INSURANCE Journal

$10 Vol. 27 No. 03 April 2023

BIOSIMILARS IN 2023

REVOLUTION OR ILLUSION?

Health

Could biosimilars be the answer to rising drug costs for group benefits plans?

Entrepreneurship

Advisors are finding creative ways to help clients who need long-term care insurance

Financial planning

Protect your clients against sudden decumulation by knowing the warning signs

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Society

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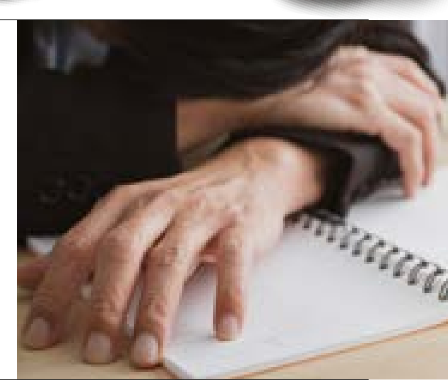
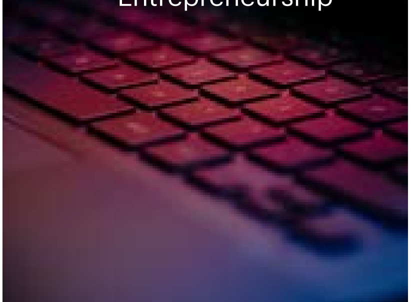
Financial planning



Entrepreneurship



INSURANCE Journal

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Something to think about...

"We often talk about pharmaceutical innovations, but I would like to see innovation in the insurance industry. I know there's small-scale innovation, there are pitfalls, obstacles, but I wouldn't want to see policies that basically emulate what the government has done. I'm not a fan of that."

— Yanick Labrie

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In this issue...

BIOSIMILARS IN 2023: REVOLUTION OR ILLUSION?

Drug costs in group benefits plans are rising steadily. Similar versions of some reference biologic drugs are appearing in the marketplace. Four experts size up the impact of biosimilars on plans.

BY DENIS MÉTHOT

Savings still modest

Group plan members notice savings of two per cent a few months after the introduction of biosimilar drugs.

BY DENIS MÉTHOT

Seven provinces and one territory in Canada have now adopted biosimilar drugs. Ontario, Quebec, British Columbia, Alberta, Saskatchewan, New Brunswick, Nova Scotia and the Northwest Territories have implemented biosimilar transition policies, according to information from **Biosimilars Canada**, a national association representing the biosimilar medicines industry in Canada.

Ontario is the latest province to make the shift as of March 2023, after Quebec did so in May 2021. Provinces and territories that have made the shift have drawn the attention of private insurers, who are also seeking opportunities to rein in their drug claim costs.

The trend seems irreversible, yet significant questions linger: What real gains will biosimilars generate in private plans? And what impact will this have on the price of extremely expensive molecules, which continue to rise?

Four experts shared their views on biosimilars at the **Group Insurance Congress** on February 21, 2023, organized by the **Insurance Journal Publishing Group**. **Alain Thériault**, panel moderator and *Insurance Journal* journalist, launched the discussion with a single question: "Biosimilars in 2023: revolution or illusion?"

A holistic look at biologic drug value

France Lambert, from pharmaceutical company **Amgen Canada**, spoke on behalf of pharmaceutical industry association **Innovative Medicines Canada** at the forum. She pointed out that the cost of the molecule is one component of the bill that the insured sees at the pharmacy. The sponsor considers it when reviewing the costs of its plan, but the figure does not tell the whole story.

"It's important to look at the situation more holistically by including certain aspects influenced by the insured's state of health, such as disability, presenteeism, absenteeism, anxiety, mental illness, the impact on caregivers, and so on," she explains. "This approach to the value of the drug takes into consideration the value of the drug therapy, because the important thing is to keep your work team healthy and productive."

Understanding the Gap 2.0

Lambert went on to unveil the results of *Understanding the Gap 2.0*, a study conducted jointly by Innovative Medicines Canada and the **Canadian Life and Health Insurance Association** (CLHIA). The following key trends emerged from the study:

- Most Canadians, 97.2 per cent, are eligible for drug coverage. The actual percentage of uninsured people has decreased from 5.2 per cent to 2.8 per cent since 2016. Private plans cover more treatment options and allow faster enrollment.
- Private plan claim costs continued to be impacted by the pandemic. Fewer claims were made for low-cost treatments, including treatments for acute conditions and some chronic diseases.
- Biosimilar drugs offer cost savings.
- Days' supply strategies allow savings opportunities.

Claims for drugs under $10,000 account for the largest proportion of medication costs, at 65 per cent. During the pandemic, however, fewer claims were seen for these non-specialty drugs, typically used to treat acute conditions.

In contrast, the $10,000+ drug group saw an increase in biologic claims, primarily driven by autoimmune diseases. At the same time, there was also a 9.4 per cent decrease in cost per claimant in this category, likely due to the increased availability and use of biosimilars.

"Let's keep in mind that the savings generated have fuelled competition in the market, which has lowered costs directly and indirectly through formulary listing agreements for both biologic and biosimilar drugs," Lambert points out. →

France Lambert

Yanick Labrie

DESJARDINS SAVES MILLIONS WITH BIOSIMILARS

Desjardins Insurance began promoting the adoption of biosimilar drugs in its plans in 2016, but had never mandated it. The insurer has since done so in three provinces that have begun the same transition in their public plans: British Columbia in August 2019, Quebec in April 2022 and Saskatchewan in January 2023.

Desjardins is also capitalizing on Ontario's transition to biosimilars as of March 31, 2023. "It's a milestone. We want to take advantage of the momentum to expand our strategy more nationally," says **Nathalie Rivest**, product director, drug insurance, at Desjardins. She adds that the insurer will reveal its timetable soon.

Rivest says Desjardins has already saved its plans millions of dollars by following the lead of the three provinces. All groups have agreed to get on board except for one, which will do so later. "It has exceeded my expectations," Rivest says, adding that within the plans that have agreed to make the switch, only 0.3 per cent of insureds have not yet done so.

Rivest observed no treatment failures with biosimilars in these groups. "There were a few cases of minor reactions at the injection site, but nothing major. The transition was very smooth," she says. (Typically, biosimilars are given by injection.)

She sees biosimilars as part of the solution to the sustainability of group insurance plans, as both plan sponsors and policyholders save money. For example, four biosimilar versions can replace biologic inflammation drug Remicade. The transition can result in savings of 47 to 50 per cent, Rivest estimates. Remicade alone costs $40,000 a year, she notes.

"These are substantial and sustainable savings, which will increase as new biosimilar drugs emerge," Rivest says. The insurer has been able to reduce the premium for groups in provinces that do not participate in the public pharmacare plan, such as Quebec, because the savings are greater for them, Rivest adds. She also has other money-saving measures at her disposal, including negotiating better prices with biosimilar manufacturers.

Nathalie Rivest

These measures lower the pooling costs of the Quebec Drug Insurance Pooling Corporation and the **Canadian Drug Insurance Pooling Corporation,** Rivest says, adding that "they will allow us to continue to pay for new biologic drugs."

Desjardins attributes the success of its transition to the quality of its communication to groups, as well as to the personalized guidance and support offered to policyholders. "We explained the transition to all parties involved, including pharmacists," Rivest says. She believes that the further the transition progresses, the more pharmacists will integrate it into their practice, even if there is no financial incentive to do so (see main text). (*Alain Thériault*)

Not a revolution like generics

Expert health economist **Yanick Labrie** says that in the 10 years prior to the pandemic, private drug costs climbed 20 per cent. This figure may seem large, but it is lower than any other category of spending in the health care system.

That decade also saw the advent of biologic drugs, Labrie continues. His main concerns include finding ways to make plans sustainable and ensuring that large claims are properly pooled.

Quebec has imposed mandatory substitution, as have many other provinces and countries. Labrie has a mixed view on this. "It's not a revolution like the one we had with generic drugs, where the price drop was quite significant, but there are still significant potential savings," he says. He mentions savings of 25 to 30 per cent in exceptional cases, when compared with biologic drug costs, and up to 50 per cent for some molecules.

Fears of high claims escalating

Labrie lauds the breakthrough in biosimilars. Even so, he is very concerned about the staggering cost of certain drugs. Biosimilars will bring down some costs, but he still sees a risk to the viability of small plans facing very high claims.

Éric Trudel, **Beneva**'s executive vice-president and group insurance lead, reports that the insurer receives four claims of between $1-million and $2-million per insured per year on a recurring basis. Such bills may be unaffordable for many plans.

Labrie says the current pooling tools may not be tailored to handling these high claims, and that solutions are needed. "We should use the experience gained from the way we underwrite risk with long-term disabilities, and adopt the same approach, perhaps modelled after a life annuity," he suggests.

"We're ridding plans [of high claims], especially small plans, because if we don't, the contracts will end and we'll see companies drop their group insurance plans, which we want to avoid," Labrie adds.

He believes that the **Quebec Drug Insurance Pooling Corporation** (QDIPC) is working well despite some imperfections. "That said, I think it is very important to have this pooling at the industry level. Overall, we can afford these drugs and we have demonstrated this," says Labrie.

Not a revolution but an evolution

Some insurers are still reluctant to impose mandatory substitution for biologic drugs when an equivalent version is marketed.

BY DENIS MÉTHOT

"Biosimilars are not a revolution, but clearly an evolution," says **Éric Trudel**, executive vice-president and group insurance lead of **Beneva**. The insurer has imposed mandatory substitution of biosimilar drugs for new patients where possible.

Large groups were also consulted. Most chose the option of promoting this substitution, but four or five groups decided that the patient would retain free choice, a decision that Beneva respected. "We're able to offer both options," Trudel says.

