Sun Critical Illness Insurance

Imagine the impact

Protect your savings from the impact of a serious illness

Meet Anthony

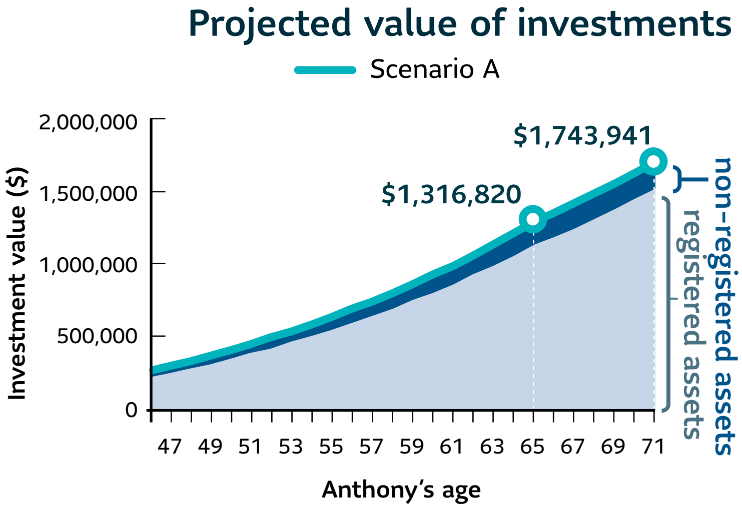
- Anthony, age 45, owns a small business as a sole proprietor.
- He has $200,000 in his registered retirement savings plan (RRSP) and $40,000 in a non-registered savings account. His goal is to save over $1.5 million by age 71. He'll use this money to cover basic living expenses, fund his desired lifestyle and help his children.
- Anthony's current plan is to make annual contributions of $18,000 to his RRSP and $3,000 to his savings account for 20 years until he retires at age 65.[1]

[1] Anthony's earned income is $100,000 for the purpose of RRSP contribution rules, and his tax rate is assumed to be 35%. This tax rate is for illustrative purposes only. The actual rate will vary depending on the province.

Scenario A

The graph below shows the combined projected value of Anthony's registered and non-registered savings assuming a 5% pre-tax growth rate. With his current plan, he'll have over $1.3 million at age 65.

If he waits until age 71 to convert his RRSP to a registered retirement income fund, he'll have over $1.7 million.



The impact

A close friend of Anthony's recently experienced a serious health event. Anthony witnessed the emotional and financial impact on his friend's family and business.

Anthony's been thinking about how a serious illness could affect him. Focusing on recovery would be his priority, but he also wants to understand the potential effect on his assets, retirement plans and ability to contribute to his children's futures. He meets with his advisor to discuss his concerns:

Will his business perform at the same level without his complete attention?

Will his income be sufficient to continue making personal mortgage and other debt payments while paying for basic living expenses?

How will he manage additional expenses related to his recovery?

Anthony and his advisor estimate how much money he may need if he is unable to actively manage his business for a year while he recovers. His advisor estimates healthcare and other expenses as a percentage of income. This helps factor in Anthony's expectations for his lifestyle and the level of care he'll receive during recovery.

Time off work – Anthony will need to pay someone to perform his role at work for the year.	$100,000
Healthcare expenses – He may have out-of-pocket expenses for treatment and support at home. How much depends on a number of factors like his condition, treatment options, provincial health coverage, and any personal health or group insurance coverage he may have. It's difficult to determine an exact amount for any illness. His advisor reviews his current health coverage and expectations and suggests 25% of Anthony's income as a starting estimate for healthcare expenses.	$25,000*
Other expenses – He may have additional expenses if he needs to travel to receive treatment. He may want to cover the expenses of friends and family who help him out during his care and recovery. His advisor suggests they start with an estimated amount of 15% of Anthony's income.	$15,000*
Estimated total expenses at age 45	**$140,000**

To reduce the impact of a serious illness on his financial plans, Anthony and his advisor decide he should plan for at least $140,000 to cover expenses during recovery. If his recovery takes longer, or he has more out-of-pocket expenses, his total recovery expenses could be higher.

Anthony also needs to consider inflation for the costs he expects to incur. Over the past 10 years, healthcare inflation has been averaging 4%.[2] Anthony expects his business to grow and realizes the cost to hire a replacement will also increase. He'll need to plan for his estimated $140,000 in recovery expenses to increase each year. For example, if an illness occurs at age 64, Anthony's original estimated expenses could rise to $250,000.[3]

[2] Source: Sun Life Home Care Surveys, 2004-2014.
[3] A blended Inflation rate of 3.3% for healthcare and other expenses and 3% estimated salary growth were used to calculate expenses at age 64.

The conversation

Anthony and his advisor discuss some of the consequences of taking money from his savings to help pay for costs related to his recovery:

