



The cost of recovering
from a serious illness
could reduce your
RRSP savings by up to
50% or more!

PROTECTING YOUR RRSP WHEN CRITICAL ILLNESS STRIKES

A registered retirement savings plan (RRSP) is a long-term savings tool with many tax advantages when contributed to regularly and held to maturity. However, it is often used as a temporary emergency fund that is not replenished, leading to serious, long-term financial impacts that could be avoided.

Critical illness insurance coverage could help you keep your retirement savings plans intact and maintain your financial independence should a serious illness like cancer strike.

A critical illness strikes: two approaches to funding the recovery

Two non-smoking co-workers, Geoff and Hassan, have been contributing regularly to their respective RRSPs since they were 35-years-old. At age 50, they have both saved \$250,000 in their RRSPs. Both were recently diagnosed with a critical illness and each needs \$100,000 to help pay for medical expenses not covered by healthcare and for extra living expenses.



GEOFF

You cannot recontribute funds withdrawn from your RRSP.

Geoff did not purchase critical illness insurance. He taps his RRSP to pay for the \$100,000 in illness-related expenses. Since money withdrawn from an RRSP are taxable, Geoff actually needs to take out \$181,818 to have \$100,000 in after-tax funds to pay for his illness-related expenses!



HASSAN

When he was 35 years old, Hassan bought critical illness insurance with a coverage amount of \$100,000. Being diagnosed with a covered critical illness, he is now able to use the \$100,000 tax-free critical illness benefit to help pay for the extra expenses related to his illness.

	Geoff	Hassan
RRSP value at age 50	\$250,000	\$250,000
Funds needed to pay illness-related expenses	\$100,000	\$100,000
Critical Illness Coverage	0	\$100,000
RRSP withdrawal needed (with Income tax rate at 45%)	\$181,818	0
Income Tax paid	\$81,818	0
Net amount available	\$100,000	\$100,000
RRSP balance	\$ 68,182	\$250,000

If they resume RRSP contributions

Geoff and Hassan both stop making RRSP contributions for 2 years once they are diagnosed with the critical illness. Then they resume with \$10,000 of annual contributions until their retirement at age 65.



GEOFF

Geoff started with \$68,182 at age 50 because he had to withdraw \$181,818 from his RRSP. Even though he made the same \$10,000 annual contributions to his RRSP as Hassan and his RRSP grows at the same annual rate of 6%, he will only have saved **\$395,915** at age 65.

That's less than half the value of Hassan's RRSP!



HASSAN

Hassan was able to leave all his savings in his RRSP \$10,000 annual contributions with an annual growth rate of 6%, leaves him with an RRSP balance of **\$874,848** at age 65.

	Geoff	Hassan
RRSP net balance age 50	\$68,182	\$250,000
RRSP balance when contributions begin again @ 6% beginning of age 52	\$76,587	\$280,900
Annual contributions to age 65 at the beginning of each year earning 6%	\$10,000	\$10,000
RRSP value at age 65	\$395,915	\$874,848
Difference between RRSP balances		+\$461,933

Hassan's significant financial advantage came at a cost. Here we have the cost for Hassan to purchasing, at age 35, critical illness insurance for \$100,000 of coverage.

	CI Protect Plus 20 year*	CI Protect Plus to age 75**
Yearly premiums	\$495	\$991
Number of years of payment of premiums	15	15
Total	\$7,425	\$14,865

The cost for Hassan to have access to \$100,000 in tax-free funds when he was diagnosed with a critical illness is significantly lower than the \$81,818 in taxes that Geoff had to pay to withdraw funds from his RRSP.

If they don't resume RRSP contributions

It's possible that neither Hassan nor Geoff are able to resume making annual RRSP contributions.

	Geoff	Hassan
RRSP balance at age 50	\$68,182	\$250,000
RRSP value at age 65	\$163,354	\$599,140
Difference between RRSP balances		+\$435,786

In this case, assuming that both RRSPs grow at an annual rate of 6%, the value of Hassan's RRSP at age 65 would be more than 3.5 times greater than the value of Geoff's RRSP.

*Premiums calculated on April 9th, 2021 for a 35 year old male, non-smoker, and with a coverage amount of \$100,000.

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Talk to your advisor to learn more about innovative strategies using critical illness

The Empire Life Insurance Company

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