A study of 6,000 patients who were required or chose to switch to biosimilars showed that this substitution resulted in projected savings for insurers of two per cent of drug costs, or $25-million.

"The drug inflation statistics for 2022 versus 2021 are around six per cent. That means without this substitution, we would have been around eight per cent," he says.

"Clearly, for us, this is a good way to save money and allow for drug innovation," says Trudel, who adds that he sees the real gains in long-term plan viability.

"What's also wonderful is that a lot of patents are expiring in 2024 and 2025. That's five per cent of the current drug costs that are coming to an end. If substitution is done well, that's one to two per cent of savings coming up for plans, which will let them absorb new molecules. The beauty of it is that it's going to happen every year. It's going to continue and help us contain inflation in the future," Trudel adds.

Beneva remains in contact with the few groups that have decided that the patient should be the one to choose, not the insurer. "We stay in communication with them. That doesn't mean they won't change their minds. They have that option on the table," Trudel says.

Tougher policy at Green Shield

Green Shield, a provider of health care to businesses and individuals, favours a tougher approach. "We've had a strategy for biosimilars since 2016," says its Quebec pharmacy strategy manager **Chantal Faucher-Francœur,** who is also a lawyer.

"Green Shield has been much more aggressive than most insurers. We were even ahead of the curve compared to public plans. We started with new patients and very quickly put a transition program in place," she says.

The program is mandatory for all new patients; no one can opt out, as is the case at Beneva. The only plan sponsors at Green Shield that have not implemented mandatory substitution have been prevented from doing so because of collective agreements and union opposition, which Faucher-Francœur regrets. "It's a big barrier to some of the changes and measures we want to put in place," she says.

"There are other issues. You need savings if you have to be able to pay for drugs that cost a fortune," she continues.

"What I find fantastic is that **Health Canada** has not issued any contraindications following the application of all the biosimilars that have come onto the market," Trudel notes. For the 6,000 patients who have made the transition, there have been barely 100 exceptions. "That's not even two per cent. That means that for 98 per cent of people, it works," he says.

Éric Trudel

Suspicion about substitution

That said, Trudel cites the case of an insured in his 40s with Crohn's disease since 2014, who was being treated with the biologic drug Humira. When he received the letter from Beneva in December 2021 telling him that he had to switch to a biosimilar, he was displeased. During his initial calls, he expressed distrust and asked why they were changing his medication when his condition was stable.

"We talked to him. We referred him to the **INESSS** (L'Institut national d'excellence en santé et en services sociaux, also known as the National Institute of Excellence in Health and Social Services) charts. We asked him to give the biosimilar drug a try, and he made the switch in May 2022. We did a follow-up in November. Everything was going great, no effects, no contraindications. Plus, the injection device was easier to use. The cost went from $40,000 a year to $28,000. So that's a 30 per cent ➜

Chantal Faucher-Francœur

savings. The $12,000 will be reinvested elsewhere in the plan," says Trudel.

Faucher-Francœur says she understands the reluctance and even the suspicion of insureds who are asked to switch to biosimilars. These people are taking biologics because they may have been sick for years and they have the right drug they need. One day they get a letter saying, "You're going to switch to a biosimilar."

"You have to understand their reaction. It's important to do it right if you want to be successful. On the generic side, there was less reluctance. A lot of biosimilars are coming, so it's important to do this transition well and have a strategy that supports your insureds," she says.

The role of physicians and pharmacists

Faucher-Francœur also mentions the role of the physician and the pharmacist in this change of molecules for biosimilars. She says doctors are often the ones who will create the *nocebo* effect in patients – where the patient believes they are suffering from the adverse effects of a drug that they have heard or read about.

"Doctors create anxiety in their patients because they aren't sure if it will work. Say a doctor has been following a patient for eight years and has finally found the magic formula. But biosimilars are innovative and we are in transition," says Faucher-Francœur.

Pharmacists are also authorized to substitute a regular biosimilar for the biologic. The reason they don't, she says, is that they are not compensated for this task. Faucher-Francœur says she is generally proud of her pharmacist colleagues in many respects, but not for their proactivity in this area.

At the time of the switch to generics, pharmacists received money in the form of professional allowances, but this is not the case with biosimilars. Legally, biosimilar companies are not allowed to pay professional allowances. As a result, the pharmacist has no incentive to make the transition. In defence of the profession, Faucher-Francœur acknowledges that there is work involved, as pharmacists need to follow the patients and make sure they are doing well.

Who should pay?

Private plans are already dealing with extremely expensive drugs, and this trend will continue. At Beneva, drugs over $100,000 come from 0.2 to 0.3 per cent of claimants.

Trudel says that high-cost drugs are indeed very difficult for plan members despite pooling, but the amounts involved are dwarfed by the few insureds who require medication costing between $1-million and $2-million each year on a recurring basis. He underlines the contribution of **La Société de compensation en assurance médicaments du Québec** (SCAMQ), which has improved much of the problem by controlling drug costs, but adds that these efforts do not solve everything.

The solution, he says, lies in setting up a mechanism for rare diseases.

"Shouldn't the federal government fund a program for rare diseases and transfer the money to the provinces? The onus for drugs costing $1-million a year should not fall on private plans, in my opinion," Trudel says. "In Quebec, people are less left to their own devices than elsewhere, but funding is clearly a problem."

Disputing this proposal

Yanick Labrie, expert health economist, disagrees completely with the Beneva representative's proposal. "I don't like to hear that the government should deal with high claims," he says. "It's almost an admission of failure to shrug off this problem and leave it to the public plan. That's often an argument of those who favour a fully public plan: look, the private plans will take care of the small claims, the things that pay well and are very profitable for them, and the government will take care of the rest."

He continues, "We often talk about pharmaceutical innovations, but I would like to see innovation in the insurance industry. I know there's small-scale innovation, there are pitfalls, obstacles, but I wouldn't want to see policies that basically emulate what the government has done. I'm not a fan of that."

Unreasonable fees

Faucher-Francœur notes that on a $2-million a year drug claim, the pharmacist could earn $250,000 in fees. "I think it's important to be open about it. These cases hurt. It's not true that we can intervene. We can't even complain in a regulatory way," she says.

"I don't want to pay the same as the public. It's only fair that the pharmacist be entitled to reasonable compensation. What's missing is the ability to complain about unreasonable fees. There is no place for us to do that," she concludes.

Biosimilar drugs: revolution or illusion? According to the expert panel, the answer lies somewhere in the middle.

LONG-TERM CARE INSURANCE

Solutions to work around reduced product offerings

Insurers have reduced the supply of long-term care policies due to sluggish sales in the Canadian market. Advisors are getting creative in serving their clients.

BY ALAIN THÉRIAULT AND CHARLES MONGEON | PHOTOS BY FREEPIK AND ADOBE STOCK

Avenues emerge despite a dearth of products

In a sluggish long-term care insurance market, other products are finding a second calling to cover this critical need.

BY ALAIN THÉRIAULT

The long-term care insurance market is virtually non-existent in Canada, with the exception of one product: **Sun Life**'s *Sun Retirement Health Assist.* The insurer makes this product available through its network of exclusive advisors as well as via independent advisors.

The collapse of this market occurred in 2021. At the time, **Robert Dumas**, president and CEO of Sun Life Quebec, was already saying the solution would be financial planning for retirement, rather than a long-term care insurance product. Dumas also described sales in the Canadian long-term care insurance market as lacklustre.

Also at that time, Sun Life offered a second product, *Sun Long Term Care Insurance,* which the insurer took off the shelf in June that year. Sun Life's last competitor, **Blue Cross Canassurance**, pulled its *Tangible* product in July 2021.

At its peak over a decade ago, this market had 10 providers offering a total of 12 products. In addition to Sun Life and Blue Cross Canassurance, insurers such as **RBC Insurance** and **Manulife** held down a market niche. RBC Insurance withdrew from the market in 2012.

The long-term care insurance market first began its rapid decline when reinsurer **Munich Re** exited the market in 2018. That same year, **Manulife**, **Desjardins Financial Security** and **La Capitale** (now **Beneva**) stopped selling their products.

Although there is now only one product on the market, other avenues exist for advisors to protect their clients from this risk (see *Through the back door* section in this article). Implementing the strategies suggested, however, requires careful planning on the part of the advisor.

That said, it is worth the effort, as these strategies may be beneficial to people experiencing a loss of autonomy who wish to receive care at home or in a private facility.

Overconfidence and disinterest

Advisors should also educate their clients on the need to be financially prepared for a loss of autonomy. Canadians underestimate this risk.

In the *2020 Retirement Risk Survey,* its most recent study on the subject, the **Canadian Institute of Actuaries** (CIA) found a 47 per cent disability rate among 75-year-olds (see the French-language article *La grande majorité des Canadiens n'a pas planifié ses soins de longue durée* in *Journal de l'assurance*, February 2022, pages 10–12). Meanwhile, only 30 per cent of Canadians aged 45 or older report being in very good or excellent health, a drop from 51 per cent in 2012.

The CIA also found that 30 per cent of Canadians report having a chronic illness or health problem. The percentages are higher among retirees (38 per cent), those not living with a partner (35 per cent) and those born in Canada (32 per cent), according to the study, which is based on a survey of over 1,500 Canadians.

In another study, *Rethinking Long-Term Care in Canada: Lessons on Public-Private Collaboration from Four Countries with Universal Health Care,* published in 2021 by the **Fraser Institute**, economist and study author **Yanick Labrie** discusses Canadians' lack of interest in long-term care insurance.

Yanick Labrie

> Other countries have "meaningfully reformed their universal long-term care system by adopting a decentralized approach that efficiently leverages collaboration between the public and the private sectors.

