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Navigating The Future:

Why your map to financial success should include a risk management strategy

The best wealth management strategies do more than preserve and grow capital assets; they also account for significant changes and events that can prevent investors from meeting their life and financial goals. Yet these risks are often given scant attention or left out altogether when advisors sit down with their clients to create a financial plan.

This doesn't necessarily mean that advisors or their clients are indifferent to the risks that can derail a wealth management strategy. In many cases, both parties may simply be too focused on the details of portfolio planning to examine the risks that lie along the path to financial success. There is also a general reluctance among most people to consider, let alone discuss, unpleasant events that could harm them or their loved ones. Who wants to entertain thoughts about a death in the family, or the possibility of becoming too sick to work?

The reality is, risk is an inevitable part of life and should be factored into every wealth management strategy. That's why it's important to undertake a risk management review as an integral part of financial planning.

WHAT HAPPENS IN A RISK MANAGEMENT REVIEW?

Most investors are familiar with the concept of risk assessment as a means of determining their tolerance for market fluctuations and the possibility of lower-than-expected returns from their portfolio. In a risk management review, you and your advisor look at the various adverse events that can happen in your lifetime and how you are positioned to deal with these possibilities. The findings from this review are then used to identify solutions and strategies to ensure you are well equipped to manage your risks and minimize their impact on your wealth management plan.

Here are some of the risks and factors that are typically analyzed in a proper risk management review:

- **Financial emergencies.** What would happen if you suddenly had to pay for an unplanned major house repair or if you needed to help out financially in a family crisis? In a risk management review, your advisor looks at your ability to access short-term cash without disturbing your long-term portfolio and sets up a plan to ensure you have a certain level of liquidity. This may mean increasing your cash reserve or adding more short-term products into your portfolio.

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- **Critical illness.** The risk of serious illness is one that needs to be given careful consideration, even if you are in perfect health today. Statistics show that two out of five Canadians will develop cancer and a similar number are at high risk for heart disease. Depending on your living expenses and how much you have put away, being seriously ill for just a few months can wipe away years of savings. Through a risk management review, you and your advisor can examine the benefits of critical illness insurance, which provides a lump sum payout upon diagnosis of a covered illness. With this type of protection, you decide how to use the money, including getting out-of-country care should certain treatment options not be readily available in Canada.
- **Disability.** Did you know that one in three Canadians will be disabled for 90 days or longer at least once before they reach the age of 65? While you or your spouse may have disability insurance through your employer, the coverage may not be enough to sustain you through the months you are unable to work. In the course of your risk management review, your advisor may recommend supplementing your employer-sponsored coverage with your own disability insurance policy. If you are a professional or business owner, your advisor may also suggest an office or business overhead expense policy to cover business costs while you are disabled.
- **Long-term care.** When an illness or disability turns into a chronic condition, long-term care often becomes a necessity – one that can quickly deplete your assets. While provincial health systems provide basic long-term care in nursing homes, the cost of receiving care in your home or in a private facility of your choosing will mostly come out of your own pocket. Even if you have enough assets to cover these costs, it is still a good idea to consider transferring this risk, for a relatively small cost, to an insurer. Taking this step will protect you and your partner and help preserve your estate for the next generation.
- **Extended healthcare needs.** If you are self-employed or run a small business, you may not have health coverage beyond what's provided by the province. This means you need to pay for items such as prescription drugs, dental and orthodontic services, massage therapy, physiotherapy and out-of-province health care. These costs can add up over the years and can expand quickly as you get older. Your advisor should discuss extended healthcare as part of your risk management review and suggest solutions to cover the gaps in your coverage.
- **Death of an income earner.** This may be the hardest topic of all to discuss: the death of a breadwinner. Nevertheless, it is critical that you sit down with your advisor to look at the financial impact of a death in the family and ensure you have an appropriate plan in place to address this impact. Your risk management review is the best time to assess your current life insurance to determine if it is the right type and if it offers the right amount of coverage for you and your family.
- **Contingency and continuity plans.** As part of your risk management review, your advisor may also inquire about any arrangements you've made to ensure continuity in decision-making during critical times. This discussion could include powers of attorney, your will, and succession planning in your business. Your advisor may not be able to directly execute services related to these matters but can refer you to qualified professionals such as an estate lawyer or an accountant.

ENHANCE YOUR FINANCIAL STRATEGY WITH A RISK MANAGEMENT REVIEW

By taking the time to assess and manage your risks with the help of an advisor, you are ensuring a comprehensive financial plan that considers not only the bright prospects on the horizon but also any adverse events that can threaten your prosperity today and in the future.

For more information or to request a risk management review, please contact our office today.



ⁱ Canadian Cancer Society <http://www.cancer.ca/en/cancer-information/cancer-101/cancer-statistics-at-a-glance/?region=on> (last viewed April 14, 2015)

ⁱⁱ Public Health Agency of Canada, 2009 Tracking Heart Disease and Stroke in Canada <http://www.phac-aspc.gc.ca/publicat/2009/cvd-avc/summary-resume-eng.php> (last viewed April 14, 2015)

ⁱⁱⁱ Canadian Life and Health Insurance Association, A Guide to Disability Insurance <http://clhia.uberflip.com/i/199350-a-guide-to-disability-insurance> (last viewed April 14, 2015)

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