

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You cannot recontribute funds withdrawn from your RRSP.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 Since money withdrawn from an RRSP are taxable, Geoff actually needs to take out \$181,818 to have \$100,000 in after-tax funds to pay for his illness-related expenses!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
<b>RRSP balance</b>	<b>\$ 68,182</b>	<b>\$250,000</b>

### 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
<b>Difference between RRSP balances</b>		<b>+\$461,933</b>

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
<b>Total</b>	<b>\$7,425</b>	<b>\$14,865</b>

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
<b>Difference between RRSP balances</b>		<b>+\$435,786</b>

**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 Empire Life account team to learn more about innovative strategies using critical illness insurance. Not sure who to speak with? Contact the Sales Centre at 1 866 894 6182 or [salescentre@empire.ca](mailto:salescentre@empire.ca)**

### **The Empire Life Insurance Company**

259 King Street East,  
Kingston, ON K7L 3A8

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<sup>1</sup> Based on total assets as reported in December 31, 2019 OSFI filings

<sup>2</sup> As at June 24, 2020. For the latest rating, access [www.ambest.com](http://www.ambest.com).

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[empire.ca](http://empire.ca) [info@empire.ca](mailto:info@empire.ca) 1 877 548-1881

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