He believes the main reasons for the low uptake of private long-term care insurance (LTCI) in Canada include "a limited awareness of the LTCI products (**Boyer, de Donder, Fluet, Leroux, and Michaud**, 2020) and the perception that governments will somehow meet the long-term care needs of the population (Boyer, de Donder, Fluet, Leroux, and Michaud, 2019)."

Toward a public-private partnership?

In his study, Labrie also urges Canada to take a cue from Europe in the delivery of long-term care to its population. Canada should learn from more successful long-term care systems in other countries with universal health care.

The shortcomings of Canada's long-term care delivery system are not new, according to Labrie, also a senior fellow at the Fraser Institute. "The difficulties in meeting the needs of the elderly in nursing homes or at home precede the arrival of the pandemic in the country," he says.

Labrie is an expert on public policy, including the role of the insurance industry and the possibilities of ➜

FEATURES OF THE ONLY LONG-TERM CARE INSURANCE PRODUCT AVAILABLE IN CANADA

Company	Sun Life
Product name	Sun Retirement Health Assist
Issue age limits	Age 45 to 71.
Premium payment duration	Premiums are payable for the lifetime of the policy (until the policy anniversary following the insured person's 100th birthday).
Benefit amount	Min. weekly benefit: $125. The benefit is calculated weekly and paid monthly. Max. weekly benefit (for all LTCI coverage on one life insured): $2,300. The benefit is calculated weekly and paid monthly.
Benefit duration limits	Unlimited.

Source: InsuranceINTEL, a product from the Insurance Journal Publishing Group.

networking between the public and private sectors. He participated at the **Group Insurance Congress** on February 21, 2023, organized by the **Insurance Journal Publishing Group** at Palais des congrès de Montréal. He took part in two seminars, one of which focused on the issue of expensive biologics and the hope that biosimilar drugs will reduce the expenses of private group plans (see the coverage of the conference on pages 6–10 of this edition of the *Insurance Journal*).

In his study on long-term care, Labrie laments that calls to integrate long-term care into Canada's public health systems ignore the experiences of other countries. "Some have meaningfully reformed their universal long-term care system by adopting a decentralized approach that efficiently leverages collaboration between the public and the private sectors," he asserts.

He points to Germany, Japan, the Netherlands and Sweden, whose universal long-term care systems include the private sector as a key partner. Patients have access, "regardless of their income and pre-existing health conditions," Labrie says. In these countries, patients usually cover a portion of the cost of their care. Labrie points out that the private sector accounts for 96 per cent of long-term care providers in Germany and 93 per cent in the Netherlands. By comparison, in Canada the private sector accounts for only 52 per cent of providers, says the economist.

Long-term care providers operate in the free market in all four countries that Labrie cites. "Choice and competition among care providers is encouraged by policymakers, and [has] helped improve the quality of services," he says. "Unlike the practice in Canada, care providers in these four countries are not guaranteed they will operate at full capacity, and good quality is rewarded through user choice."

Aging at home

Labrie's study also points out that most long-term care options in Canada focus on institutional care even though "about one in nine newly admitted residents in a long-term care institution in Canada could have been better cared for at home."

He notes that arrangements and funding for care provided in the patient's home are much more important in the other four countries. "Calls for increased public spending on institutional care in Canada will likely create an outdated and expensive system that will not necessarily serve patients well," Labrie says.

Policymakers should learn from other successful models around the world by taking a more collaborative approach with the private sector, Labrie adds. This approach could be combined with "aging-in-place policies," which allow seniors to receive care in their homes at a potentially lower cost.

Through the back door

Until a European-style solution emerges, the Sun Life product remains an option. The premium for Sun Life's assisted living product is guaranteed for the first five years of the policy and may increase thereafter. In the event of loss of autonomy, this insurance pays a monthly benefit after a waiting period. The monthly payments can be used to cover institutional or home care, among other things.

Regarding the lack of choice of long-term care insurance products in the Canadian market, **Claudine Cloutier**, vice-president, living benefits, partner, at **Groupe Cloutier**, can suggest other paths for advisors whose clients want to protect themselves in the event of a loss of autonomy. "Sun Life's assisted living [product] is pretty much the only option, unless the client has a disability insurance policy with RBC Insurance or Manulife," she explains.

Both insurers allow for the possibility of converting disability insurance coverage to long-term care insurance, without having to submit new evidence of insurability. RBC Insurance offers four disability insurance products that can be converted.

Although Manulife no longer offers its disability products as of September 30, 2022, Cloutier points out that the right of policyholders to convert their disability coverage to long-term care insurance still exists.

Cloutier sees another way to get long-term care insurance through the back door: Buy a critical illness insurance product from RBC Insurance. "People who don't need disability insurance will be able to use critical illness insurance as a bridge to long-term care," she says.

Claudine Cloutier

"You don't have to buy a high-end product," she adds. "The advisor can sell a simple $25,000 Term 10 Critical Illness Insurance (T10) policy, which is the minimum. If the coverage remains in force for at least two years and the insured is between 55 and 65, they can convert to long-term care insurance."

Cloutier gives the example of a 55-year-old man who is still healthy after two years. "He will be able to convert his critical illness insurance and get 100 per cent coverage per day in long-term care. Obviously, you're starting a new long-term care policy, but you went through a limited health questionnaire when you bought the critical illness insurance two years ago."

With the RBC Insurance product, the insured can know the maximum that they will have to pay for the duration of their policy.

To take advantage of the conversion strategy, the insured must not have claimed a disability or critical illness benefit. If they can convert, Cloutier points out that the premium for long-term care insurance is not guaranteed, but it can't increase by more than 50 per cent. "With the RBC Insurance product, the insured can know the maximum that they will have to pay for the duration of their policy."

Cloutier emphasizes the advisor's role in educating the client to act early, especially with RBC Insurance products. "If the client can convert their critical illness

DISABILITY INSURANCE — NON CANCELLABLE (GUARANTEED)

Company	RBC Insurance	RBC Insurance
Product name	The Foundation Series	The Professional Series
Issue age limits	Level Premiums: 18 to 60, Step Rate Premiums: 18 to 35	Level Premiums: 18 to 60, Step Rate Premiums: 18 to 35
Special features	Long-term care conversion option: from age 55 to 65, the client may convert the policy to a long-term care policy offered by RBC Insurance without having to submit evidence of good health.	Long-term care conversion option: from age 55 to 65, the client may convert the policy to a long-term care policy offered by RBC Insurance without having to submit evidence of good health. *Class 4A: Special program applies to select 4A applicants under the Professional Series (Established Professionals Program). Clients with Long Term Disability coverage have access to CareNow and the wide variety of programs that address mental health and personal relationships.

Source: InsuranceINTEL, a product from the Insurance Journal Publishing Group.

Chantal L'Espérance

or disability policy at age 55, they can pay their premium sooner. RBC's long-term care product is only payable for 20 years," she adds as an example. Manulife's conversion product is payable for life.

The whole life advantage

Chantal L'Espérance, strategic advisor in financial planning and insurance at **SFL Wealth Management**, Northwestern Quebec, suggests planning for long-term care through the purchase of a participating whole life insurance policy, payable over 20 years, a formula that allows the insured to accumulate cash values more quickly.

> When the insured gets to that stage of life, at age 75, 80, they will have a whole life policy with dividends that have increased over the years, and cash values that they can withdraw gradually because they may not need as much insurance anymore.

If the insured needs the services of a home care nurse 20 years later, for example, they could cover the costs by lowering their insurance coverage in order to withdraw cash values from the policy. "When the insured gets to that stage of life, at age 75, 80, they will have a whole life policy with dividends that have increased over the years, and cash values that they can withdraw gradually because they may not need as much insurance anymore," she says.

These gradual withdrawals are called partial withdrawals. She sees the partial withdrawal as the ideal tool for use in a long-term care setting. It's like "selling slices of insurance" back to the insurer, who can gradually withdraw the values built up over a lifetime, she explains.

L'Espérance points out that the insured can also access their cash value by taking out a policy loan. The policy loan must be negotiated with a bank, which will use the policy as collateral for the loan it makes to the insured. The bank will lend an amount that is a percentage of the total cash value, but few will agree to do so for small sums. She says that **Equitable Life** and **Manulife Bank** specialize in this type of loan, even for smaller amounts.

The insured must apply to the insurer for a partial withdrawal or a policy loan. To illustrate how partial withdrawals work, L'Espérance uses as a typical case a 55-year-old non-smoking man who takes out a whole life insurance policy with a participating component payable in 20 years. For an annual premium of $5,000, the policy will pay a death benefit of $120,000.

According to her projection software, the amount of insurance will reach $192,000 when the insured is 80 years old, thanks to the growth of dividends. "If the person needs to make withdrawals from age 80 to 85 for care, they resell slices of insurance by making withdrawals during that time," L'Espérance says.

Based on the current dividend scale projected by the software, the insured could withdraw a pre-tax amount of $14,380 annually for five years (or $11,000 net per year, based on an assumed tax rate of 35 per cent). This would leave the insured with $119,000 of insurance coverage, which is about the same as the initial amount.

DISABILITY INSURANCE — NON GUARANTEED

Company	RBC Insurance	RBC Insurance
Product name	The Bridge Series	Quantum
Issue age limits	18 to 60	18 to 60* (step rate premiums 18 to 35). *Rate quotes are available for ages 61-63 from your local sales office (some restrictions apply).
Special features	Clients with Long Term Disability coverage have access to CareNow and the wide variety of programs that address mental health and personal relationships. Long-term care conversion option: from age 55 to 65, the client may convert the policy to a long-term care policy offered by RBC Insurance without having to submit evidence of good health.	Long-term care conversion option: This option is provided by amendment and is automatically attached at policy issue to qualified Quantum policies without charge. Between ages 55 and 65, qualified insureds may convert all or part of their disability benefit into a new LTC policy. The conversion is dollar for dollar with a $6,000/month ($200/day) all RBC policy conversion maximum. The insured must not have claimed on the disability policy in the 12 months prior to conversion. Optional riders on the new LTC policy are subject to our conversion rules at the time of conversion. Clients with Long Term Disability coverage have access to CareNow and the wide variety of programs that address mental health and personal relationships.

