Protecting Baby Boomers from Increasing Risk

Words from recently departed rock icon, and 'baby boomer,' David Bowie, heed an important reminder to those contemplating the later stages of life – "As you get older, the questions come down to about two or three. How long? And what do I do with the time I've got left?"

The relevance of this wisdom can't be overemphasized as baby boomers, individuals born between 1946 and 1964, begin to realize that, in fact, "time may not be on their side" and they start entering the stage of life where the risks of critical illness, incapacity and death increase.

Implementing a proactive approach to protecting your wealth, health and property requires some diligence and planning, but the good news is that your BMO Nesbitt Burns Investment Advisor can help. As a start, consider the following three areas:

1. **Develop your estate plan:** Have you planned for the management of your health and your property, in the event of loss of cognitive capacity or death?
2. **Safeguard your health:** Have you considered what may happen if you became critically ill and what insurance products are available to protect against that risk?
3. **Communicate your intentions:** Have you conveyed your intentions to your family members and other loved ones regarding the details of your estate plan?

While by no means an exhaustive checklist, these areas are meant to provide an important step forward in making sure that, as a boomer, you're in a strong position to handle any unforeseen health detriments that come your way.

Develop your estate plan

An estate plan is of critical importance to ensure that your family and financial affairs are taken care of, according to your wishes. In the most general terms, an estate plan is a set of written documents regarding how your assets should be owned, managed and preserved while you're alive, and how you want them dispersed after your death. Consider the following essential aspects, to get the ball rolling on your estate plan:

- **Preparing a Will** – At a minimum, your estate plan should include an up-to-date Will that reflects your wishes and names an appropriate executor(s),[1] a Continuing or Enduring Power of Attorney for Property in the event of mental or physical incapacity, and a Power of Attorney for Personal Care (or Living Will) to address medical, home care and end of life decisions.
- **Designating beneficiaries** – Designation of beneficiaries (and contingent beneficiaries) on various registered plans and life insurance policies are an integral part of your overall estate plan. These designations incorporate probate planning (particularly important in BC, Ontario and Nova Scotia) and equalization of gifting to members of your family.
- **Transferring property** – Consider completing transactions that transfer property to the next generation directly or indirectly, through gifts, loans or estate freezes involving holding companies and trusts. If implemented with the proper family law protections in the mix, you will have peace of mind that the transfer of property is completed in an orderly and tax efficient manner during your lifetime.

  Preparing for what might happen to the beloved family cottage in the event of death is also critical. If the transfer of ownership is challenged, or, if there is insufficient liquidity in the estate to pay the capital gains tax, it could result in internal disputes and a failure to maintain ownership within the family, if the cottage has to be sold in order to pay the capital gains tax and legal fees.

- **Covering expenses** – In developing your estate plan, ensure that you have sufficient liquidity at the time of your death to cover all cash gifts and residuary gifts under your Will, income and probate taxes (including U.S. estate tax, depending on your circumstances) and other estate debts.

  The financial impact of your funeral can pose a significant financial burden in addition to emotional stress for loved ones. By pre-planning your funeral details ahead of time you can alleviate the stress on family members. You can also consider buying funeral insurance, which covers the costs of burial and service and can be purchased at any age with a value between $2,500 to $20,000.

- **Review your plan** – Finally, be aware that your estate plan should be reviewed whenever there is a change to your personal or family situation, such as a birth, death, incapacity, retirement, marriage, divorce, change in residency, significant increase or decrease in wealth or sale of a business.

Safeguard your health

To safeguard from the potentially devastating impact a critical illness can have on you, your family and your finances, critical illness insurance and long-term care insurance can offer help – beyond that covered by government and employer health plans.

Critical Illness Insurance

With advances in medical science, boomers are surviving illnesses that probably would have resulted in death in the past. While people are surviving, their finances may not. A critical illness such as cancer, heart attack or stroke can have a devastating impact. You may be unable to work and medical bills not covered by government and company health plans can mount up quickly. There may also be unexpected expenses you incur throughout your illness and recovery that traditional health plans don't cover.

Once diagnosed with a qualified life threatening illness, your critical illness insurance policy pays (typically about 30 days after the initial diagnosis and assuming you survive) a tax-free cash benefit which is equal to the amount of insurance you purchased. You can use the benefit to take a sabbatical and recuperate, pay off your mortgage, make renovations to your home to accommodate any special needs, inject money into your business to keep it going while you're recovering or even pursue private medical treatment outside Canada. How you use the money is entirely up to you.

Long-term Care Insurance

Long-term care insurance, which can also be used to complement critical illness coverage, is designed to help people maintain their independence by providing the financial resources needed to control how and where they choose to live. While critical illness insurance helps to alleviate financial worries during recovery, long-term care insurance provides the financial support to live life on your terms.

Long-term care insurance provides a daily tax-free benefit to cover the costs of a nursing home or professional in-home care. To receive benefits, a person must be unable to perform two or more Activities of Daily Living (ADLs). Common ADLs are bathing, eating, dressing, toileting or transferring. An example of transferring would be rising from a chair unassisted.

It's worth exploring how these important types of insurance may benefit you and your family. For more information, contact your BMO Nesbitt Burns Investment Advisor who will refer you to an Estate and Insurance Advisor from BMO Nesbitt Burns Financial Services Inc.[2] These specialists can help evaluate all aspects of your insurance portfolio and recommend solutions to mitigate unintended financial consequences your future generation of inheritors may face.

Communicate your intentions – Essential starting points

Protecting all that you've worked for and ensuring that it's passed on according to your wishes comes down to communicating your intentions to those who are affected, so that there are no surprises. It is not possible to consider all the situations and decisions that you and your family may face. But by sharing the thoughts, wishes and goals to be achieved by your estate plan, it is possible to give your family, heirs, and beneficiaries an understanding of the intentions on which your estate plan is based. Consider the following key points to get the conversation started among loved ones regarding the wishes behind your plan:

- Giving authority to your spouse, adult children, close friend or relative to become your substitute decision maker regarding medical treatment, general health and physical care, and, with respect to the management of all your property and finances, is critical;
- Discuss with your family members your wishes and intentions regarding the succession of special assets such as jewellery and art;
- Ensure that your loved ones know where your estate planning documents are located, and that they are accessible to them;
- Ensure that everyone involved is aware of the rationale underlying your chosen strategies and your particular succession plan;
- Ensure that your intention regarding the tax liability associated with designated registered plans is clearly expressed; in particular, should the estate pay the tax or should the beneficiary receiving the designated funds outside the estate pay the tax?;
- Ensure that appropriate provisions have been made for loved ones financially dependent on you; and,
- Discuss your charitable intentions and philanthropic endeavours with those who will be in charge of your financial affairs once you are no longer capable.

Seek professional advice

While your Attorney under a Power of Attorney for Property is authorized to manage all of your financial affairs and property worldwide during your lifetime in a manner that is aligned with your best interests, the Attorney does not have authority to act on your estate plan as it relates to the ultimate distribution of your property to your loved ones. That is, the overall succession plan must be dictated by you, and any transactions and execution of documents pertaining to the plan must be completed by you, while you are capable.

While the "Stairway to Heaven" may seem a long way off, for many boomers it's important to get started. For more information please contact your BMO Nesbitt Burns Investment Advisor, who can recommend the appropriate course of action and related professionals available throughout the BMO Financial Group.

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(1) In Quebec, an executor is referred to as a liquidator and a Power of Attorney is referred to as a mandate.

(2) In Quebec - Financial Security Advisor

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