

# Health-care costs need to be top of mind during retirement planning

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Financial advisors should prepare to have very personal conversations with their clients around the costs of aging and the impact it will have on their finances and families if they don't plan appropriately.

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Planning financially for retirement requires taking many uncertainties into consideration. One of the greatest is the cost of health care.

Although some health-care costs are covered in Canada, there are many – ranging from medications and massages to nursing homes or at-home care – that need to be paid out of pocket.

“It’s the most difficult part of financial planning, because there’s no way to know what [someone’s] health-care needs are going to be in the future,” says Rona Birenbaum, certified financial planner and founder of Toronto-based fee-for-service financial-planning firm Caring for Clients.

Health care is the biggest expenditure for people aged 65 and older, according to a [2018 Healthcare of Ontario Pension Plan study](#). That report cites a Canadian Life and Health Insurance Association Inc. (CLHIA) survey from 2016, which found that almost three-quarters of Canadians have made no provision for long-term care (LTC) costs in their retirement planning.

It’s also becoming less common for employers to have a benefit plan in place for retirees, according to a CLHIA spokesperson. Retirees can buy individual extended health-care plans as well as LTC or critical illness (CI) insurance, but experts note the costs go up considerably the older we get.

Thus, Canadians should set money aside for health-care expenses in their retirement planning. How much is where many turn to financial advisors for help.

Advisors should prepare to have very personal conversations with clients about the costs of aging, Ms. Birenbaum says.

“A client’s perspective is often influenced by their experiences with parents or grandparents who have been ill,” she says. “Some clients are hypernervous and conservative about making sure they have enough money to deal with future health-care needs while others prefer to take a laissez-faire approach and say, ‘I’ll take my chances. We have a good medical system, so everything will be fine.’”

Ms. Birenbaum recommends advisors aim for clients to take a more balanced approach on the matter.

“For the person who doesn’t want to think about this, you don’t want to fear monger. On the other hand, there’s value in being conservative and planning for possible future expenses, but not if it’s constraining your life if it’s a low-probability event,” she says.

She recommends sticking to the facts and realities of both aging and the rising costs of health care.

“Our job isn’t to tell them what’s right or wrong, but to help inform them on what they need to do to be either in a fully funded position, if that’s what gives them peace of mind, or if they want to spend more during their years and take their chances, at least we’ve shown them what their budget will be for services at that time,” Ms. Birenbaum says.

Advisors can start by helping their clients take stock of what health-care costs they expect to pay for – either partially or fully – when they’re no longer working, such as prescription eyeglasses, dental care or physiotherapy, says Kathryn Del Greco, vice-president and investment advisor with Del Greco Wealth Management at TD Wealth Private Investment Advice in Toronto.

“You need to be able to put a number to that so there’s no sticker shock upon retirement,” she says

There’s also CI and LTC insurance, which can help cover some health-care costs, but they’re not for everyone.

“These are wonderful assets to have, but there’s a cost,” Ms. Del Greco says. “The younger you are, the more cost-effective it is to be buying these policies, so you want to take a look at them. However, the flip side is that, at that particular age, it might not necessarily be a priority.”

For example, people in their 40s are likely to be more focused on paying off their mortgage, saving for a child’s education or maximizing their tax-free savings account or registered retirement savings plan.

But advisors should discuss with clients if and how they plan to cover health-care costs – particularly if they were to become seriously ill and need regular or around-the-clock care. Most people want a financial cushion to avoid being a burden on their family.

“If you’re not prepared for it, a lot of that financial burden will fall on your children and the next generation to take care of you,” Ms. Del Greco says. “Having that financial cushion to be able to afford these additional expenses is important unless you’re planning on leaning on your children.”

But the first step is having that discussion, Ms. Del Greco says. “Most people don’t think about it. They think more about their retirement as being, ‘What are my hobbies? What does my lifestyle look like?’ ... I don’t think there’s enough discussion, quite frankly, around, ‘Do I have a cushion in place for funding my health-care needs in retirement?’”

Budgeting for health-care costs in retirement is prudent. Still, those costs might also be offset by a drop in expenses in other areas, says Jamie Golombek, managing director of tax and estate planning at Canadian Imperial Bank of Commerce.

For example, costs for fuel, transit and clothing often go down when a person stops going to a job each day. Many retirees also have their mortgages paid off and are no longer supporting their children. Some retirees also stop travelling in their 80s and 90s, which means more savings later in life.

“In many cases, [covering health-care expenses] won’t be a big deal because there will be a lot of expenses you don’t have,” Mr. Golombek says. “There are all kinds of exceptions but, for the most part, people have the cash flow.”

Many Canadians also have their home equity to fall back on, especially if they're moving out of their house and into a LTC facility. He recommends advisors work with clients to determine what type of health care they want in retirement and to budget for it accordingly.

For example, retirement and LTC homes can range in price from about \$2,500 to \$10,000 a month, or more, depending on the location and services.

“Look at the options and decide where you'd like to live out those later years,” Mr. Golombek says. “You want to get a sense of how [you're] going to be able to pay for it. That's where you look at your financial plan, how much you have and how it's invested. Ultimately, it comes down to... do you want to leave any money at the end of the day or do you want to spend it to have the best quality of life you can, using all of your resources?”