidy	Services paid for by client	Hourly cost	Yearly cost
Companionship/ supervision	24	0	24	$23.50	$29,328
Adult day program	2		2	$20.00	$2,080.00
Safety supervision	2	2	0	$0.00	$0.00
Laundry/ housekeeping	3	0	3	$23.85	$3,720.60
TOTAL					**$35,128.60**

Source: senioropolis.com

The cost of providing a parent with long-term care outside of the home environment could be substantial. It is not uncommon for long-term care facilities to charge thousands of dollars per month.[11] The following table provides details of potential costs for in-home/ community-based care, retirement homes/residences, and nursing homes.

The cost of care in Canada*

Province	In-home/community-based care			Retirement homes/ residences		Nursing homes	
	Non-medical care	Skilled nursing	Day program	Minimum	Maximum	Minimum	Maximum
	$ Per hour	$ Per hour	$ Daily rate	$ Yearly cost		$ Yearly cost	
Alberta	25–30	38–75	8	12,000	65,000	18,100	22,100
British Columbia	15–17	35–97.50	8–10	13,000	70,000	11,650	37,100
Manitoba	18.50–28	43–75	8	15,000	42,000	12,400	28,900
New Brunswick	12–20.50	30–71	10–35	9,600	54,000	N/A	41,250
Newfoundland	17–22	35–70	5–30	20,100	50,000		33,600
Northwest Territories	Subsidized	Subsidized	10	N/A	N/A	N/A	9,150
Nova Scotia	12–26	34–80	5–25	23,000	72,000	22,500	38,000
Nunavut	Subsidized	Subsidized	Subsidized	N/A	N/A	Subsidized	Subsidized
Ontario	13–32	30–100	6–90	14,000	132,000	20,800	29,300
Prince Edward Island	17.25–23.50	30–50	6	7,200	63,000	N/A	28,300
Quebec	3–27.50	16–66	6–8	6,000	42,000	13,100	21,100
Saskatchewan	18–34	42–65	8.5	16,600	60,000	12,600	23,900
Yukon	Subsidized	Subsidized	5	N/A	N/A	6,480	12,800

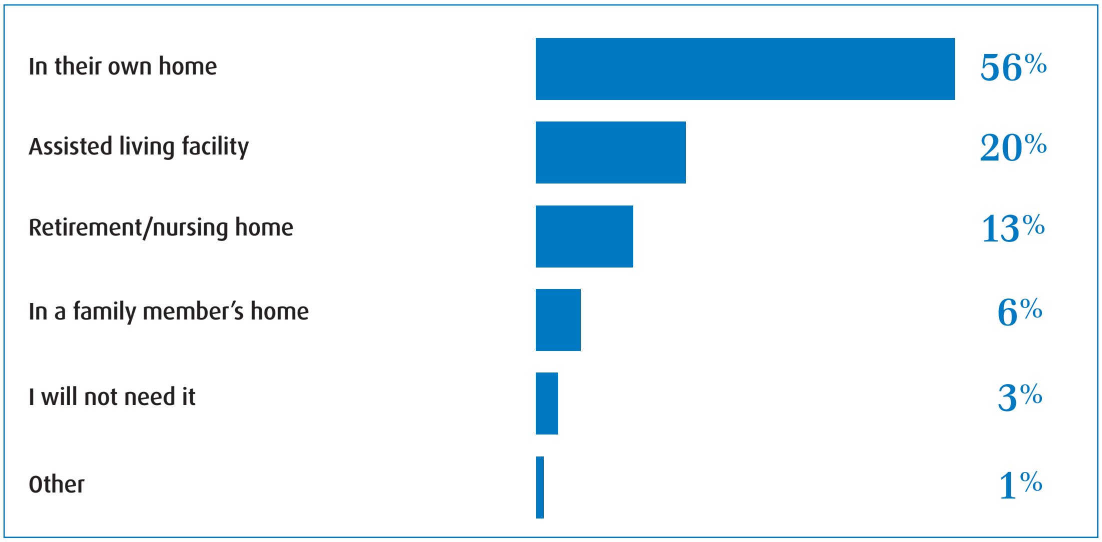
Source: senioropolis.com

* There is no Canada-wide standardization of costs with respect to retirement or nursing homes. Each province uses slightly different terminology and may not include the same things in their pricing. These numbers are indicative only and should not be used for planning or budgeting.