Source: InsuranceINTEL, a product from the Insurance Journal Publishing Group.

Retirement and health: Income a key factor for autonomy

Researchers associated with the UQAM School of Management confirm link shown in economic literature.

BY CHARLES MONGEON

A higher income helps shelter us from loss of autonomy in our old age, says an analysis from **UQAM School of Management** (ESG UQAM).

Entitled *Evaluating the relationship between income, survival and loss of autonomy among older Canadians*, the analysis was published as a research paper by the ESG UQAM **Research Chair in Intergenerational Economics**. Researchers **Marie Connolly, Akakpo Domefa Konou** and **Marie-Louise Leroux** highlight correlations between income and the likelihood of reaching age 85, along with the odds of having limitations in activities of daily living and the odds of living in a long-term care facility (LTCF).

For their analysis, the researchers used data from a 2016 survey of 2,000 Quebec and Ontario respondents aged 50 to 69 conducted by the **Retirement and Savings Institute** (**HEC Montréal**). This survey by Boyer et al. aimed to better understand the population's reluctance to purchase long-term care insurance.

Income and longevity: Link reconfirmed

The analysis produced so-called objective probabilities after controlling for several socioeconomic factors, including age, gender, education and health status.

The researchers also developed subjective probabilities based on respondents' income and survey responses.

The analysis of the ESG researchers reconfirms a link already documented in economic literature: There is a positive correlation between income and the objective and subjective probability of living to age 85. In short, the higher our income between the ages of 50 and 70, the greater our chances of living to 85.

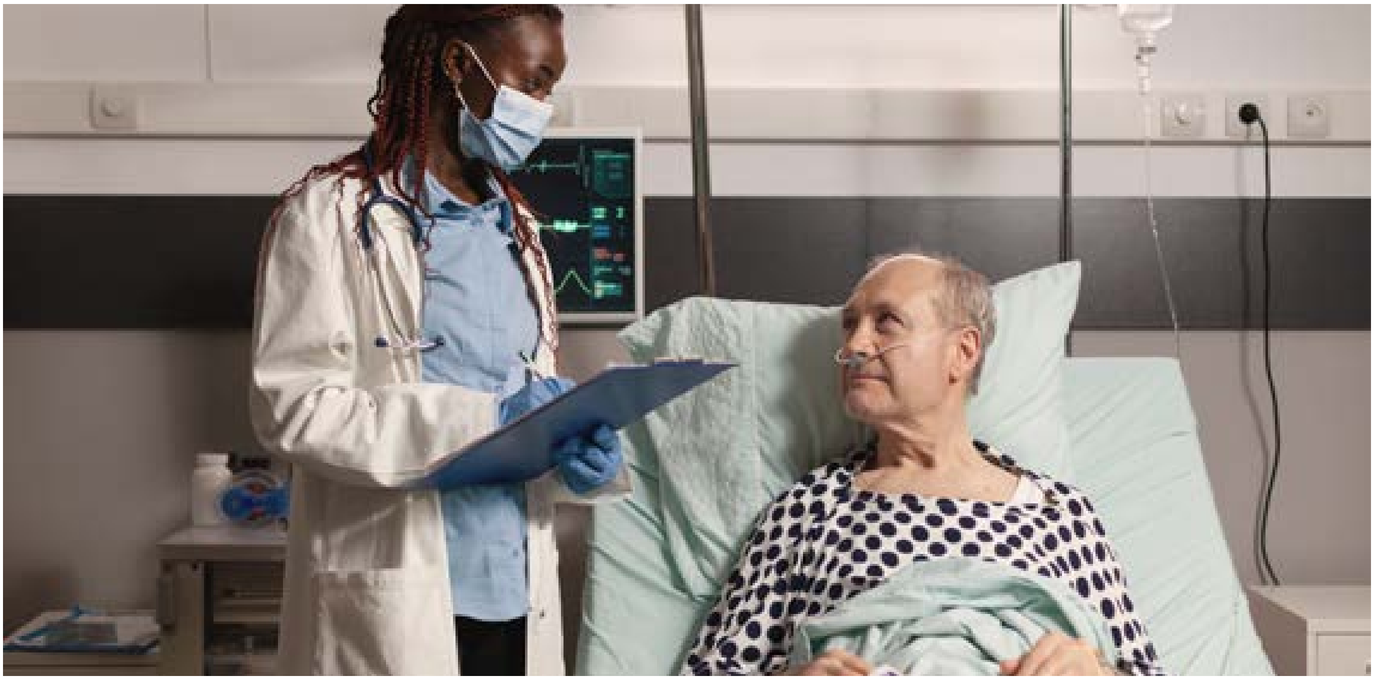
Surprises and contradiction

The researchers' analysis reveals a correlation that is less well documented in the economic literature: The higher our income, the less likely we are to be in a situation of loss of autonomy where a move to an LTCF is necessary or where at least two of our essential activities of daily living are limited.

Activities such as getting out of bed alone, bathing, dressing, eating and using the toilet are all defined as essential activities of daily living.

This "negative" relationship between income and the probability of experiencing a loss of autonomy is observed in terms of objective probabilities.

The findings on the relationship between income and the subjective probability of experiencing a loss of autonomy are more nuanced.



On the one hand, responses to the survey suggest that the higher our income, the less likely we are to be limited in our activities of daily living when we reach old age. On the other hand, the respondents believe that income increases the risk of having to move to an LTCF.

"This surprised us," explains co-author and professor Leroux. "When you look at the objective probability, the richer you are, the fewer limitations you will have and the less likely you will end up in an LTCF. But we see that, subjectively, people don't think the same thing."

"The richer they are, the more likely they believe that they'll end up in a long-term care facility. Poorer people will have more limitations in their daily lives, but they see themselves as less likely to be institutionalized. We believe that people have taken into account other aspects, related to their financial capacity, rather than just the intensity of their anticipated loss of autonomy."

Insuring against loss of autonomy?

"What our analysis shows to actuaries and insurers is that the risk factor for loss of autonomy decreases with income," adds Leroux. "Our two measures of loss of autonomy, namely the probability of limitations in activities of daily living and the probability of going to a long-term care facility, suggest that there could be two types of insurance: Policies that would reimburse expenses related to all care when a person is in a situation of loss of autonomy at home, and those that would only reimburse expenses when a person goes to an LTCF."

But beyond these industry-related aspects, Leroux, as a public economist, believes that the analysis provides insights for policymakers.

"We want to determine which people are most likely to be affected by a loss of autonomy," Leroux says. "The rich or the poor? From a public policy point of view, it's important to know this. If I put in place public insurance to cover loss of autonomy or a program to alleviate it, who am I serving? Now we have some answers. Because people with lower incomes are, on the one hand, more prone to loss of autonomy, and on the other hand, they are more likely, objectively, to have to go to an LTCF."

It is estimated that by 2050, 9.8 per cent of the population of the **Organisation for Economic Co-operation and Development** member countries will be aged 80 and over, compared to 4.6 per cent in 2019. It is also reported that 50 per cent of people aged 65 and over in these same countries have limitations in their activities of daily living.

DISABILITY INSURANCE

A bulwark against distress and health care system delays

The number of mental health disability claims in Canada is rising steadily and surgery delays are building up, while inflation is aggravating the situation. More than ever, individual disability insurance is becoming a key component of workers' financial planning.

BY ALAIN THÉRIAULT

Claims on the rise

Three years after the pandemic first broke out, trends are emerging in disability insurance claims.

BY ALAIN THÉRIAULT

The number of disability insurance claims is steadily increasing, in individual and group insurance alike. This phenomenon is not new, but it has been accentuated by the pandemic. Mental health plays a role, as do chronic illnesses that are often detected later than usual.

RBC Insurance is a major player in non-cancellable individual disability insurance. With **Canada Life**, it is one of the two remaining insurers in this niche in Canada after Manulife exited on September 30, 2022. "Mental health claims have been on the rise over the past several years, up five per cent from 2018, with a noticeable spike in 2021," says **Jean Salvadore**, senior director, life and living benefits, RBC Insurance.

Salvadore adds that mental health issues have become the largest source of claims for RBC Insurance. The insurer offers *The Foundation Series* and *The Professional Series* non-cancellable disability insurance, as well as *Quantum*, *Bridge Series* and *The Fundamental Series* guaranteed renewable disability insurance.

With a track record in the non-cancellable individual disability insurance market dating back over 80 years, Canada Life has also noted the magnitude of the trend. "Mental health claims were on the rise before the pandemic. That trend has continued," says **Gaffray Marion**, director of living benefits claims, individual customer, Canada Life. "For example, we've seen an increase in major depression claims that are tied to work-related burnouts. Those burnouts are still happening today," he points out.

The customer base for its non-cancellable product *Lifestyle Protection Plan* predisposes Canada Life to receive more of these claims than average. "A lot of our clients are medical professionals. They are still feeling the strain from the pandemic, whether it be very long backlogs in patient lineups or wait times. There are sometimes staff shortages. There's been higher demands on emergency rooms. All of these factors have added pressure to an important block of our business. We see this come through in our disability claims for our clients that are in the health care profession," Marion explains. Canada Life also offers a cancellable disability insurance product called *Independence Plan*.

