

Handling life's changes

By Barry LaValley

Rick and Ellen Potter are reveling in the birth of their new daughter. The Potters entered into parenthood for the first time though they are in their late 30s. "We were told by everyone that having a new baby was going to change our lives," says Ellen. "Despite that, we were quite unprepared for the chaos that resulted when we faced the complete transformation in our daily routine."

Like so many Canadians experiencing a life transition, the Potters had no shortage of information on what to expect in their new life and how others handled it. "The challenge for us wasn't that we didn't know about how to handle a new baby," notes Rick. "I don't think we prepared ourselves enough psychologically to understand that not only was our life changing, but that we were also going to change as people."

There are many predictable changes most of us experience in our lives. Parenthood, buying a new house, entering or leaving the workforce, health challenges and relationship changes are all examples of normal life transitions.

Some of us are able to handle change better than others. The key appears to be our ability to put the past behind us and accept our new situation as "the way it is." By training ourselves to consider our previous life as the end of an order and our new life as the beginning of a new order, we can avoid the chaos that comes from not accepting a new life.

Individuals who transition successfully to a new life typically plan ahead first. They anticipate what might happen in the future and then create a "what if" plan to put in place when the event occurs. For most of us, these contingency plans are created to handle things we might be able to anticipate in the future. For example, many Canadians know at some point, they will leave the workplace and retire. Successful retirees tend to make their plans for retirement years before the actual change.

While some life changes happen when we least expect them, it is always useful to contemplate what might happen in the future. Will we start a family? Will I leave my job and start my own business? What happens when the children leave home and go to university? What will my life be like in retirement?

I call this "strategic dreaming" and use it as a catalyst to help me plan ahead. The more planning we do, the less scary or chaotic our new life situation becomes. Here are some things you can do to anticipate your future path and do some strategic dreaming:

- Consider some of the normal life transitions and put a time line on when you might expect them. Will this be something that might happen this year, within three years or more than three years?

**When you're finished changing,
you're finished.**

– Benjamin Franklin

- Think about what your life will look like when this transition takes place. Are you prepared financially, environmentally or psychologically for the change?
- Take a look at the many help books and information available on the subject. The nice thing about life transitions is that scores of others have already gone through them and are ready to share their advice.
- Make some rough “what if” plans ahead of time and continue to revisit those plans on a regular basis. Make sure your spouse or partner is on the same page in your planning.
- Talk about your future expectations to your financial security advisor. They can help you understand the financial consequences of your life plans.

Rick and Ellen are looking forward to their next child, having weathered the changes of their first. “Next time around,” says Ellen, “we will be much more prepared!”

Barry LaValley is a partner in The Retirement Lifestyle Center which specializes in helping Canadians manage the transition into the retirement stage of their life.

Is retirement becoming a myth?

Retirement as we know it today is disappearing. Many older workers are planning to remain in the workforce either full time or part time for many years. Some will remain in their career positions, others will retire from their careers and move into other jobs in the same or different fields.

- 69% of workers (45 years or older) plan to work past retirement age
- 76% say money is a major factor
- more than 75% say they also enjoy working
- 28% don't plan to work
- 3% don't know

(Roper ASW for AARP)

Your financial security plan and life changes

Many life changes may signal a change is needed to your financial security plan. Whether you're getting married, welcoming a new child or grandchild, changing jobs, buying a house or retiring, these are all good opportunities to review your plan with your financial security advisor to ensure you remain on track to meet your financial goals.

Going it on your own

Becoming self-employed is an exciting, life-changing event. Deciding to go out on your own has many implications and requires much thought. Although you are no longer eligible for employment insurance or an employersponsored group benefits package, you still want to protect yourself, your family and your business if you became disabled or critically ill.

Many health problems can lead to a temporary or permanent disability. If you're unable to work, could you pay your day-to-day living expenses, mortgage, credit card or car loan? Could your business survive while you're off?

Disability insurance pays you a monthly income to help you cover personal and business expenses while you are disabled. There are many different plans; from personal coverage (to help pay your day-to-day expenses), to overhead expense plans (to help pay your fixed business expenses), to disability buy-out plans (to help you buy out a disabled partner). With the help of your financial security advisor, you can create one that meets your specific needs.

Critical illness insurance is another way to cover personal and business expenses if you become critically ill. It can provide personal protection, key person protection, buy-sell protection or business loan protection. Instead of a monthly benefit, you receive a lump sum benefit if you are diagnosed with one of the conditions covered in a policy and have satisfied the survival period. The cash can be used any way you wish – to secure timely medical treatment, pay down debts, modify a home, take a recovery vacation, pay off a business loan or hire additional staff to run your business.

As a self-employed person, you, your family and your business need the financial protection disability and critical illness insurance can provide.

Financial Consequences Of Critical Illness Worry Canadians

A new study, conducted by Ipsos-Reid, says 45 per cent of Canadians are worried they won't be able to cover their expenses if they become critically ill.

