Rethinking Disability – Planning for Financial Well-Being

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

Contact the BMO Wealth Institute at wealth.planning@bmo.com
A disability can affect a family in so many ways: physically, emotionally and financially. Dealing with these pressures can put added stress on the financial well-being of an individual, their family and their caregivers. With the incidence of disability rising as our population ages, disability should be a concern and a shared responsibility for all.

This morning as you drove in to work you probably experienced some of the dangers caused by distracted drivers around you – talking on cell phones, texting, following too closely or otherwise not following safe driving practices.

Based on 2010 Canadian motor vehicle statistics from Transport Canada, about 48 out of every 100,000 licensed drivers face the reality of a serious injury every year. Although this number has fallen significantly over the last twenty years, serious injuries on Canadian roads are still having a dramatic effect not only on the individuals concerned and their families, but also on our society as a whole. The Rick Hansen Institute estimates the financial care costs over a lifetime for an individual with a spinal cord injury range from $1.6 to $3 million. These costs can have a devastating effect on a family.

Defining Disability

There are many definitions for the word “disability”, from restrictive definitions to determine access to certain services or government provided entitlements, to broad definitions that are more reflective of the impact that disability has on Canadian society. For a recent survey conducted by Pollara on behalf of the BMO Wealth Institute, disability was broadly defined as visible or non-visible health or aging issues which interfere with daily living activities (such as working, running errands, and household chores). Examples include:

- Needing a cane to assist walking
- Needing a wheelchair
- Memory loss
- Chronic pain

Incidence of Disability Rises with Age

Statistics Canada reports that the incidence of disability increases as the population ages. Using a more restrictive definition of disability, 42.5% of the Canadian population over the age of 75 considered themselves to be disabled. The incidence is likely to increase over time as the life expectancy at birth of the average Canadian has continued to increase for many years. Between 1979 and 2009 the life expectancy at birth has increased from 74.9 years to 81.1 years, according to Statistics Canada. During this period, the gap in life expectancy between women and men has decreased to only 4.5 years, with women expected to live for 83.3 years and men for 78.8 years.
The chart above shows how the prevalence of disability increases as the Canadian population ages. The most frequently cited contributing causes of disability as the population ages are loss of hearing, mobility, and memory.

**Wider Effects of Disability**

**Family Impacts:**
- Reduced earning potential
- High costs of care
- Burdens of care on family members

**Caregiver Impacts:**
- Physical and mental health conditions
- Less opportunity to earn income
- Reduced contributions to savings
- Disruption to personal and family life
- Out-of-pocket expenses

**Employer & Government Impacts:**
- Absenteeism
- Lost productivity
- Reduced tax revenues

**The Financial Impact of Disability**

Whether caused by accident or illness, disability can be financially catastrophic for a family. Between the age of 45 and 64, Statistics Canada notes that 17.3% of males and 19.3% of females will become disabled before the age of 65.

Planning for the possibility of disability should be an important consideration in any financial plan; however, few Canadians are financially prepared. By the end of 2011, only about 4% of Canadians had critical illness insurance, and only 40% had any disability income insurance coverage.

To obtain a copy of the BMO Wealth Institute Report: “The biggest life events that can derail your financial plan”, click here: www.bmo.com/wealthinstitute

As of 2011 only 4% of Canadians had critical illness insurance. Only 40% had any disability income insurance coverage.
Overturned Retirement Plans

As an example of the financial impact of disability, consider a couple whose financial plan is significantly impacted by a suddenly occurring disability that stops the husband from working at the age of 55. This would be a full 10 years before the couple’s planned retirement. The combination of reduced income and increased spending to deal with the disability can overturn a financial plan that had been on track to last until at least the age of 90 to one where all of the couple’s savings would be exhausted by the age of 77.

By comparison, if the couple had sufficient disability insurance coverage – through an employer plan or purchased personally – the financial damage could have been avoided. The cost of a disability insurance policy that would provide a monthly benefit of $3,000 would only be about $135 per month, or about $1,500 per year. The added security of an “own occupation” benefit rider would cost just an additional $55 per month.

Adapting to Change

When an individual becomes disabled, everything in their life changes, not just for themselves, but for their families as well. The BMO Wealth Institute survey shows that individuals with disabilities may need assistance with the most basic tasks, from caregivers, family members, or supportive friends.

