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Robert Radloff:
Financial Planning

Too sick to work?

Protect yourself and your finances in times of illness.

No one likes to think about it, but it's wise to consider incapacity planning — financial planning for times of mental or physical incapacity. If you're ill and can't work, how will you pay your bills? Incapacity planning can reduce the impact of a serious illness on your finances and standard of living.

In many countries and cultures, where the concepts of the extended family and family assets are more prevalent than in Canada, the family would merely manage the assets of an individual who no longer had the ability to do so.

In Canada, however, if someone is mentally incapacitated and there is no power of attorney (a legal document that gives someone the ability to make financial decisions on his or her behalf), then the public guardian and trustee (appointed by the government) can step in to manage the assets — normally not the best option.

So it is important to think through who would be the most appropriate person to manage your assets. Often spouses would be each other's power of attorney. It is also advisable to name an alternate power of attorney in case your spouse is incapable of acting.

Unless revoked, the power of attorney ends with the death of the individual or the appointment of a committee (pronounced "comma-tea").

Someone can apply to court to be a mentally incapacitated persons' committee, if a nomination of committee has been prepared, that is, a letter signed by the individual requesting a certain person to be the committee. The judge would normally appoint the person's choice per the letter. The committee then has the authority over the person's finances and potentially other matters such as medical procedures.

While a power of attorney is limited to financial decisions, a separate document called the representation agreement authorizes someone to make health care and personal care decisions on someone's behalf. It is a contract signed by the individual and the representative.

The inability to work caused by mental or physical incapacity can have a severe impact on one's finances, but you can mitigate this risk with insurance. Long-term disability insurance will pay a monthly amount, usually a percentage of income, up to a certain age, normally 65. If you are employed, you will often have long-term disability coverage as a part of your employee benefits package. It is important to understand the benefits which you will be entitled to and the definition of disability in the plan.

If you are not employed, you can apply for a personal disability policy subject to the insurance company performing a medical and income assessment (known as policy underwriting). If you have been contributing to CPP and are unable to perform any job due to disability, then you can apply for CPP disability benefits. The minimum monthly benefit is $397 and will increase depending on contributions.

Another insurance product available is critical illness insurance, which pays a lump sum to the insured if he or she is diagnosed with one of a predefined list of critical illnesses listed in the insurance policy.

Long-term care insurance pays a monthly amount to the insured when he or she requires assistance to perform the normal functions of living.

Illness and disability can severely affect the quality of life and ability to earn income, so it is prudent to have mechanisms in place, just in case.

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