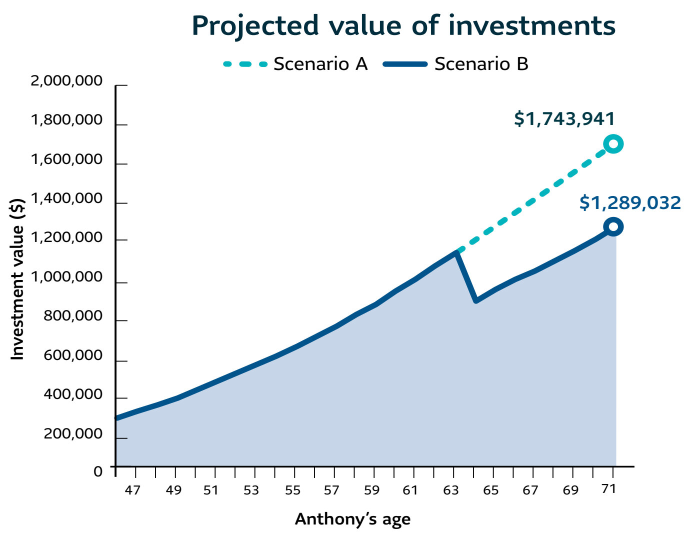
- Tax – Any money Anthony withdraws from his RRSP will be taxable. Withholding tax will be applied based on the amount withdrawn. He may also be required to pay additional tax when he completes his tax return.
- Reduced investment growth – The money Anthony withdraws from his savings will no longer be available to earn investment returns; this will slow his investment growth. Fluctuating market conditions may further reduce investment growth when:
  - withdrawing funds during a market decline and realizing losses, or
  - missing opportunities during periods of market recovery.
- Permanent loss of contribution room – While Anthony can continue making his maximum annual RRSP contribution, he won't be allowed to re-contribute amounts he withdraws from his RRSP. This reduces the potential value of his RRSP when he retires.

Anthony's investments are especially vulnerable during the years immediately before or after retirement. If he suffers a serious health condition right before retirement, he will have less time to make up for the reduction in his savings. If he becomes ill soon after retirement, a withdrawal will impact his future retirement income.

Scenario B

The adjacent graph shows the projected value of Anthony's savings at age 71 if he experiences a serious health condition at age 64. The projection uses the assumed expenses Anthony and his advisor estimated earlier at $140,000 increased by inflation to approximately $250,000 over 19 years.

Assuming a 5% pre-tax growth rate, Anthony will have almost $1.3 million at age 71. This is over $450,000 less than the projected value of his original plan and significantly less than the amount Anthony and his advisor estimate he will need to meet his retirement goals.



The solution

Anthony's advisor recommends critical illness insurance to help protect Anthony's financial plan, his family and his business from the impact of a serious illness. By redirecting a portion of the funds he planned to save, he can purchase critical illness insurance to provide this protection.

Anthony purchases a Sun Critical Illness Insurance policy. He chooses a T75 with return of premium on cancellation (or expiry) and a benefit amount of $250,000. Anthony's planned deposits to his RRSP and non-registered savings will be reduced by the annual insurance premium of $6,608.

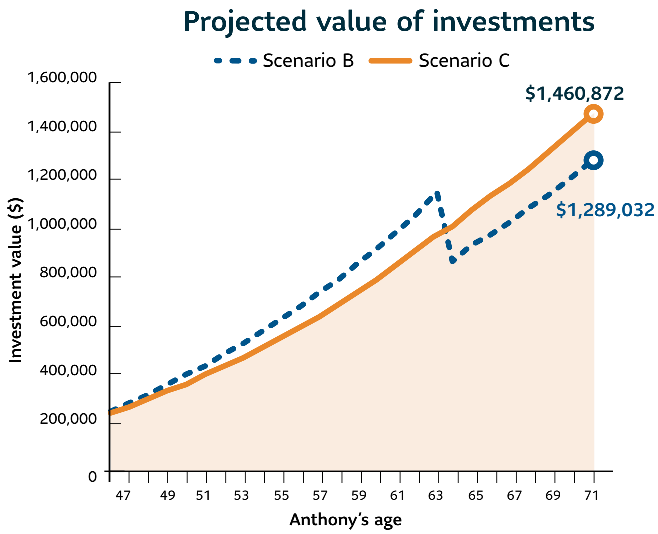
If Anthony is diagnosed with a condition covered by his critical illness insurance plan and meets the requirements described in the policy, he'll receive a lump sum payment of $250,000 that he can use to help with his recovery. He can use these tax-free funds any way he chooses. If he doesn't need all the money for his expenses, he can put the unused portion back into his savings.

If Anthony stays healthy, does not make a claim and cancels his policy, the eligible premiums paid will be returned to him.

Scenario C

If Anthony suffers from a covered condition at age 64 he'll receive the lump sum benefit of $250,000. Having these tax-free funds reduces the likelihood he'll need to withdraw these funds from his savings.

At age 71, Anthony nears his retirement goal with $1,460,872.[4] This is over $170,000 more than if he'd suffered from a serious illness without critical illness insurance.



Scenario D

If Anthony doesn't suffer a serious illness and cancels his policy at age 71, he'll receive the returnable premium amount bringing his assets to over $1.6 million.[5, 6]

He will have successfully protected his assets during these important years of accumulation while still achieving his retirement savings goal of over $1.5 million.

[4] Assuming a 5% pre-tax growth rate and illness-related expenses don't exceed $250,000.

[5] Assuming a 5% pre-tax growth rate

[6] In this scenario Anthony has made all his premium payments and no policy changes, so the return of premium amount will be equal to all premiums paid.

The result

Without critical illness insurance, Anthony's retirement plans may be at risk. With Sun Critical Illness Insurance, he may not need to withdraw funds from his investment portfolio and jeopardize his future plans.

- Anthony has addressed his concerns about how a significant health event could affect him, his family and his business.
- By using a portion of his planned deposits to purchase Sun Critical Illness Insurance, Anthony has addressed a potential health risk that could affect his retirement goals.

The Sun Life interpretation of the *Income Tax Act*: the Sun Critical Illness Insurance benefit will be tax-free because we believe our product conforms to the requirements governing sickness or accident insurance policies in all provinces. The return of premium benefit will be tax-free if the amount does not exceed the premiums the recipient paid and the premiums were not deductible expenses. Our interpretation is based on information provided by the Canada Revenue Agency, which may change.

Questions? We're here to help.

Contact your Sun Life representative for more information.

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