Of the caregivers surveyed, 51% said the care that they provide is for a parent, with support for a spouse or other relative with a disability being the second most frequently cited at 30%. The most frequently reported types of care provided were the management of health care issues and home support.
Employer Responsibilities

Employers have an important social responsibility that includes making their workplaces accessible to workers with disabilities. The BMO Wealth Institute survey noted that 58% of respondents expect private business to do more to support the hiring of people with disabilities. This is very important as the gap in average annual hours worked is significant when comparing an individual with a disability to an individual that does not have any disabilities. Some of this gap results from a reduced ability to work due to the disability, but a significant factor is the length of time the individual is affected by the disability. The longer an individual is disabled, the more pronounced is the impact on their ability to work and on the income they earn.

Health care issues:
- Transportation to appointments
- Assistance in purchasing and managing medications
- Assistance in learning about and accessing available support services

Home support:
- Cooking
- Shopping
- Cleaning
- Running errands
- Helping with finances
Respondents noted that employers should be more supportive of employees requiring time, resources, or flexible work arrangements to help with the care of loved ones. The cost of disability in Canada is huge. Absenteeism, for example, cost the Canadian economy 2.4% of the gross Canadian payroll, or over $16.6 billion dollars, in 2011 and 2012. The report by the Conference Board of Canada notes several of the same concerns articulated by individuals and their caregivers in the BMO Wealth Institute report, including the need for better support for health related leaves of absence. Improved disability prevention and health promotion are also important recommendations in the report.

Dealing with the High Cost of Disability

The high cost of disability can be a burden for many families. Fortunately there are a large number of programs, services and other opportunities available to help. BMO Wealth Institute’s survey notes the most important categories of support that respondents would like to see improved concern their financial situation. The survey found that 59% of individuals with disabilities and 39% of caregivers expressed a need for improved tax benefits. The following graphic shows what those surveyed felt would most improve their overall lifestyle.

“Real inclusion can help improve and add real value to organizations and ultimately the world.”

Private Business Offerings

In looking for assistance, individuals with disabilities and their caregivers look not only to their governments, but also to the businesses with which they interact on a regular basis.

The survey noted that the most important thing that all businesses can do to better accommodate individuals with disabilities is to make their services and product offerings easier to access. This includes making their premises easier to access through the use of ramps, powered doors, removal of physical obstacles that make visiting more challenging, and by offering better access to other consumer friendly interactive devices. Consumer friendly packaging and instructions that are easier to use by everyone were also specifically noted as being important.

Government Service Offerings

The federal and provincial governments in Canada have a wide variety of programs in place to help individuals with disabilities with both their financial and service needs. The following table shows that Canadians feel very strongly that their governments should lead in a wide range of important categories: accessibility, education, employment, disability rights and income support.

Income support is provided in many ways by the government. These are some of the federal programs available to individuals with disabilities:

Canada Pension Plan (CPP) Disability Benefits:
The CPP pays a monthly taxable disability benefit to individuals who have made CPP contributions and meet CPP’s criteria of disability and cannot...
work at any job on a regular basis. A comparable disability benefits program is provided through the Quebec Pension Plan (QPP) for residents of the province of Quebec.

**Forgiveness under the Canada Student Loans Program:**
if an individual has a permanent disability and is experiencing hardship repaying their student loans due to their disability.

**Support through the Opportunities Fund:**
provides funding to organizations that help individuals with disabilities prepare for, obtain and maintain employment or self-employment.

**Canada Disability Benefit:**
for families who care for a child under 18 with a severe and prolonged impairment in mental or physical functions.

**Veteran’s benefits:**
a number of special allowances and programs specifically designed for veterans who have become disabled are available through Veterans Affairs Canada.

**Entrepreneurs with Disabilities Program:**
provides assistance to entrepreneurs with disabilities who live in western Canada to start up or expand small or medium-sized businesses.

**Tax Relief:**
Canada Revenue Agency (CRA) offers tax relief through the Disability Tax Credit, the Family Caregiver Amount, the Medical Expense Tax Credit, GST/HST concessions for goods and services used by individuals with disabilities, and the duty-free import of certain goods designed for use by individuals with disabilities.

Provincial governments also have programs to support disabled individuals, including specialized programs related to health care concerns.

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**Percentage of Respondents**

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<th>Accessible technology and equipment</th>
<th>Accessible communication with government offices and programs</th>
<th>Accessible transportation options</th>
<th>Group that assist in social participation</th>
<th>Employment opportunities</th>
<th>Provide education opportunities</th>
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Source: BMO Wealth Institute survey by Pollara, March 2014.
Financial Tools

Both individuals with disabilities and their caregivers need to manage their financial well-being. When asked what tools would assist with this, survey respondents provided a wide range of answers.