The survey found that only 54 per cent of Canadians believe they will have sufficient funds to cover their expenses in the event of critical illness. Maintaining their current lifestyle and being able to pay their bills are the top concerns of Canadians if they should become critically ill. Other worries include being able to support their family financially, losing their job, and being able to contribute to their RRSPs.

As well, 53 per cent of respondents have not heard of critical illness insurance. The survey also found that those who did not already have this insurance wanted to know more. Sixty-three per cent of those who had a financial security advisor — but not critical illness insurance — believed it important to be advised about the product by their financial security advisor.

Planning for a child's education

Nothing introduces change to a family's life like the birth of a child – sleepless nights, diapers, bottles and especially the awe of witnessing the curiosity of a new little person. The birth of a child means parents have a new perspective on life. They have a responsibility like none they've ever had; caring for this dependent child and helping him or her learn and grow.

Parents, and even grandparents, may also have a new perspective on financial security planning. Consistent with a parent's concern for the well-being of their children, saving for a child's postsecondary education may become a priority.

As we hear time and time again in the media, the cost of post-secondary education is rising dramatically. Tuition has risen an average of 86 per cent since 1984, 62 per cent since 1990 alone. Tuition increases and reduced government funding make planning for post-secondary education a must. A child born in 1998 will pay about \$75,000 for a four-year undergraduate degree.¹

Although Registered Education Savings Plans (RESPs) have become very popular, due in part to media coverage and the introduction of the Canadian Education Saving Grant (CESG), they're not the only way to save for postsecondary education.

The choice of investment securities varies widely. Method of investment can be systematic or a lump-sum amount, and registrations can be RESP, non-registered, and formal or informal trusts.

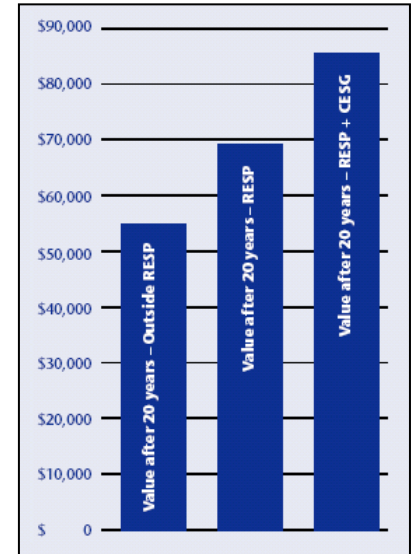
Is it better to invest in an ‘in-trust’ account or in an RESP?

Let’s look at a simple example of the value of an RESP after 20 years, compared with savings outside an RESP.

Assume a person contributes \$2,000 per year starting the year the child is born. They would receive CESG grants of \$400 a year, up to and including the year the child attains age 17.

- value after 20 years with RESP and grants = \$83,300
- value of investing outside RESP = \$55,350
- (assumes 40-per-cent tax rate and five-per-cent return)

(This is an approximation and assumes the funds paid to the beneficiary from the RESP will attract no tax.)



Life insurance and strategic dreaming

You’ve probably taken some time to consider when some of the normal life transitions you can expect will occur and can imagine how your life will look. Are you prepared financially for the changes? Have you considered how life insurance can help you keep your life plans intact? Your financial security advisor can help you understand where life insurance comes into the picture but here are a few rules of thumb.

Term insurance

Many term insurance plans do a good job of meeting immediate needs and give you the freedom to later move (or convert) to a permanent product. However, this ability to convert to permanent life insurance can expire as early as age 65. It’s important to understand any conversion restrictions when purchasing term insurance in anticipation of changing insurance needs. Term renewal rates can also be expensive and you may have to go through additional underwriting to get the best rates available at renewal.

Permanent life insurance

Permanent coverage offers considerable flexibility and options during your life. Permanent coverage is a great way to lock in insurability and rates while you are healthy as well as accumulate tax-advantaged savings for the future. Cash values may be used to help finance a business opportunity, a sabbatical or retirement. Purchasing a permanent life insurance policy using excess income or cash is also an ideal way to create a tax-advantaged asset while you are alive and to leave a meaningful gift, outside your estate, to your heirs or a favourite charity. By naming the charity as both owner and beneficiary of the policy, the annual premium is eligible for a tax receipt as a charitable donation each year. Some permanent policies offer more flexibility than others – be sure to ask for details.

Next steps

Take some time now to do your strategic dreaming. Depending on your situation, you may also wish to include your spouse, partner or children. Consider several what-if scenarios, then talk about your future expectations and goals with your financial security advisor. He or she can help you understand the financial consequences of your life plans and the options to help you get there.

1 Donnelly, Welch and Young, “Registered Education Savings Plan: A Tax Incentive Response to Higher Education Access”, Canadian Tax Journal, (Toronto, April 1999) p. 86.

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