Most people view long-term care facilities as a last resort, for the time when staying at home is no longer possible. The survey indicated that a majority (56%) of people would prefer to receive care in their own homes. In most cases, this will result in family members or close friends taking on caregiver responsibilities. In 2012, more than one quarter of all Canadians provided care to a family member or friend who had a long-term care condition, disability, or needs associated with aging.[12] While the costs of home care are less than those for long-term care facilities, caregivers often have out-of-pocket costs, added stress, and less time for other activities like working and spending time with their family.[12] The following table shows where Canadians would prefer to receive long-term care, if and when they need it.

56% of Canadians would prefer to receive care in their own homes.

Where Canadians would prefer to receive long-term care.



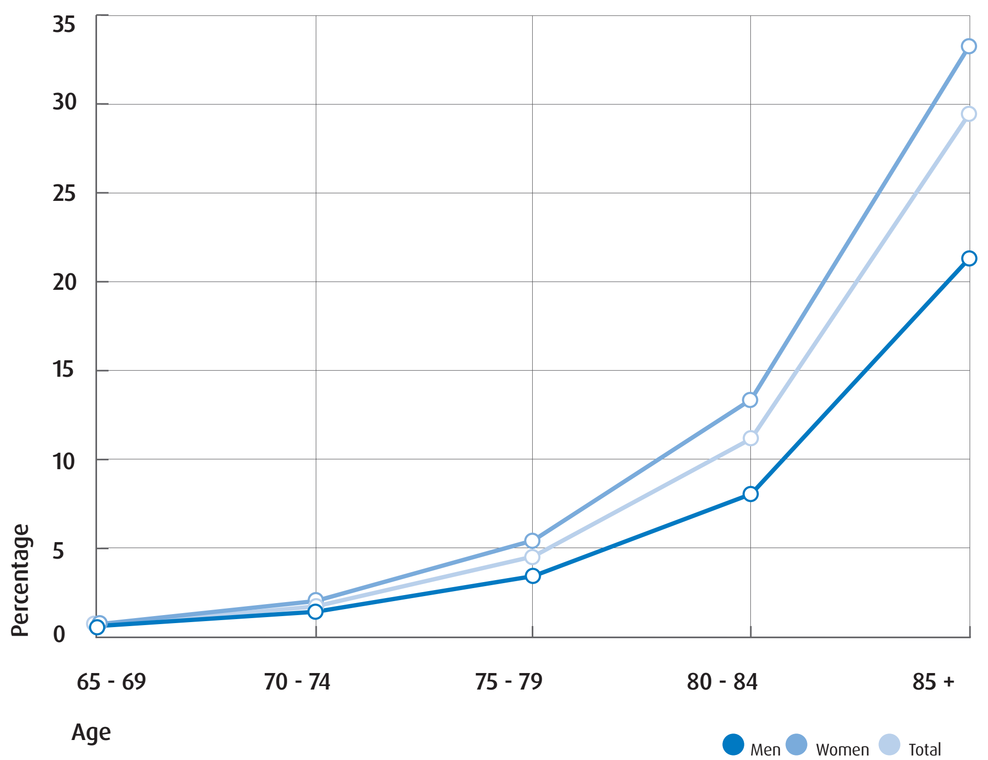
Source: BMO Wealth Institute survey by ValidateIt Technologies Inc., June 2015

Who uses long-term care?

The majority of older Canadians live in their own homes or with family members. The 2011 Canadian census indicated that 92% of Canadians aged 65 and over were living in private homes. The percentage of Canadians living in nursing homes, long-term care facilities and seniors residences does however increase with age. Only 1% of Canadians aged 65–69 were living in these facilities, but this rose to 30% for seniors aged 85 and over.[13] The following graph highlights the fact that there are many more women than men living in care facilities.

30% of seniors age 85 and over live in nursing/ retirement homes or long-term care facilities.

Percentage of the Canadian population aged 65 and over living in special care facilities* by age group, 2011.



Source: Statistics Canada, Census of Population, 2011.