In addition to health care professionals, entrepreneurs are also under intense psychological pressure, Marion says. "Another big block of our business is business owners. This group is also experiencing a lot of stress because of a number of factors such as supply-chain issues or not being able to hire the right amount of staff and maybe other disruptions."

Marion adds that 40 per cent of new disability claims Canada Life receives are musculoskeletal related, 25 per cent are mental health related, 20 per cent are cancer related and five per cent are cardiovascular related. The share of mental illnesses has risen very slightly from 2019, he says. He sees the upward trend as very gradual but steady.

Alain Maille, national director, claims operation, **iA Financial Group**, is responsible for *Superior Program* and *Acci-Jet* guaranteed renewable disability insurance products. He estimates that the number of claims related to anxiety and mental illness is higher now than before the pandemic, although he cannot provide statistics. He adds that mental illnesses often emerge in conjunction with the physical problems that caused the disability.

> Mental health claims have been on the rise over the past several years, up five per cent from 2018, with a noticeable spike in 2021.
>
> – Jean Salvadore

What's more, obsessive-compulsive disorders (OCD) were exacerbated by the fact that people were confined to the home. "People were more fragile and interacting less on a normal basis," Maille explains.

He also noticed an increase in minor injuries related to sports. "This is probably because during the pandemic, people wanted to continue to be active. With the sports facilities closed, people were doing their sports at home with less supervision," he says.

> Business owners are dealing with economic and financial instability, and rising inflation, which erodes profits. All that has a negative impact on their health and their ability to cope with these stresses.
>
> – Gaffray Marion

Unexpected effects of inflation

Especially since 2022, inflation has exacerbated these disruptions, and in turn the negative impact on business owners' mental health, says Marion, who adds that economic issues go hand in hand with mental

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health claims. Business owners are dealing with economic and financial instability, and rising inflation, which erodes profits, he explains, adding that "all that has a negative impact on their health and their ability to cope with these stresses."

As for what is driving the increase in mental health disability claims, Marion says, "It could be a combination of things. But I'm sure it's not helpful for business owners when we're looking at financial instability."

Nathalia Wosik, director, claims and underwriting, **Humania Assurance**, believes that inflation may cause policyholders to hesitate before going on disability. "We had fewer new disability claims in 2022 than in 2021, both in individual and group insurance. We continue to have fewer in 2023. The economic environment seems to be having a downward impact. With inflation, groceries and mortgages are more expensive. People may not be able to afford to go on disability anymore, and are using it as a last resort," Wosik says.

> With inflation, groceries and mortgages are more expensive. People may not be able to afford to go on disability anymore, and are using it as a last resort.
>
> — Nathalia Wosik

Humania Assurance offers the guaranteed renewable individual disability insurance products *Prohealth Income Insurance - Accident and sickness* and *Prohealth Income Insurance - Accident*, for which all occupations are accepted. Seasonal workers, part-time workers or members of an occupation that is more difficult to insure, such as truck drivers, make up a large part of the core clientele for both products. "When you are down to 70 per cent or even 60 per cent of your salary, it can be difficult to pay the grocery bill," Wosik says.

Full employment is another factor that is reducing disability claims, she continues. "In group insurance, we see people in conflict with their bosses, dissatisfied with their jobs or overload. Now people can reposition themselves in the job market. Rather than having a mental health disability, they choose a healthier environment."

The trend will reverse if the economy goes into recession, Wosik believes. "In a recession, businesses close and people are afraid of losing their jobs. You might as well take advantage of benefits, even if it means earning less than your salary, rather than continuing at all costs," she says.

Short term even shorter

At iA, Maille has seen an unexpected trend in short-term disability claims emerge during the pandemic. "I was surprised to see the average length of disability shrink during this period," he says. "We found it a little odd because with the delays in health interventions and everything that happened during the pandemic, we would have expected disabilities to last longer."

In fact, the return to work was easier for insureds who could work remotely at the beginning of the pandemic. "Before, many would gradually return to work," Maille points out. He adds that telecommuting facilitated insureds' recovery and return to work because they did not need to travel.

Why return sooner? Maille has noticed that insureds who became disabled while working in critical positions in their companies felt the need to return to work to demonstrate their performance capacity. He believes they were motivated by the labour market instability early in the pandemic. "The labour shortage became more pronounced later on," he says.

Regarding overall trends, Maille remains cautious; he believes the tide can turn quickly. "Three years of a pandemic is not very long in terms of insurance. It's hard to draw broad conclusions. We insure people for 25, 30, 50 years. Our predictive models usually cover at least five years," he says.

Having assumed his current position in December 2022, Maille says he gauges trends in individual disability insurance by drawing on his experience as **iA Dealer Services**' group credit claims director, a position he held for over 20 years. He finds the disability trends in both sectors similar.

THREE CATEGORIES OF DISABILITY INSURANCE PRODUCTS IN CANADA

- **Non-cancellable disability insurance:** Often described as a premium product, it offers a guaranteed premium and the insurer cannot cancel the policy.
- **Guaranteed renewable disability insurance:** The insurer cannot cancel the contract. However, premiums are not guaranteed. The insurer cannot increase the premiums for a single insured. It must do so for an entire class of employment.
- **Cancellable disability insurance:** The insurer can cancel the contract, but not for a single insured. Instead, it must do so for an entire occupation class.

Long-term disability: Surgical delays to blame?

Claims and their amounts have swelled in recent years.

BY ALAIN THÉRIAULT

Disabilities last longer when they stem from physical tasks carried out on the work site, and the health care system backlog has worsened the situation. "Delayed surgeries brought more chronic health problems. Disabled people whose surgeries were delayed had a harder time recovering," explains **Alain Maille**, national director, claims operations, **iA Financial Group**.

Maille says that postponing surgery can lead to addiction problems. People with disabilities are forced to "manage their pain" by switching from acetaminophen, which loses its effectiveness over time, to increasingly powerful drugs such as narcotics (opioids).

"There seem to be more delays, even for simple procedures like cruciate knee ligament surgery. Staff shortages mean that surgery dates may be postponed several times, and post-operative follow-ups are no longer as close, which delays rehabilitation," says **Nathalia Wosik**, director, claims and underwriting, **Humania Assurance**. She is disinclined to take the analysis of delays further, considering cases "anecdotal."

Wosik says she has more disability claims for psychological problems than before the pandemic. These claims exceeded those for musculoskeletal causes in eight months of 2022. Even so, ongoing disability payments for musculoskeletal issues remain the most numerous and costly benefits disbursed by Humania Assurance. "For musculoskeletal disabilities, I have to pay more benefits for a longer period of time," Wosik says.

She also finds musculoskeletal disability cases more challenging than psychological ones. "In mental health, we are able to intervene. In the midst of the pandemic, we were able to shift to virtual treatments to compensate, but not in the case of musculoskeletal treatments. It is very difficult for us to intervene for an individual who is waiting for surgery," she notes.

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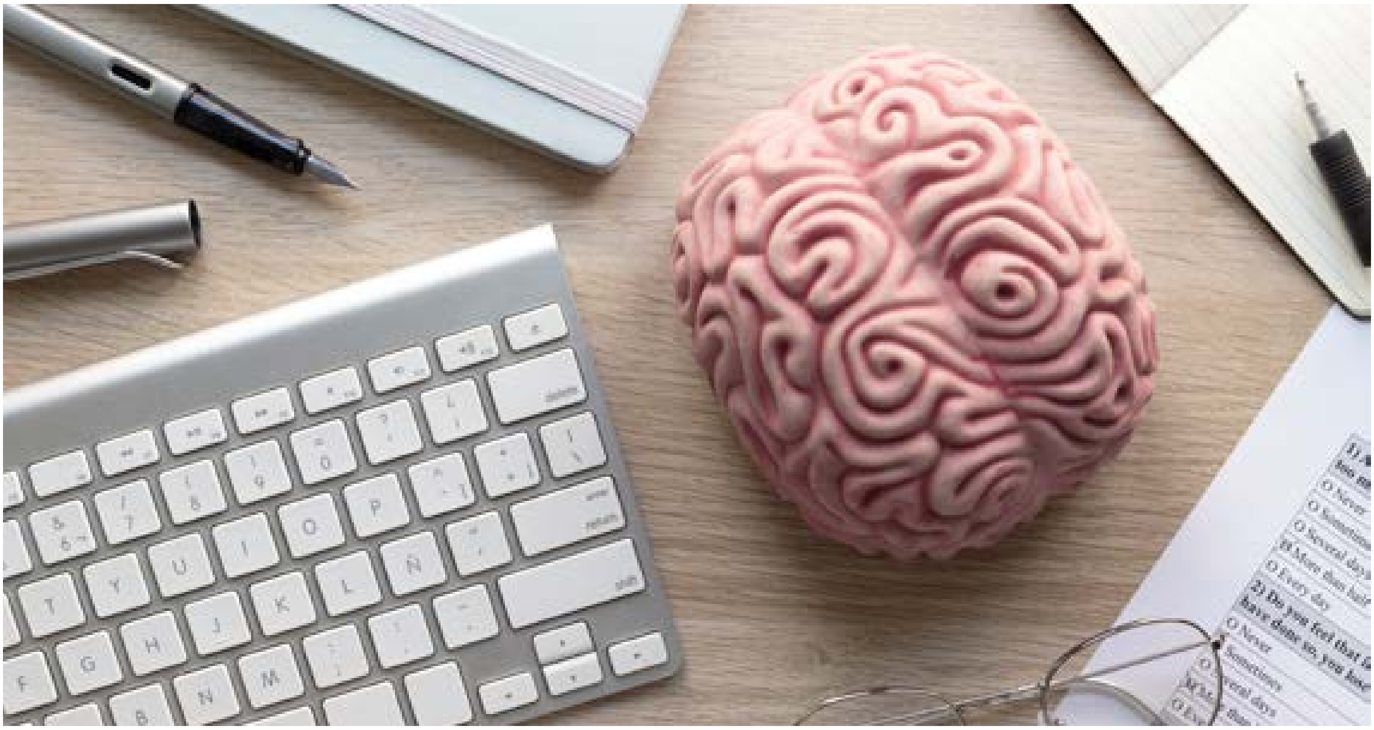


According to the Canadian Cancer Society, a stage 1 cancer is usually small and has not spread outside of the organ it started in.

