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PROVINCIAL HEALTH INSURANCE IN WESTERN CANADA

Provincial governments, facing fiscal challenges, are implementing major changes to healthcare services that will impact all of us, regardless of stage of life. Public healthcare benefits generally include prescription drug plans, limited paramedical services, limited emergency out-of-country coverage, and various other medically necessary treatment by physicians and in-hospital care and services. (See accompanying chart that summarizes current provincial healthcare coverage and upcoming changes for the four Western Provinces.) These benefits have been and will continue to be reviewed and revised in anticipation of a shift in demographics.

All Provinces have increased funding for home care, which is a lower-cost model compared to in-hospital or long-term facility care. For seniors, particularly, the cost of medical benefits is an important factor in retirement income budgeting, and long-term care insurance might be worth considering — talk to your Nakamun Advisor about the costs and benefits.

CHANGES

At present, BC's MSP PharmaCare Plan is the most comprehensive public drug plan of the four provinces. While most other Provinces provide drug coverage to seniors and low-income residents, BC's plan provides means-tested drug coverage — including premiums, deductible, and reimbursement — to all residents, regardless of age. Premiums for BC residents will increase four percent on January 1, 2014.

Alberta recently proposed a universal drug plan, similar to BC's, to be introduced effective January 1, 2014. The details have yet to be released, however the objective is to offer better coverage for low-income Albertans. Those who can afford to pay more will, and that includes higher-income seniors whose out-of-pocket payments are presently capped at $25 per prescription. The additional cost of access for all will be offset by less coverage for those with means. Mandated lower generic drug pricing that became effective May 1, 2013, is now contributing to funding of Alberta's PharmaCare. Since May 1, generic drugs listed on the Alberta Drug Benefit List were dropped from 35 percent to 18 percent of the cost of the brand drug.

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NEED FOR ADDITIONAL PRIVATE OUT-OF-COUNTRY COVERAGE

As noted in the summary chart, public health plans include some emergency out-of-country coverage, but the coverage is limited. Supplemental private out-of-country coverage is highly recommended.

MAINTAINING PROVINCIAL HEALTH COVERAGE FOR SNOWBIRDS

If US legislation is amended as proposed, Canadians age 55 and older will be permitted to stay in the country without a visa for up to 240 days per year — close to eight months. The current limit is 182 days, or approximately six months. While this is a welcome improvement for snowbirds, who will be able to miss the snow entirely, maintaining provincial health care coverage will become a consideration.

Unknown is whether the Provinces will relax their requirements for maintaining coverage, and if so, how the additional cost to the respective plans will be funded. Keep in mind that provincial coverage includes emergency out-of-country coverage that coordinates with private coverage. A potential increase of 30 percent in out-of-country claims will impact plan costs. Alternatively, if provincial coverage is lost after six months out of province, the cost of private coverage for stays longer than six months will inevitably increase significantly.

COORDINATION

As with most health plans, the public coverage that exists has maximums and limitations to contain costs. Private plans to supplement the limitations of public coverage may be warranted to reduce catastrophic risk and balance cash flow.

THE FUTURE

In the future, we can expect continued quality care for medical necessities, but there will be a general trend towards shifting costs from public to private health insurance.