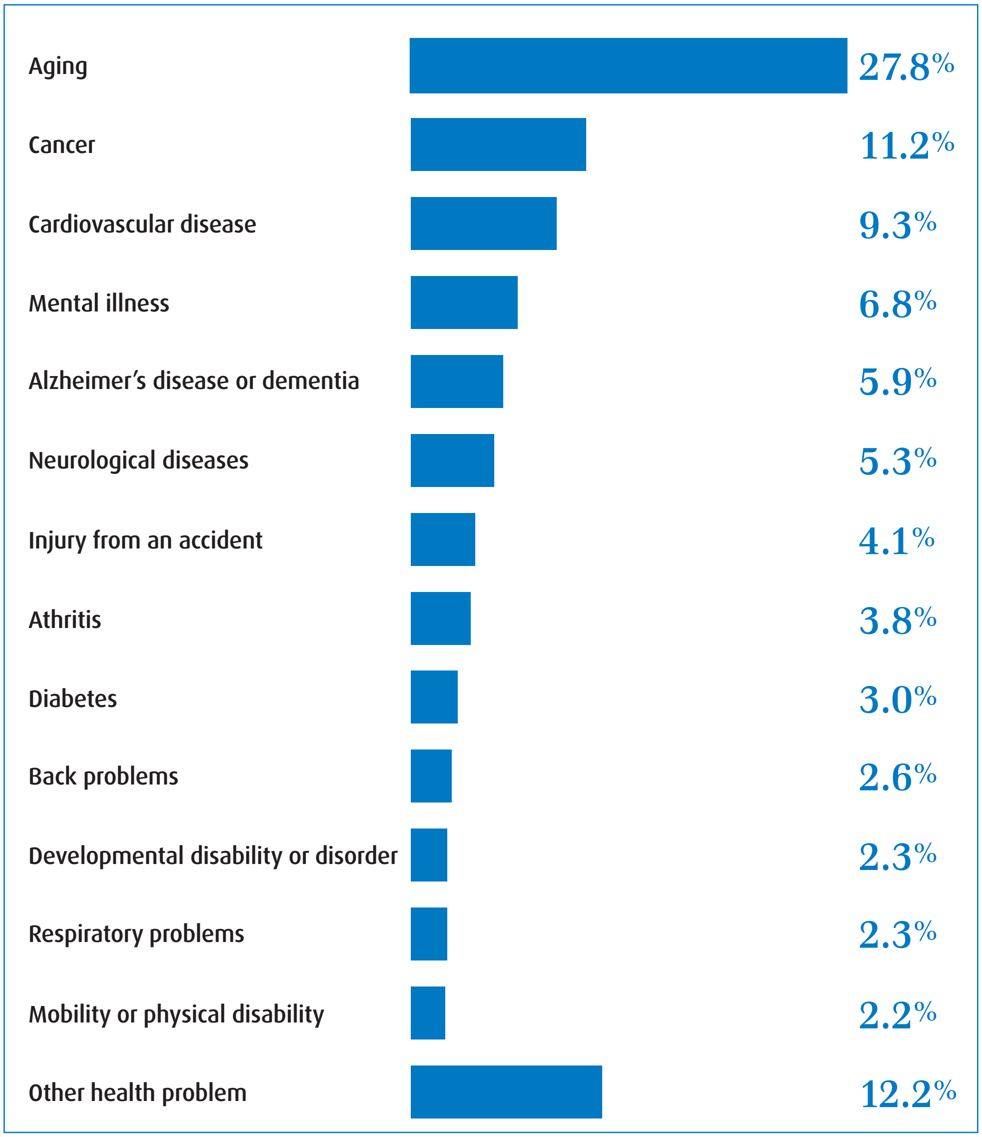
* Nursing homes, chronic care or long-term care hospitals and residences for senior citizens.

Despite evidence to the contrary, when asked, 73% of Canadians were uncertain if they would ever need long-term care, stating that the need would depend on their future health and other factors. Assuming they did indeed require long-term care, 81% of survey respondents expected it would start sometime between the ages of 75 and 94. This is significantly higher than the findings of the 2011 Canadian census, which indicated that less than half of all seniors in their nineties were living in retirement or nursing homes.[14]

Almost 3 in 4 Canadians are unsure whether or not they will ever need long-term care because it will depend on a number of factors.

Alzheimer's disease or dementia were thought to be the most likely reasons for needing long-term care by many survey respondents (61%). However, this condition only accounts for a small proportion of those who require care (only 6%) when compared with issues caused by aging.[12] The following table from Statistics Canada provides details of the most frequent reasons for needing a caregiver.