The organization explains on its website that the higher the stage number, the larger the tumour or the extent of its spread. A stage 4 cancer has usually spread to a distant site in the body.

Private sector to the rescue?

Wosik thinks the health care system is trying to recover, but there is still a long road ahead. "Today, the administrative machine is ready to plan and forecast, but the teams and equipment do not seem to be available in time."

On March 14, an article in *La Presse* by journalist **Fanny Lévesque** revealed that a brand new surgery centre in a private clinic had no patients because the owners had been waiting for the green light from the Quebec government for a year and a half. Is the private sector the solution for disabled insureds awaiting surgery? "It has already happened to us for specific situations, but it's not the number one solution. Social conscience is lacking. We still want to ensure that our public system can meet the demand," explains Wosik.

> People were more fragile and interacting less on a normal basis.
>
> – Alain Maille

One of the factors that led Humania Assurance to redirect an insured to the private network was that the patient was suffering and explicitly requested this option, Wosik says. "It wasn't our decision; it was the individual's. He presented us with a plan and we assisted him. Not that we paid for everything, but we supported him in the financial cost of his decision to have surgery."

Advanced illnesses

In addition to postponed surgeries, delays in seeing a doctor at the height of the pandemic affected disability claims. For example, cancer was diagnosed at a more advanced stage than usual, reports Maille. "We saw far fewer stage 1 cancers," he says. Not only did people tend to minimize their symptoms and wait before going to the doctor, but the delay was exacerbated by the fact that doctors were less available.

At the same time, Maille noted increased use of the **Dialogue** telemedicine program iA offers its policyholders. While beneficial for easily treated conditions, it cannot replace in-person intervention in more serious cases. "Doctors can't walk into the room, sit with you, talk to you and palpate you. They can't objectively see the symptoms that patients report to them (at a distance)," he says.

Wosik observed an upswing in cancers. "This early in the year, I have more cancer cases in disability than I did at the same time in 2022," she told *Insurance Journal* in mid-March. "I can't say it's a trend, because the year is still young. Is it just a repercussion of the last few years, the lag in testing or follow-ups?" Wosik thinks the next few months will tell.

Gaffray Marion, director of living benefits claims, individual customer, **Canada Life**, also believes that delays in the health care system can lengthen disability durations. "There continues to be a significant backlog today. This can extend the normal recovery for certain chronic conditions. So it's not just about mental health now. I'm talking about arthritis, shoulder surgery, etc. If you're waiting for the specialist, or to see a surgeon, it can extend your claim by several months, even by years," Marion explains.

He points to another trend stemming from delays, which he is seeing during claims: "Patients do not have a family physician. That lack of a primary care provider also can extend a claim."

LONG-TERM DISABILITIES SWELLING

According to data the **Canadian Life and Health Insurance Association** (CLHIA) shared with *Insurance Journal*, long-term disability claims are on the rise.

In 2020, CLHIA data showed that long-term disability claims increased by about two per cent more than the five-year average. In the five years prior to 2020, the average increase was about four per cent. Growth in 2021 was close to two per cent, the CLHIA added.

The total amount of disability benefits paid annually has been growing between 2019 and 2021, the CLHIA statistics show:

Long-term disability claims

- 2019: $6.6-billion
- 2020: $7.0-billion
- 2021: $7.2-billion

In its 2022 *Canadian Life and Health Insurance Facts* report, the CLHIA states that insurers paid a record $40.8-billion in drug, dental, disability and accident claims in 2021 to Canadians covered by workplace insurance.

Disability insurance: Recovery the goal

Products for individuals play a crucial role: To provide steady income for people who can no longer earn it at work.

BY ALAIN THÉRIAULT

Gaffray Marion, director of living benefits claims, individual customer, **Canada Life**, says he regularly receives positive feedback from his clients about their disability insurance products. Some have been insured for more than 20 years.

"Some of them would go through two or three claims. There's nothing more rewarding than seeing the difference the disability insurance can make at the time of claim," he says. This is especially true since the pandemic has shown how vulnerable people are to medical situations. "I think that it's even more important than ever to make sure we have disability coverage," he adds.

The insurance benefit can help insureds cover business expenses or a loss of income. For clients with disabling health issues, Marion finds it satisfying to deliver on the insurer's promise to provide financial assistance while they focus on their recovery.

Jean Salvadore, senior director, life and living benefits, **RBC Insurance**, provided details on the resources the insurer has in place to support its policyholders' recovery from disability. She said that RBC offers wrap-around services "as a response to this significant mental health crisis in our communities." Salvadore considers it important that her clients who are on disability "receive the support they need, when they need it."

Under the supervision of RBC Insurance's rehabilitation team, Salvadore says, "We partner with health organizations to provide clients with reduced wait times to access psychiatric and psychological specialists, assistance selecting the right drugs for their situation, and a set of experts to ask questions or hear a second opinion on a diagnosis along the way." She adds that the work is done "in step with family physicians to ensure a consistent cycle of care."

Among the partnerships listed by Salvadore, RBC Insurance offers its disabled policyholders the services of **Medaca Health Group**, whose network of workplace psychiatrists provide focused assessments and treatment plans. In addition, RBC's partnership with **Personalized Prescribing Inc.** allows insureds on disability to have their genetic profile reviewed by expert pharmacists, to determine which medication would be best for them.

The insurer also offers its policyholders **Medical Confidence**'s health network navigation services, and **Teladoc Medical Experts**' second opinion to decide on a treatment plan or get advice about a surgery.

Sudden decumulation

Statistically, there may be a few clients in your book experiencing financial difficulties due to significant life events.

BY KATE MCCAFFERY

The perfect or most typically modelled trajectory for financial planning clients is one where assets are accumulated throughout life, then decumulated in a somewhat orderly fashion throughout the duration of the client's retirement. In reality, though, this path is not a given for anyone. Bad decisions based on misinformation can be wildly detrimental to a business owner's success, for instance, but debt and sudden, significant expenses can impact just about anyone. Experts say those with financial plans in place tend to do better than those without.

Meet Joe*

Joe is a solo-professional earning well in his career. Joe has a nest egg, or did anyway, before a series of costly decisions – all predicated on the belief that he had more in the bank than he did – wiped out Joe's emergency funds, which had been established when he inherited his mother's estate.

In Joe's case, earning well, the **Canada Revenue Agency** (CRA) assessed a tax bill that was larger than anticipated. Less than two months later, it was decided by the CRA that Joe would also need to pay next year's taxes in advance. (And these, of course, were set based on the blockbuster year that caused Joe's unanticipated tax bill in the first place.) Just prior to getting both of those bills, however, Joe committed to funding a wedding, extensive office renovations and an expensive family vacation, all of which wiped out the last of his remaining savings.

Down the street, a company owned by Joe's friend is in a similar state, but on a much bigger scale, one commensurate with the size of operations relative to Joe's practice. In this case, the business owner could be under pressure from any number of sources: The Canadian government's Canadian Emergency Business Account (CEBA) pandemic loans are due this year. At this company, it's also been determined that all independent contractors working in the company are in fact employees, making the company's owners responsible for years of missing employee source deductions. (Depending on the business, an owner may also have personally guaranteed to the rent, loans or other business debts. Key employees leaving a business can also have a detrimental effect on business, as can market conditions.)

At the individual level, divorce is a huge setback for many, even if the proceedings are amicable. The consequences of death and disability, meanwhile, are well known to insurance advisors. (Insolvency trustees say job loss, divorce and illness are the top three reasons people come to the point where they are considering a consumer proposal or bankruptcy proceedings.) Finally, gambling, compulsive spending and some do-it-yourself investing schemes can also wreak havoc on plans.

Commonly, recent retirees are also at risk of feeling the pinch, as many find out that they are spending more than they can afford in retirement.

"What do you do on vacation? Quite often you spend money," points out certified financial planner (CFP), founder of **MRG Wealth Management** and personal chief financial officer, **Ryan Gubic**.

Inflation's impact on spending and volatile markets depressing asset values aside, the very first year a retiree collects a pension can also end with a substantial tax bill. Here's why: Most don't retire on December 31. Consequently, they may earn both income and pension income (which will be taxed at a low rate, likely) and may also have vacation time and benefits paid out during the year – all resulting in the client being taxed at a higher rate than anticipated.

A look at the statistics

For business owners, the statistics are troubling. According to the **Canadian Federation of Independent Business** (CFIB), as of February 2023, 57 per cent of small businesses had not repaid their pandemic-related debts, and only 48 per cent say their sales have returned to pre-pandemic levels. Those surveyed by the CFIB carry an average of $105,000 in pandemic debts alone. They add that tax and regulatory costs are challenging 54 per cent of businesses. Notably, 59 per cent also say insurance is a concern pressuring their bottom line.

For individuals, too, there are a number of pre-pandemic studies showing that a large number of Canadians are living paycheck to paycheck – all of which are based on surveys conducted prior to inflation taking hold. According to **Statistics Canada**, the total number of insolvencies in February 2023 was 24.2 per cent higher than the total number of insolvencies

*Joe is a composite character, representing a few different business owners. Names and identifying details have been changed.

in February 2022. Consumer insolvencies increased by 24.8 per cent, while business insolvencies increased by 10.1 per cent. Notably, business insolvencies for the 12month period ended February 28, 2023, increased by 36.2 per cent when compared with the 12month period ended February 28, 2022.