	BC	AB	SK	MB
ELIGIBILITY REQUIREMENTS				
Eligibility for Provincial Plan Coverage	Resident of province for 6 months, and have filed tax return	Immediate, if arriving from another country and staying longer than 6 months; otherwise after 3 months	Upon establishing residence in the province, within 3 months of arrival to Canada	First day of the third month after arrival in the province. Non-Canadians with Work Permits may be eligible immediately
Residency Requirement in Province to Maintain Coverage	Physically present in BC for at least 6 months in a calendar year; if leaving BC for more than 6 months for vacation or work, coverage can be extended for up to 24 months	Normally reside in AB for 183 days in a 12-month period; if leaving for more than 6 months, may apply for an extension	Physically present in SK for at least 6 months each year; if leaving for up to 1 year for business or employment, coverage can be maintained for this period; extensions are not to exceed 24 months	Physically present in MB for at least 6 months in a calendar year; if leaving for temporary employment, coverage can be extended for up to 24 months
Premium	Income based; on Jan 1/14, 4% Increase	Only for NonGroup Drug Plan Members	None	None
BENEFITS				
Physician	Medically necessary Physician and diagnostic testing; midwifery	Medically necessary Physician and diagnostic testing	Medically necessary Physician and diagnostic testing	Medically necessary Physician and diagnostic testing
Hospital – Stay & Prescriptions	Basic hospital and in-hospital drugs	Basic hospital and in-hospital drugs	Basic hospital and in-hospital drugs	Basic hospital and in-hospital drugs
Out-of-Country Emergency	Same expenses as covered by MSP to a maximum of the equivalent cost in BC	Doctors' bills up to cost of equivalent service in Alberta; hospital in-patient fees $100/day	Emergency hospital & psychiatric fees to equivalent cost of service in SK	Emergency physician & hospital fees to the equivalent cost in MB
Drugs	PharmaCare – means-tested drug coverage for residents of all ages	Current – Seniors Drug Plan, Low Income, Non-Group; Jan 1/14 – all ages, means-tested Plan	SK Health Drug Plans – for children, Seniors, low-income residents	Pharmacare – high deductible means-tested drug Plan, all ages
SUPPLEMENTARY BENEFITS				
	Eye exam for children under 19 and adults 65 and older	Eye exam per year for and children and adults 65 and older	Eye exam every two years for children	Eye exam every two years for children and adults 65 and older
	Various paramedical practitioners in unique, limited circumstances	Limited physiotherapy; limited podiatry to $250 annual maximum	Limited hearing aid services; podiatry, chiropody – partial coverage	Limited eyeglass, hearing aid coverage for Seniors; 12 chiropractic visits per year
	Cataract surgery – restrictions apply	Cataract surgery		
		Necessary nursing services	Home care, special care homes – costs vary	Personal care home accommodation
	Ambulance – emergency and inter-facility transfers – fees apply	Medically necessary inter-facility ambulance transfers	Ambulance for seniors – maximum fee of $275	Medically necessary inter-facility ambulance transfers

By R.A. (Bob) Challis, CFP, RHU, TEP,
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INSURED ASSET TRANSFERS —

Options in Cascading Wealth to Future Generations

When your financial circumstances support passing a monetary legacy to your heirs — children, grandchildren, or subsequent generations — one option to consider is the transfer of assets through a permanent life insurance policy. Such a strategy could complement your estate plan, provide you with tangible tax savings during your lifetime, and increase the monetary benefits to your intended beneficiaries after your death.

There are two basic approaches to Insured Asset Transfers — Ordinary (OIAT) and Cascading (CIAT). Both utilize special tax exemptions granted by the Canadian Income Tax Act to permanent, cash-value life insurance contracts. OIAT, the more common approach, arranges individual or joint, second-to-die permanent insurance on the life or lives of those bestowing the monetary legacy. The CIAT approach places permanent insurance on the life or lives of the inheritors — the child(ren) or grandchild(ren) of those employing the strategy.

Common elements of both approaches include:

- Systematic transfer of non-registered investments to a tax-advantaged life insurance policy
- Permanent cash value life insurance placed on your and/or your spouse's life, or the life/lives of your child(ren) or grandchild(ren)
- Deposits in excess of the premiums needed to pay for the basic insurance
- No annual taxation on compounding growth of values inside the contract
- Rate of growth similar to rates paid on traditional long-term fixed income deposits; and sometimes, dividends as well
- You and/or your spouse own and control the contract
- An insured death benefit greater than the sum of monies deposited, in most cases
- Cash value building inside the contract remains available to the owner — caution is required to avoid a taxable benefit when withdrawals are made during the lifetime of the insured(s)
- Reduced tax payable on income from non-registered investments when funds are switched to an insured asset transfer option
- Minimized claw-backs on Age credits and/or OAS

Here the similarities in the two approaches end. With the OIAT, the benefits above are realized. The value inside the insurance contract grows and compounds without taxation and upon the death of the insured(s), premium deposits plus accrued growth, and a mortality gain, all bypass probate and are paid directly to named beneficiaries on a tax-free basis. In short, no tax has been paid on the accrued gains and the capital has been transferred to another generation free of probate fees, estate delays, and possible challenges.