Most common conditions requiring help from caregivers.



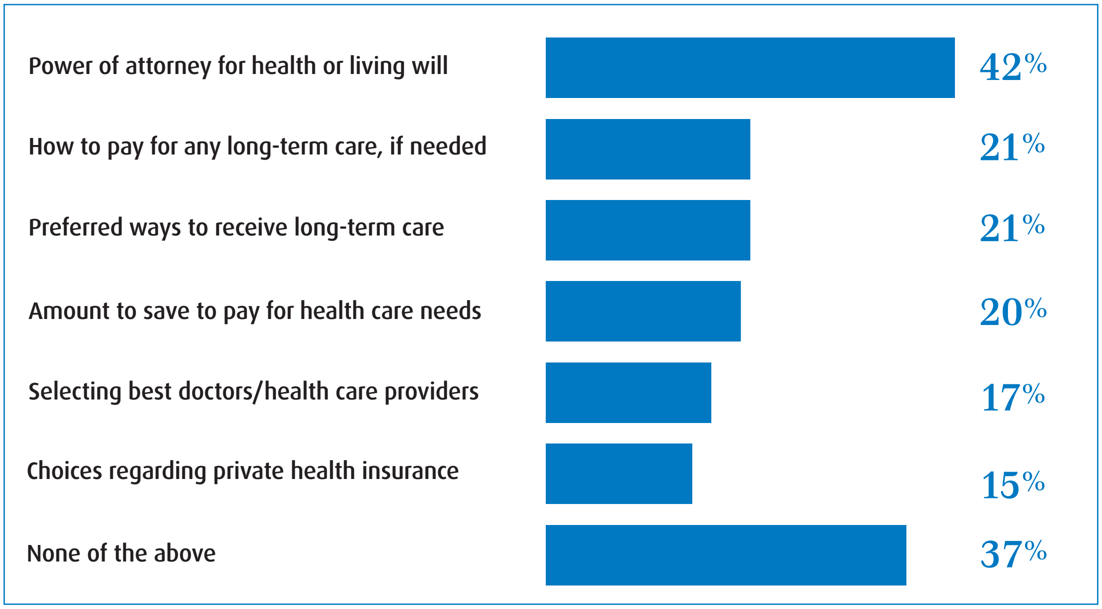
Source: Statistics Canada, General Social Survey, 2012

Given the high probability that most of us will either be caregivers or need long-term care at some time, it is important to make sure that essential conversations[15] about personal care issues take place with loved ones. When asked, many of those surveyed had not had any discussions with their spouse or other loved ones about long-term care. The following table shows that there are many reasons to have meaningful discussions about this and other future life issues.

"With the likelihood of requiring long-term care or being a caregiver, it is important to make sure that essential conversations take place with loved ones, so that wishes can be conveyed and understood as it relates to personal care needs."

Dr. Amy D'Aprix
BMO Financial Group
Life Transition Expert

Percentage of respondents who have discussed future life Issues with partner, spouse, adult child, or relative.