Caregivers need to incorporate financial planning and many of these financial tools for two reasons:

• To help improve their own financial situation, and to help offset the extra financial costs associated with being a caregiver.

• To have plans in place to ensure care continues should they become unable to continue providing care.

These tools, together with a well constructed financial plan, provide the greatest financial benefit for both individuals with disabilities and their caregivers.

Registered Disability Savings Plans (RDSP)

Registered Disability Savings Plans (RDSP) are tax-deferred savings plans introduced to improve the financial security of a person eligible for the disability tax credit (DTC). The definition of disability for the DTC is much more restrictive than that used in the survey, so the percentage of people surveyed who use this plan is only 5%.

What makes the RDSP especially beneficial is the contributions from the Canadian government in the form of the Canada Disability Savings Grant and the Canada Disability Savings Bond. Depending on family income, up to $4,500 is available on an annual basis to match the contributions made by the beneficiary or their family. It is worth noting that a Canada Disability Savings Bond of up to $1,000 can be received each year without requiring an annual contribution to the RDSP.
Wills and Powers of Attorney

Having a Will and effective powers of attorney are a very important part of a person’s financial plan and are the foundation of an effective estate plan. The proportion of individuals with disabilities who said they had a Will and powers of attorney in place was 40% and 32% respectively. These figures are relatively low overall, and lower than a previous survey which noted that on average just over half of all respondents had a Will.

Personal and financial protection
A Will is important because a severe disability or death can happen at any age. A Will can help to ensure that financial and personal assets are passed to the most appropriate people. Similarly, having a power of attorney in place will provide the authority for a trusted individual to act, should it become necessary, with respect to both property and personal care needs.

The right time to make decisions
Having Wills and powers of attorney in place is of significant importance when planning for possible incapacity which is highlighted in a July 2011 report titled “Financial decision-making: Who will manage your money when you can’t?” from the BMO Wealth Institute. The report highlights that once incapacity hits, a person may not be able to make any decisions related to his or her financial situation, such as preparing powers of attorney, drafting a new Will, adding a codicil to an existing Will or revoking an existing Will, or changing the beneficiary of an RRSP/RRIF or an insurance policy.

Insurance
Life insurance was cited by 35% of the individuals with disabilities surveyed as a financial tool that they have used to improve their financial well-being. This is higher than the 15% of caregivers who noted that life insurance is in place to assist with the financial care of the disabled individual that they support.

Planning is key
This level of life insurance shows that some financial planning has occurred, but it is an indication that many people have not considered this opportunity to protect themselves and their dependents in this way.

Putting insurance coverage such as disability insurance and critical illness insurance in place is a proactive planning step that will help to ease financial concerns in the event that changes in health make it necessary. This not only applies to individuals who become disabled, but also to the caregivers they depend on.

To learn more about Wills and Powers of Attorney, click here: www.bmo.com/estate

To obtain a copy of the BMO Wealth Institute Report “Financial decision-making: Who will manage your money when you can’t?” click here: www.bmo.com/wealthinstitute

Considering insurance coverage is part of proactive planning. To learn more click here: www.bmo.com/insurance
Designation as Beneficiary of an RRSP

Designating a beneficiary of an RRSP is an important financial planning tool to help minimize both income taxes and probate taxes. Income taxes can be deferred if an RRSP is transferred upon death to a surviving spouse, or in certain circumstances to a child with disability or related minor who is financially dependent on the parent or grandparent. An additional transfer option upon death is to transfer funds from an RRSP, RRIF or pension plan directly to an RDSP, subject to the RDSP contribution limit. Probate can also be avoided through the use of a beneficiary election, which not only saves taxes, but has the potential to speed up the transition of the RRSP funds to the new beneficial owner.

Conclusion

We believe proactive planning and professional advice go hand in hand. By working with a BMO financial professional who understands the importance of planning for individuals with disabilities, their caregivers, and their families, Canadians can develop a thoughtful financial plan and enjoy greater peace of mind.
Footnotes


2  BMO Wealth Institute survey conducted online by Pollara between February 26, 2014 and March 3rd, 2014 with a sample size of 820 Canadians. Overall results for a probability sample of this size would be accurate to +/- 3.4% 19 times out of 20.


6  Canadian Life and Health Insurance Association.


10 BMO Wealth Institute survey conducted online by Pollara with a random survey sample of 1,513 Canadians between May 23-27, 2013. This survey uses a sub-sample that contains 874 Canadians with at least one parent age 60 or over, and 127 Canadians with at least one child age 40 or over.


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