In addition to the above benefits, the CIAT approach permits other structural planning options. For example:

- When the insured person is your adult child, you may wish to name their child(ren) — your grandchild(ren) — as beneficiary, in trust, until age of majority is attained; and your child as the contingent policy owner. This structure ensures:
  - Your grandchild(ren) are financially protected in the event of the death of their parent — your child
  - You retain full ownership and control of the contract during your lifetime
  - Ownership and control of the contract, along with its values, flow easily to your child — the insured — upon your demise, or earlier if you so choose
- When the insured person is your adult grandchild, you may wish to name him/her as the contingent policy owner. This structure ensures:
  - The grandchild has permanent insurance protection, regardless of future health
  - The accumulated value transfers directly to that grandchild, skipping a generation
  - Any taxable gain incurred by policy withdrawals is taxed at the grandchild's tax rate

THE TAX ADVANTAGES

Without advance planning and implementation, taxes can be a significant burden on you in your retirement years, and on your estate after your death. Failure to address this reality could seriously erode the value of your hard-earned lifetime savings. A permanent life insurance policy, which pays death benefits tax-free to a named beneficiary, may substantially increase the value of the capital that is ultimately transferred.

The tax savings could start the moment you purchase a permanent life insurance policy. The higher your income tax bracket, the more affected are the returns on your non-registered investment income. Switching non-registered investments to a permanent life insurance policy results not only in permanent life insurance protection, but also tax-advantaged growth of the funds invested. The funds invested, including the cash value, grow tax free and upon death of the insured, benefits are paid to the beneficiary tax free and without the need for probate.

If your child has been named as contingency policyholder, the insurance policy can transfer to your child tax free, at which point your child can name your grandchild as beneficiary, and your legacy cascades to the next generation with the same tax advantages.

There is one caveat to these tax advantages. Direct withdrawals by the policy owner, during the lifetime of the insured person(s) can trigger tax liability.

THE RIGHT SOLUTION FOR YOU

A well-designed Insured Asset Transfer can be a very effective planning tool in many situations. Please talk with your Nakamun Advisor to explore if and how this strategy may be the right solution for you.

CANADA'S FORCED SAVINGS PLAN

By Floyd Murphy, CFP, CLU, CHFC, The Nakamun Group, Vancouver

Most people who work in Canada contribute to the Canada Pension Plan (CPP), and currently, if you've made maximum contributions for the maximum number of years, the value of your CPP is about $225,000.

Once you start collecting benefits, your CPP will pay you a pension until the day you die. Except for the $2,500 death benefit, though, if you are single or your spouse also collects maximum CPP benefits, whatever amount still remains in your CPP when you die, will simply disappear. There is no estate value to your CPP — except to top-up your spouse's CPP benefits to the maximum amount or to provide limited income for surviving children under the age of 25, funds remaining in your plan will not be available to your beneficiaries.

While you have a significant amount invested in your CPP, you cannot access those funds for any purpose other than drawing income in retirement or a disability benefit if you are totally disabled prior to age 65. You have a limited say in when you start collecting benefits and when you stop contributing to your CPP.

CPP is Canada's forced savings plan, and for some people, this is the only way they would save for their retirement years. Now, some governments in Canada are contemplating expanding the plan so that working people would contribute a larger percentage of their employment income. Employers would continue to match their employees' contributions. Expect the debate and reaction to be heated in the years ahead.

THE PROS AND CONS

One clear pro of expanding the CPP is the increased savings for retirement. Right now, the maximum contribution is about $2,300 per employee, with a matching $2,300 from their employer, for a total of $4,600 per year. If CPP contributions are increased, both employees and employers will be impacted immediately. Take-home pay for individuals will decrease and corporate expenses will increase. For those who are self-employed, any increase in CPP contributions results in a double-whammy, because these individuals pay both the employee and employer contributions. The drop in disposable income for individuals and the decreased profits for companies is bound to have a negative effect on the economy.

Increased CPP contributions could also result in fewer dollars available for individuals to save in more flexible investments that would allow for higher income in early retirement years, access to emergency funds, or building an estate for future generations.

The CPP fund already has approximately $160 billion, and while we'd like to think those dollars are invested in Canada, there are limited investment opportunities and better returns achievable elsewhere in the world. As the fund grows, the portion invested in Canada will likely decrease.

VOICE YOUR OPINION

Whether you agree or disagree with expanding the CPP, your voice can make a difference. As evidence, in the mid-1980s, when all Registered Retirement Savings Plans (RRSPs) had to be converted to lifetime annuities at age 71, RRSP owners shouted loudly and clearly that a more flexible alternative was needed. The result was the introduction of the Registered Retirement Income Fund (RRIF), to which most RRSPs are now converted.

If you have a strong opinion about changes in the CPP, make your voice heard. Lobby politicians who can impact the outcome. Your voice can make a difference.