Source: BMO Wealth Institute survey by ValidateIt Technologies Inc., June 2015

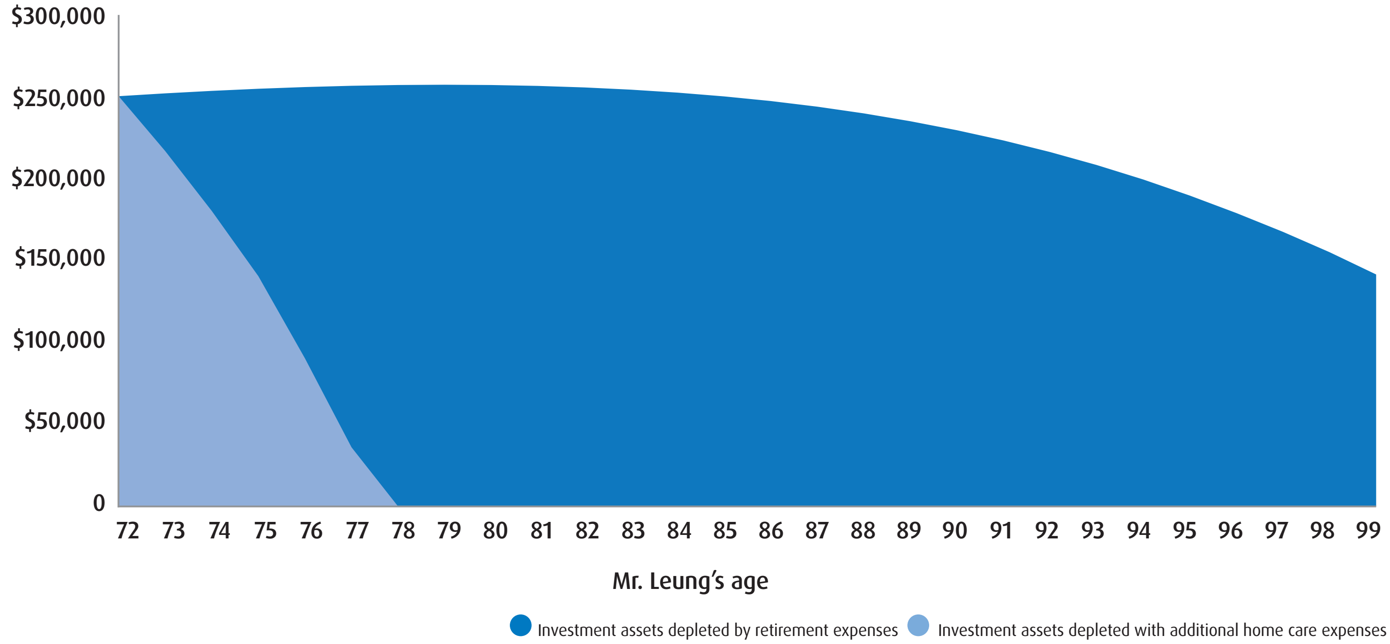
Funding future long-term care costs

There are two main ways to plan for the financial costs that could be associated with long-term care: ensuring that sufficient savings are in place to cover potential costs, and considering a long-term care insurance policy.[16] A third option – reliance on services provided by government – is generally limited to people that are unable to otherwise fully pay for services.[17]

Are adequate savings in place?

Continuing with our previous example, prior to the onset of his dementia, Mr. Leung had put aside savings for his retirement needs in a Registered Retirement Savings Plan ($150,000) and an investment savings account ($100,000). He had expected his accumulated savings to last for the rest of his life, but unfortunately the high cost of daily home care will deplete these savings in only six years.

Projection of investment assets depleted by retirement and home care expenses.



Source: BMO Wealth Institute. Assumptions: Accumulated savings in registered and non-registered accounts; 3% inflation rate; 5% rate of return; $23,000 indexed withdrawal per year. Additional withdrawal of $35,000 per year for Mr. Leung's home care services as illustrated in the table on page 5.

The above example highlights the potential financial impact that long-term care costs can have on a family's financial situation. Long-term care insurance can help to fund the costs of care, reducing the potential hardship that a family could face.

Should you consider long-term care insurance?

Surprisingly, long-term care insurance is not a very popular form of insurance. In fact, a 2013 study published by LIMRA found that long-term care insurance was owned by only 8% of those surveyed,[18] and that usually these policies are part of corporate employee benefit programs. This percentage is very low, considering that Statistics Canada has estimated the likelihood of requiring long-term care to be 30% by age 65 and 50% by age 75.[19]

In an effort to deal with the relatively low demand for long-term care insurance, a number of insurance companies are evolving the type of coverage provided. These changes make it easier to find a policy providing the level of coverage required at a cost that fits within your financial plan. One popular option is to include long-term care coverage as a rider to life insurance or critical illness insurance policies. Other changes involve providing greater coverage for home-based care costs.