Although advisors are not often faced with the prospect of this financial distress for their clients, as those who self-select for such service are generally well off, these debt and money problems can happen to anyone.

"Just because you have high income does not mean you can't necessarily have high debts as well," says **Doug Hoyes**, licensed insolvency trustee and co-founder of **Hoyes Michalos**.

When faced with such clients, there are a number of levers at an insurance advisor's disposal, including a renewed focus on re-establishing an emergency fund and perhaps structuring investments differently, but the experts recommend not rushing the solutions. As with most things, they recommend speaking to other experts as well – those versed in the problems your clients are experiencing – as some of these levers may not be appropriate for the client's circumstances at all, despite what logic might dictate at first glance.

Normalize, don't minimize

First, take stock of the client's frame of mind. Ask questions, reserve all judgement and don't add to the client's angst.

One advisor we spoke with points out that an advisor might even be inclined to agree with the client who arrives saying they've suffered a dramatic setback, which is not helpful. Another expert also suggests determining what constitutes a financial disaster in the client's mind.

"One thing that I'm seeing a lot in my work is this idea of scarcity. Even those with significant wealth, their bills are going to be paid, they can still sometimes interact with their money from a place of scarcity," says **Chantel Chapman**, co-founder of **The Trauma of Money**. This full panic mode, like they might be about to lose their home, may not actually be the case, despite the client's visceral reaction to the situation. "There's probably something that happened in their lifetimes that put them in a hypervigilant state of scarcity. Their family may have experienced scarcity and they were raised with a scarcity lens, so they interact with their money from that standpoint."

She adds that a trauma response is one where the brain acts from a place of survival, rather than cognitive choice. Trauma can leave the client feeling unsafe or unworthy, creating a hypervigilance in the brain such that any similar interactions in the future are met with that same hypervigilant response. (If a client is legitimately in a position where their resources are scarce, a lot of really high-quality decisions need to be made, she adds, because there isn't a lot of slack to make mistakes with.)

"I don't think financial planners need to become trauma therapists, but they can become trained in trauma sensitivity," Chapman adds. (The Trauma of Money trains interested professionals in a trauma-sensitive approach to money and clients.)

Training or no, however, she says the best course of action is to avoid activating or exacerbating that trauma. "You don't want your response to be shameful and judgemental. You don't want to go to a place that minimizes their experience either. It's a fine balance between normalizing that disasters do happen without minimizing."

Brenda Hiscock, CFP and fee-only financial planner with **Objective Financial Partners**, also points out that people have enough trouble confiding in their advisor if they believe there is something they might be doing wrong. "Shame keeps so many people at home; that's really, really unfortunate," she adds.

She says feelings about money are something an advisor needs to probe. "You can have the best financial plan in the world. It doesn't mean a thing if the person has barriers and issues from their past they haven't dealt with that can really throw the whole plan sideways," Hiscock says. "But we can't be criticizing, and we especially cannot catastrophize – they are already catastrophizing. We need to do the opposite."

Who's most at risk?

Hoyes and others say change is one of the first warning signs advisors should be cognizant of – if a client calls on March 1 every year to make a Registered Retirement Savings Plan (RRSP) contribution but they don't call this year, inquire why.

They may well be buying vacation property in Florida, he says, "But I would always be asking questions about any change. What happened?" He says they may have been off sick for a year or going through a divorce.

"Maybe I'm starting a new business. There may be perfectly good reasons for it. But if the reason is I've got a bunch of debt, that certainly would be a warning sign and it would be the advisor who would hear that first before anyone else," Hoyes says. (More on this in a minute, but he also points out that cashing registered investments might not be advisable if clients have significant debts. Should they be in a position where they may need to file a consumer proposal, that money might be much better off left in the client's RRSP.)

"The main risk is change. The company you've worked at for 20 years closes down. Your marriage ends. Your health gets worse. Those would be the three big ones," Hoyes says. "I think all advisors should always be thinking ahead – what could go wrong for my client?"

Warning signs our experts flag include:

- rising debt
- savings that have stopped, slowed or are otherwise off target
- turning off auto deposits or stopping pre-authorized contributions
- a client avoiding your calls (a big one as avoidance is a natural inclination for many when things are awry)
- obvious emotional distress
- putting up a wall and providing no information or being overconfident as a proactive way of mentally dealing with the problem and hiding the shame

➜

As for who, precisely, is most at risk, the experts agree that business owners and those with variable income are likely candidates. "If someone is a business owner, or is self-employed, they are at greater risk because there's more stuff that can go wrong and more stuff that can go catastrophically wrong," Hoyes says.

Corinne Pohlman, senior vice-president of national affairs and partnerships with the CFIB, also points out that a lot of businesses are still trying to emerge from the pandemic. In addition to the debt levels discussed above, costs for everything have skyrocketed. "If you can't make enough revenue to cover the costs that are now going higher and higher, and you can't find the people to keep your doors open, all of those things combined are the reasons we're seeing bankruptcy statistics going up quite high for small businesses right now."

"Even if, at the end of the day, the tax court rules in your favour as a taxpayer, you get none of that money (your legal expenses) back," says Corinne Pohlman, senior vice-president of national affairs and partnerships at the Canadian Federation of Independent Business (CFIB). "In the general court system, the person who loses or the organization who loses sometimes needs to pay back the costs associated. Not in tax court. It really needs to be worth it for you to go that far."

Anyone without an emergency savings account is also at high risk, as is anyone carrying significant debt. "If you are carrying $50,000 worth of debt and you lose your job, you have no safety net at all," says Hoyes. "Business owners are a very common one. The biggest issue we see with business owners has to do with taxes." (And worse, he adds, taxes are the easiest expense to avoid when employees and suppliers and property owners need to be paid.) "Getting behind on taxes is a huge issue for business owners," he says. "And you don't really realize how serious the problem is until a year later."

Knowledge and other solutions

For business owners, Gubic recommends advocating for regular reviews of financial and operational concerns, rather than waiting for tax season to arrive to discover the problems.

"One of the things business owners can do to help increase their financial literacy and champion success in their finances is to understand their finances," says Gubic. "Are they just waiting until the end of the year when the accountant sums everything up for them? That's a risk. If you're not in front of your financials, you don't know if there's a going concern in your business."

Education and financial literacy efforts are similarly recommended by Hiscock. "I think the best thing you can do is arm [clients] with knowledge, because knowledge is what allows them to take control. The best way for them to overcome their shame and guilt is really to arm them with knowledge. Planning is a very powerful tool to help people understand what's possible."

Notable advice: Involve the pros and don't rush things

"Don't rush to the solution. Give [clients] space to share and don't continue the panic," says Chapman. She adds that this space to share what things mean to the client at a deeper level allows for the formulation of a more holistic solution, one that breaks with the pattern of survival thinking. "The financial advisor has an opportunity to really provide some ease and peace in that scenario."

Hoyes also strongly recommends looping in support from experts. An insolvency trustee, for example, will point out that RRSP assets, subject to some conditions, are actually sheltered in the event your client does need to declare bankruptcy or file a consumer proposal. (Paying off debts with registered assets may actually be worse for your clients in the long term. You also risk losing a client, as they have no assets left to manage.) Similarly, having the right mediators and lawyers in the room in the event of a divorce can make a significant difference in the outcome.

Future-proofing your clients and your practice

It's generally agreed that those with a financial plan in place are better positioned to manage sudden financial setbacks – emergency funds are in place and "what if" plans are all taken into consideration as part of comprehensive planning.

"I think there's a big difference between someone that has a plan and is working with a professional and someone who doesn't have a plan," Gubic says. Similar findings have been reported by CFP certification and professional oversight body **FP Canada**.

Since planning ahead is part of future-proofing your clients against scenarios like the ones described here, the experts recommend advisors examine their books carefully and be proactive.

1. Segment your list. "I think a financial advisor needs to think ahead for their riskier clients. What steps can be taken now to mitigate those possible issues?" Hoyes asks. "It's complicated, but it's certainly something to be thinking about."
   Identify clients:
   - without financial plans and
   - without sufficient disability insurance.

   Make note of:
   - business owners' circumstances (pay particular attention to new businesses)
   - rising debt levels and
   - any savings changes.
2. Involve professionals in your business. Consulting with an insolvency trustee – before making any dramatic moves with your client's registered assets, in particular – can make a notable difference in the outcome for your client if they should actually need those services.
3. Celebrate wins. "There's a switch you can see, especially when people get out of debt," Gubic says. "Whatever it is for that person, celebrate it," he adds, pointing out that these subtle efforts at behavioural change can and will impact the client for years to come. "Enable a positive behaviour and mindset."

Incidents are costly but cyber readiness subpar

Just nine per cent of companies surveyed are in a mature state of readiness for security challenges.

BY KATE MCCAFFERY

In preparing a presentation for the French-language congress to be hosted by *Journée de l'assurance de dommages* on April 13, 2023, industry participants tell the *Insurance Portal* and the *Insurance Journal* that the profitability of cyber risk insurance has yet to be demonstrated. Some believe the risk is uninsurable, while others say it is still a product in the making.

Among the obstacles, they say awareness of the damage that can be caused is not at the level it needs to be, an assertion that is examined in a recent report published by **Cisco**, entitled *Cisco Cybersecurity Readiness Index, Resilience in a Hybrid World*.

The report examines the magnitude and complexity of the problem to be insured. Without mentioning insurance, the report takes an in-depth look at the general state of preparedness companies are in when it comes to their cybersecurity concerns.

