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## Long term health strategies:

# THOSE SOUTHERINGLY GIRLS

## Each in a different way, three sisters leverage home equity to meet ultimate medical costs.

"Waiters!" Jane labels them, those of her children called "boomers," born into that magic cohort after 1946, just waiting for their inheritances. Not that they longed for her death, not at all. But the pampered upbringing doled out to them by Canadian society has created within them a wierd sense of entitlement.

Of the Southeringly triplets, Jane has long been regarded as the most analytical, the most opinionated. Now 75, two widows and a divorcee, they each have their homes, their gardens, small pensions, each other, . . . . and all their children.

Fools, she figures, because she'd crunched the numbers, and she and her sisters could well be exhausting the Waiters' entitlements. In fact, unless the much vaunted social safety net dramatically improved, she might well need to tap her foolish and profligate boomer children for assistance.

Evidence from Statistics Canada suggested she should divide life after age 65 into nine's and three's. Nine years of excellent health, followed by three not so bad. Then three of gradual, but acceptable deterioration, followed by a final three of poor health. And that final three could be expensive, very expensive.

Jane admits her tennis game is off half a stride, that it's time to plan for the inevitable. Her research of her financial prospects for those final three reveals:

- Homecare is not enshrined in the National Health Act, and is

doled out parsimoniously and unreliably. Waiters may need to sacrifice their day jobs to look after failing parents who wish to stay at home.

- The average stay in residential care is 2.8 years.
- Though her income is such that her costs would be subsidized by the province, such subsidy only applies to designated facilities.
- The wait for a designated facility room can last over two years.
- She needs to budget \$3,000 monthly for care over those final years — or figure on bunking with the Waiters.

"After all the years we spent babying them," she harangues her sisters, "Do you want to be living in their basements? following their orders? Having them change your nappies?"

### HOME EQUITY LINE OF CREDIT

Though Jane figures the market value of her bungalow scandalous, she'll take advantage of it. Against her \$350,000 home, she takes out a home equity line of credit (HELOC), floating at prime, for \$100,000. She invests the cash in a fund which pays a monthly income, one with potential for capital appreciation. There is currently a 1% spread between prime and yield, and she'll use that difference against the principal. In others words, the interest-only payment due is \$500, the monthly income \$583, and she'll contribute the entire \$583 against the HELOC.

Borrowed for investment purposes, the interest is tax-deductible. The monthly income, intentionally structured for tax

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efficiency, is only 20% taxable. Though there's no change whatsoever to her cash flow, her annual taxable income increases by \$1400 -- and her deductions by \$6,000. She earns a tax refund of \$1,012.

**REVERSE MORTGAGE**

Sister Joan figures she should profit from Jane's research, but through a reverse mortgage.

On her \$350,000 home, given her age, gender, and location, the lender is willing to provide \$95,368. (Taking into account likely appreciation and longevity, the lender hopes to see at least 25% equity remaining on the owner's life expectancy.) They charge \$1,285 for closing costs, the appraisal cost \$350, and a lawyer's independent review (as advised by the lender)

another \$500.

From invested proceeds, she expects to improve her income by at least \$500 monthly, something she truly needs.

The interest charged is floating, running usually 1% more than normal mortgages (8.60% at the time of writing). It is added to the principal, compounded semi-annually. Since she invests borrowed funds, this interest becomes deductible and, in the first year (\$8378), reduces her income taxes by \$1535.

The reverse mortgage is an escalating lien against Joan's home, as shown in the table. The bill comes due whenever she permanently vacates the premises.

**DOWNSIZING**

Jill Southeringly downsizes. She gives up her cottage and her orchard, cougars and bear, all her stairs and narrow

doorways, for a patio home on flat concrete, with wide doors and grab bars galore. She socks the \$100,000 difference into her emergency fund. From this fund she withdraws \$200 monthly, an amount she increases each year to match inflation.

At age 88, the three Southeringly sisters elect residential care. Jane, trusting a quick return, instructs her Waiters to find a tenant to generate sufficient income to pay down her HELOC. Joan, under contractual stipulation, asks her Waiters to sell her home, to pay off the reverse mortgage. Jill, under no such compunctions, advises her Waiters on watering her house plants.

All three hope their Waiters get the message: Their lives will be even longer, and their final three years even more expensive. Plan ahead, plan wisely.

AGE	DEBT			ENHANCED INCOME			HEALTH CARE FUND		
	JANE	JOAN	JILL	JANE	JOAN	JILL	JANE	JOAN	JILL
75	100,000	95,368	0	0	6,676	2,400	100,000	92,448	100,000
76	99,000	103,746	0	0	6,676	2,450	102,000	94,297	106,600
77	97,940	113,293	0	0	6,676	2,502	104,040	96,183	113,744
78	96,816	123,719	0	0	6,676	2,554	106,121	98,107	121,479
79	95,625	134,781	0	0	6,676	2,608	108,243	100,069	129,857
80	94,363	146,481	0	0	6,676	2,663	110,408	102,070	136,936
81	93,025	158,815	0	0	6,676	2,719	112,616	104,111	148,778
82	91,606	171,774	0	0	6,676	2,776	114,869	106,194	159,449
83	90,103	185,345	0	0	6,676	2,834	117,166	108,318	171,024
84	88,509	199,699	0	0	6,676	2,894	119,509	110,484	183,582
85	86,819	215,164	0	0	6,676	2,954	121,899	112,694	197,211
86	85,028	231,826	0	0	6,676	3,016	124,337	114,947	212,005
87	83,130	249,779	0	0	6,676	3,080	126,824	117,246	228,069
88	81,118	269,121	0	36,000	36,000	36,000	93,361	83,591	196,631
89	78,985	289,962	0	40,000	40,000	40,000	52,228	45,263	160,563
90	76,724	312,417	0	56,000	46,168	56,000	332	0	107,774

No guarantees, only assumptions: 2.10% inflation, 6% HELOC interest, 7% investment yield, 2% capital appreciation, 8.60% reverse mortgage projected by the Canadian Home Income Plan.