The probability of requiring long-term care rises with age, from **30%** by age 65 to **50%** by age 75

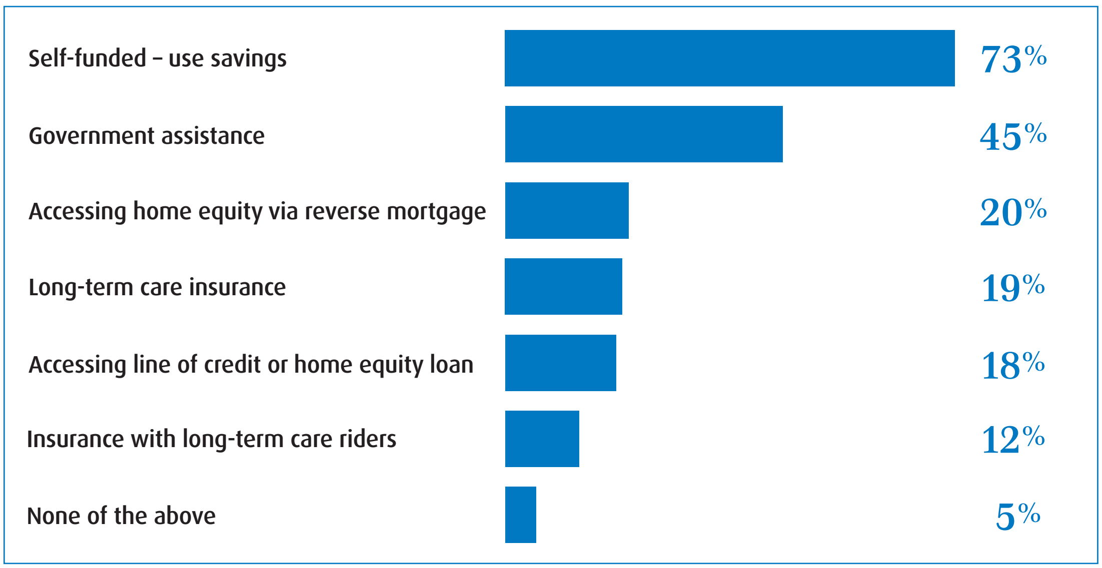
Steven Covey, a best-selling author and leadership authority, famously noted, I am not a product of my circumstances. I am a product of my decisions.[20] When it comes to your long-term care, making proactive decisions prior to any possible need can leave you in control of your financial situation, rather than depending on circumstances and having to worry about ongoing costs.

Building your financial plan

The potential costs of long-term care can be built into a financial plan to see if these costs can be sustained, given the available financial resources. Funding for long-term care could come from savings in non-registered or registered investment accounts, short-term use of a line of credit, or from a reverse mortgage. When asked, survey respondents proposed the following resources as primary funding options for future long-term care needs.

73% of Canadians plan to fund their long-term care needs with their savings.

Primary funding options for future long-term care needs.



Source: BMO Wealth Institute survey by ValidateIt Technologies Inc., June 2015

There are several important reasons for building the potential for long-term care costs into your financial plan, including:

- **Avoiding** being a burden to family members and friends
- **Protecting** your family finances
- **Providing** liquidity, especially for business owners that may have a significant portion of their assets tied up in their businesses
- **Funding** a higher level of care
- **Accounting** for the possibility of changing family situations
- **Obtaining** greater peace of mind

Financial plans should include considerations for long-term care costs.

The survey asked Canadians to identify their primary reasons for purchasing long-term care insurance and found that 54% of those asked didn't want to be a burden on their family, 43% wanted to ensure high quality of care, and 37% wanted to maintain control over decisions about long-term care.

If it is determined that long-term care insurance is an appropriate option for reducing the risk of failing to meet overall financial planning goals. Putting a policy in place early will help to reduce overall premium costs.

Take advantage of tax-saving opportunities

Some of the expenses associated with long-term care can be offset by tax credits. These potential tax-saving opportunities include:

Medical expenses qualifying medical expenses for eligible dependents provide a tax credit that helps to reduce overall taxes. Eligible dependents include not only immediate family members, but also parents, grandparents, and other relatives that are Canadian residents.

Attendant care costs the cost to hire a person to provide care, either within your own home or in an outside care facility.

Disability Tax Credit a significant tax credit that is available to reduce taxes when there is a severe or prolonged impairment.

Family Caregiver Amount an additional tax credit for those providing care for a family member with impairments in physical or mental functions.

As there is a wide range of tax-saving opportunities available, it is advisable to work with a qualified tax professional to ensure that all tax savings appropriate to your circumstances can be obtained.

Moving forward with financial security and peace of mind

It is important to discuss your situation with your financial professional, who will be able to work with you and other professionals to develop a personalized financial plan. By working together with your BMO financial professional it will be possible to move toward greater financial security and peace of mind by planning for the possibility of long-term care costs in the future.

Footnotes

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