In looking at the Canadian version of the report specifically, Cisco notes that 77 per cent of Canadian respondents say they expect a cybersecurity incident to disrupt their business in the next 12 to 24 months. Globally, that number jumps to 82 per cent. The cost of being unprepared, meanwhile, can be substantial. Again looking at Canadian numbers, the report notes that 51 per cent of respondents say their companies experienced a cybersecurity incident in the past 12 months. Of those, 34 per cent of organizations said it cost the company more than US$500,000.

Cisco points to the current hybrid world, in which employees and clients increasingly operate from multiple devices, in multiple locations, generating enormous amounts of data. "This presents new and unique cybersecurity challenges for companies," they state. In Canada, 78 per cent of the survey's respondents said they planned to increase their security budgets by at least 10 per cent in the next 12 months.

The double-blind survey of 6,700 private-sector cybersecurity leaders from around the world discussed challenges across five key pillars: identity (traditional perimeter approaches are inadequate, the survey notes), devices, network security, applications and data. Researchers also asked how far along each company was in their development of a full solution. "In a post COVID world, the requirements of cybersecurity have changed as the landscape for businesses has been spun on its head," the global report notes. "While there is broad consensus that the move to hybrid is here to stay, its long-term success hinges greatly on organizations' ability to safeguard themselves against new and rapidly evolving threats."

Ranking companies into beginner, formative, progressive and mature categories, nine per cent of companies in Canada were mature, 34 per cent were progressive, 48 per cent were in the formative stage of preparation and nine per cent were beginners. (Globally, these numbers are 15 per cent, 30 per cent, 47 per cent and eight per cent, respectively.)

Some of the findings are not anything you might predict. Brazil, for instance, stands out as the country most ready, with 26 per cent of companies in a mature state of preparedness. As mentioned, Canada had just nine per cent of its surveyed companies in a similar position, coming in behind both the United States, where 13 per cent of companies were in the mature category, and Mexico, where 12 per cent of companies were rated mature in their preparations.

"This variance could be largely explained by the fact that companies in emerging markets started their digitization journeys more recently compared to their peers in developed markets," the report states. "That means many of these companies do not have legacy systems holding them back."

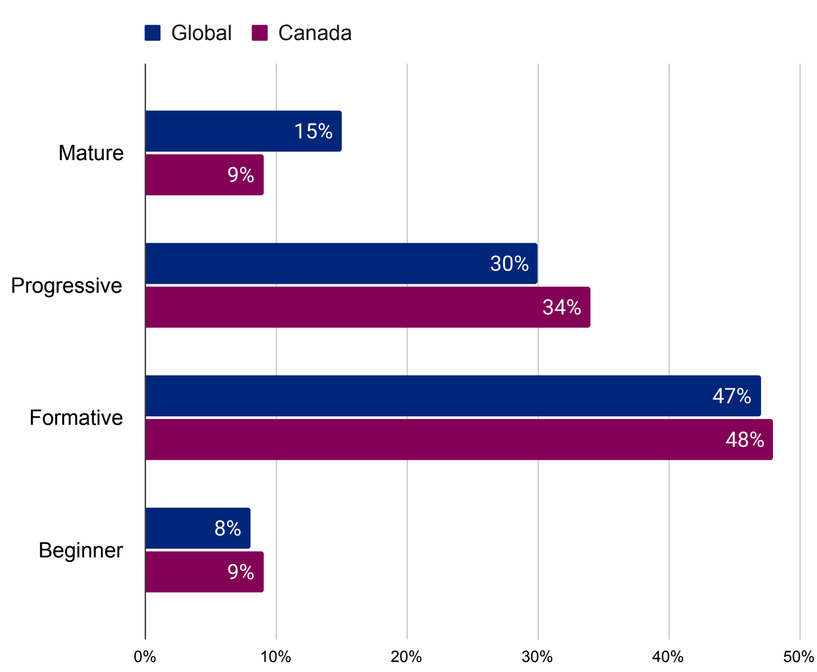
The report adds that most organizations are already thinking about resilience in their financial, operational and supply-chain functions. "Security resilience cuts across all of them," the report's researchers write.

The global report makes a number of other observations, as well:

- At last count, there were more than 4,000 publicly disclosed data breaches in the first three quarters of 2022 alone. "The likelihood is that this is just the tip of the iceberg – with thousands more data breaches taking place in less well-known organizations."
- For businesses, the impact of data leaks can be significant. "Not only do firms spend significant time on resolving the breach and enacting disaster recovery plans, but there are also major implications once the crisis is over."
- Financial services companies register as being highly prepared, with 19 per cent of organizations scoring in the mature category. This effort is outpaced by retail companies, of which 21 per cent of organizations rated in the mature category.
- Mid-sized companies with between 250 and 1,000 employees were best prepared, outranking their larger competitors in the mature and progressive categories. "These organizations are in the sweet spot. Large enough to be able to commit the budgets needed to get themselves ready to fend off cybersecurity attacks and agile enough to be able to deploy without the bureaucracy of larger businesses." Smaller companies (those with up to 250 employees), not surprisingly, drop off with 50 per cent of respondents scoring in the underperforming formative category.

"Organizations are faced with a myriad of new challenges brought about by the once-in-a-generation effects of the global pandemic," the report's authors conclude. "Despite its immediate effect on the world of work being largely complete, the effects on IT infrastructure are still being felt."

OVERALL CYBERSECURITY READINESS OF ORGANIZATIONS



Source: Cisco Cybersecurity Readiness Index

by JIM RUTA

How to sell compliantly and professionally in just 15 minutes

Question: Is it even possible to sell life insurance in 15 minutes compliantly and professionally?

Clearly, some highly productive agents have perfected a sales approach where they get in and out of a meeting with prospects either buying or not buying in short order.

Van Mueller, top life insurance advisor in North America, who sells 800 to 1,200 policies annually, says that he "sells" in 15 or 20 minutes. This is his approach: "Prospect, in just 15 minutes you can decide if you want me to help you, and in that same 15 minutes, I can tell you if I can. On that basis, when can you carve out 15 minutes or so for us to meet?"

This first meeting is a mutual selection process that keeps you and your prospect at the same level. You have confidence in what you are doing, and the prospect has low anxiety about how you are doing it.

This is the "Hi CLAS approach" – **Hi**gh **C**onfidence for you and **L**ow **A**nxiety **S**elling for them – the perfect combination for sales success.

You can make a sale in 15 or 20 minutes. It can't ALL be done in 20 minutes – the paperwork is extra – but the sale can be made. Here's how:

1. There's a lot to financial security, so a good strategy is to use the "how to eat an elephant" approach – one bite at a time. Choose how you help most and offer it first. Complete one idea segment at a time, and you do a complete job.
2. You can start with essential financial security as a concept: "Do you want to be okay when... You are sick or injured, can't work, and your paycheque stops? What does okay mean for you? Do you want to be okay when you have a heart attack, stroke, cancer or paralysis and your life is altered forever? What does okay mean for you then? Do you want to be okay when you retire? What does okay mean for you? Do you want to be okay when you can no longer take care of yourself? What does okay mean to you? Do you want your family or your business to be okay when you die? What does okay mean to you?" You can choose an overarching concept or just choose one issue at a time. When you ask your prospect what okay means to them, you determine their priorities.
3. Step one starts with explaining what you believe and how you help your clients by what you do. Your sales "story" is WHAT you do and a concise explanation of HOW you do it. It is built around a compelling idea or concept. This is how you help. All in just 15 or 20 minutes of well-chosen words, questions and example stories of your ideas in action that express your contagious passion for the business. You determine your prospect's "why to buy," and when they know their why, they will buy, and you have a guaranteed sale.
4. Now transition to asking some questions "so we can customize this idea to best suit your situation and what you want." Your prospect may or may not have the time to move ahead with questions. "Do we have time for some questions now or would you prefer another time?" If they have the time, you're golden. If they don't, you set another meeting immediately. If your prospect accepts moving ahead by asking what to do, they have made you their advisor and you can assume that they have bought. This is Mueller's 15- or 20-minute sale. If they don't, you've made your best attempt and it's over.
5. Now ask select questions to customize the idea to their situation. Ask specific questions to help make the idea theirs by accessing the relevant information you need to make an on-target and compliant presentation. You might even discover that the solution they first wanted is not the one they really want. Then adjust your process to suit.
6. Using their information, prepare a solution. In complicated situations, you may have to go away to come up with the right idea. Other times, you can present the solution on the spot. No one will feel bad if you can help them quickly.
7. Finally, you assume the sale as the natural conclusion of your Hi CLAS approach.

Here are a few benefits of going Hi CLAS:

1. Anyone can learn one good idea and start selling confidently, successfully and compliantly.
2. The approach can be adapted to any level of complexity and market but stay simple.
3. Fifteen-minute appointments are easier to get than 120-minute ones.
4. Doing complete planning one bite at a time means you get paid as you go and your prospect is protected as you go.

The Hi CLAS approach is intuitive, informative and instructive and makes sense on both sides of the table. Use it to develop your sales, and you will sell more and be more. You can be professional and compliant in just 15 minutes. When you help more, you sell more.

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For more information on the tools to use to build your brand, check out Advisorcraft.com.

Jim Ruta's mission is simple – to preserve, promote and propel the financial advisor business. A former insurance advisor and executive manager of a 250-advisor agency, Jim is a highly regarded coach, author, podcaster and keynote speaker. He has spoken four times at the MDRT Annual Meeting including the Main Platform. Jim Ruta is an Executive Coach and Keynote speaker specializing in life insurance advisors and leaders. He works with top advisors around the world and re-energizes audiences with his deep insight and passion.

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