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Don't let disability ruin your finances

This type of insurance can be a hard sell, CAROLYN LEITCH writes, but people need to be prepared should illness or accident strike

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It was a warm, lovely spring day in April when Janet Freedman stepped out the door of her Toronto home and started down the front steps. The financial planner was rushing to a meeting with a client and her arms were full of tax returns.

"As I went hurtling through the air, the thought that went through my mind was, 'I knew I should have taken two trips to the car.' "

Ms. Freedman had missed one step. She landed on her head, trapped between her front steps and the neighbours' -- her head snapped back and her windpipe blocked.

"I couldn't breathe. I couldn't move any part of my body. I couldn't call out for help."

Ms. Freedman's neighbours were quickly on the scene and she was rushed to hospital in an ambulance, sirens blaring.

The 55-year-old divorced mother of two had partially severed her spinal cord in the fall. Diagnosis was quickly followed by large doses of steroids and surgery.

"The doctor put one word on the diagnosis page of my disability application: paralysis."

Fortunately, after four years of recovery and rehabilitation, Ms. Freedman can now walk with a cane and work at her fee-only firm, Finance Matters, part-time.

And because she was a financial planner, she was better off than many who find themselves facing disability in mid-life.

"Often when clients called, the first question they asked was, 'did Janet have insurance?'" she says. "I was always nagging everybody else to get it."

Ms. Freedman did have disability insurance and several years ago she had beefed up her coverage. She also had chosen two friends to hold power of attorney. But even as a money-savvy professional, she found navigating the intricacies of insurance, government benefits, tax issues, legalese and home renovations daunting.

She also lacked knowledge about the services and financial help to which she was entitled. For example, Ms. Freedman could have received a grant to help pay for the renovations to her home if she had known it was available.

As a result, Ms. Freedman teamed with financial planner Marie Howes, who held power of attorney at the time of the accident, to write *Hit by an Iceberg: Coping with Disability in Mid-Career*. The book was published last month by Trafford Publishing.

The authors liken becoming disabled to hitting an iceberg because 80 per cent of the impact is hidden at the time of the event.

Ms. Freedman finds even raising the subject of disability with her clients is sometimes a hard sell.

"As financial planners, we always find it difficult to get people to write wills because it's confronting their mortality. It can be even more difficult to get people to confront the possibility of disability."

She points out, however, that for people under age 65, there is greater risk of disability than there is of death. David Shymko, a partner with fee-only financial planners Macdonald Shymko & Co. in Vancouver, says he finds some clients have not prepared for a possible rough patch. He works with them to determine how vulnerable they are to a loss of income for any reason.

"That's all part of our approach to risk management."

There are many steps that individuals can take to protect their financial health -- and lessen the blow -- if and when the iceberg hits.

1. Establish an emergency fund.

Mr. Shymko recommends at least three months' living expenses. While an employer's sick leave and short-term disability benefits may cover the first few months, it sometimes takes longer for long-term benefits to kick in.

"A lot of times people are earning big bucks but they don't have any money in the bank. Their emergency fund is kind of low."

Mr. Shymko recommends highly-liquid assets such as a bank account or Canada Savings Bonds. Some people may opt for a line of credit.

2. Grant power of attorney to people you trust.

The most common form is power of attorney for property, financial and legal affairs. This means that the attorney can manage the financial, legal, investment and ordinary cash flow matters of the person who has been incapacitated. In Ms. Freedman's case, she was on a ventilator and unable to speak. She was also sedated and delirious at times. Ms. Howes was able to help keep Ms. Freedman's business and financial matters running.

3. Buy disability insurance if you don't have it and decide whether you need to top it up if you do.

Toronto-based freelance writer Bonnie Heath was just shy of three months into a new job at a hospital when she was diagnosed with a debilitating spinal arteriovenous malformation. Her new employer waived the three-month waiting period for extended health benefits but not for disability coverage.

Ms. Heath now wishes that she had purchased supplemental insurance as she started a new job.

Ms. Freedman often recommends purchasing "regular occupation" coverage, which refers to the job you did just before becoming disabled. Otherwise, she warns, you could be required to retrain or do any job -- including selling pencils on the street.

4. Know the federal government benefits available.

The Canada Pension Plan disability benefit is provided to qualifying Canadians who are unable to work because of a severe and prolonged disability. The Quebec Pension Plan also offers benefits to qualifying individuals. Working Canadians who contribute to Employment Insurance are entitled to benefits if they meet the criteria, including having accumulated at least 600 insured hours in the last 52 weeks or since they last claimed for EI benefits.

5. Investigate the provincial benefits available.

Because Ms. Freedman lives in Ontario, she received help from the Ontario Disability Support Program. In all provinces, she warns, these programs are in a constant state of flux and are often increasingly difficult to obtain.

6. Receive the credits and deductions that are available to disabled taxpayers.

Deductions are calculated to reduce your net income, which is the amount on which taxes are paid. Once the amount of tax you owe has been determined, tax credits are applied to reduce that amount. The disability tax credit is available to many Canadians who suffer prolonged impairment.

7. Contact a lawyer to see if you have a legal claim.

Because Ms. Freedman's accident happened on her own property and no one was at fault, she could not sue. But each situation is different. If someone drops a taco with cheese sauce in the food court of a mall, for example, and another person slips and falls, the store, the mall and the maintenance company could possibly all be sued if they have been careless in failing to clean up when it was their duty to do so.

8. Decide where you're going to live and what help is available.

Ms. Freedman was initially convinced that she would be forced to sell her house. But renovations allowed her to return home.

Ms. Heath lives in a co-op building and she was able to qualify for rent reduction when her income fell. "If we hadn't lived in a housing co-op, I don't know what we would have done."

All in all, Ms. Heath -- who was young, outwardly healthy and newly married at the time of her diagnosis -- found the recovery process complex and overwhelming. Even choosing a wheelchair seemed like an insurmountable task at the time, she said. Now, Ms. Heath is walking and working at home, but her life has irreparably changed.

"I would never have predicted this in a million years."

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