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Life is unpredictable, so have a backup plan

Insurance is a basic concept, but not a simple one

John Lennon sang, "Life is what happens to you while you're busy making other plans." The lyrics are analogous to financial plans. Investors position their portfolios to protect against volatility but often fail to protect against unexpected life events that might take away their ability to earn a living. Some rationalize, "I'm healthy, so I'm not worried." A personal experience best demonstrates why good health may only be apparent.

My father considered himself "fit as a fiddle" until, during a medical exam, he had a treadmill stress test. After analyzing the results the Cardiologist was blunt: "I believe you are headed for the kind of heart attack that if you had it right now, and keep in mind we're in a hospital, the chances of saving you are nil." A few days later my father underwent a quintuple bypass. This story had a happy ending but far too many don't.

A quarter of Canadians are destined for heart problems with half under 65. Statistics show that the chances of becoming disabled are 9 to 11 times greater than being in a serious automobile accident, and the odds are rising of contracting one of many debilitating diseases. A study commissioned by the Alzheimer Society of Canada revealed that the incidence of dementia is expected to double by 2038, affecting more than 1.13 million people.

Consider how your life would be affected if you became disabled, contracted a critical illness, or required long-term care. It is a risk assessment that begins with asking yourself: "If my ability to make a living suddenly stopped, where would I get the money to support my family until my retirement age?"

You might tap into existing savings or liquidate assets but that is a very short-term solution. If you saved 5% of your income for 10 years, you would run out of money after only six months of total disability. What goes next? The kids' university fund?

Financial needs could easily extend beyond simple income replacement. You might have medical expenses not covered in current plans, or require expensive modifications to your car or home to accommodate a disability.

If you haven't provided adequately for both income replacement and accommodation of unforeseen costs, a psychological burden will exacerbate the financial pressure. You will be a witness to the toll on your family as their quality of life deteriorates.

And what will you do when you reach retirement age? The current average cost for a private room in an Ontario retirement home for functionally dependent residents can run upwards of \$7,750 per month, or \$93,000 per year. Government subsidies are not available to retirement home residents, so the funding would have to come from your reserves.

The simplest way of safeguarding your financial future is to incorporate adequate and appropriate insurance coverage into your planning. It is a risk management tool that is invaluable to ensure your long-term financial stability.

On the surface, insurance appears to be a basic concept - replacing your income if accident or illness prevents you from maintaining your standard of living. But is it really that simple? Is the disability protection needed

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by a professional athlete the same as that required by an electrician? Is the critical illness or long-term care protection needed by either of them adequate for a business owner?

Determining your insurance needs is further complicated by the fact that it is entirely unpredictable if or when you might need it. When you add that unpredictability to the fact that your financial plans and your way of earning a living are not the same as everyone else, it becomes very clear that a plan must be tailored to you.

You will have many questions that require clear and informed answers. It is advisable to discuss your specific needs with an insurance professional.

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