PAGE and ASSOCIATES

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Client Information Summary

Insurable Risks & The Principles of Risk Management

Planning for the financial security of yourself and your dependents is a fundamental piece in the financial planning process. What do we mean by financial security? Financial security can be described as feeling secure or assured that you will have the economic resources to meet your current and future needs. There are varying perceptions of what is necessary to maintain a reasonable standard of living, and thus, there are many views of what represents financial security. Your current economic situation will determine what concerns you have about financial security.

James and Rita, in their early 30's, both worked full time jobs to provide for their family of four. Having enough money to pay the monthly bills, buy groceries, pay for day-care, and provide for clothing and shelter, meant financial security for them.

David and Connie, in their late 50's, were approaching retirement and ensuring that upon retirement, they were able to take up some additional hobbies, travel once a year, and maintain their current standard of living, meant financial security for them.

If you feel financially secure, you are in all probability confident that you will be able to maintain your customary lifestyle, that you will be able to cope with any financial emergencies or unusual and unexpected expenses, and be able to sustain a loss of income due to retirement, aging, disability, or the death of a spouse. Thus, you are protected from financial pressures and you feel secure about the future. But for how many people does this hold true? Is there anyone who can feel absolutely certain about their future needs or their future revenues as they continue throughout the various phases and cycles of their lifetime?

If you were to die tomorrow, would your death create financial hardships for your family, spouse, or dependents? If you became disabled on a long-term basis, would your current resources provide the needed assistance for your care and the care of your family? One of key aspects for preserving wealth is to manage the risk of lost income. Until an individual has created sufficient wealth to provide adequate income for their family in the event of their own death or disability, it is vital to manage that risk. In most situations it is possible to manage this risk by transferring the potential loss caused by death or disability, to an insurance company through the acquirement of life insurance.

The term risk can be defined as the exposure to the chance of loss. Thus, in order to manage risk, you need to identify those risks which can be insured and thus protecting yourself from the chance of loss.

CHANCE OF LOSS

Let us identify some of the areas in which we may be vulnerable to the chance of loss. Perhaps the most obvious is loss of property. Property would include your house, cottage, car, or your personal belongings. Thus, one example of loss of property would be having your house burn down.

Another type of loss is the loss of money or future earnings resulting from your personal liability. For example, a personal injury you caused to someone else - someone slipped on your front steps, destruction of another person's property - your child smashed your neighbor's bay window or an error in the discharge of professional responsibilities - as an accountant you made a mistake in working on an audit which resulted in a lawsuit.

Another possible exposure is for medical expenses outside the country. For example, you are hospitalized in Florida for two weeks as a result of a car accident and get a bill for $40,000. Each of these examples illustrates loss of money or future earnings. Fortunately, most of these losses are insurable risks.

As unfortunate as some of these losses may seem, many people face the risk of a much greater loss each day without considering the financial ramifications. It's the potential loss of income caused by sickness or injury resulting in pro-longed disability or by pre-mature death. Consider for a moment what your ability to earn income might be worth.

WHAT YOUR ABILITY TO EARN INCOME MIGHT BE WORTH:

Years Left To Work	*Monthly Income $2,500*	*Monthly Income $5,000*	*Monthly Income $7,500*	*Monthly Income $10,000*
10 Years	$396,203	$792,407	$1,188,610	$1,584,814
20 Years	$1,041,577	$2,083,155	$3,124,732	$4,166,310
30 Years	$2,092,823	$4,185,647	$6,278,471	$8,371,294

- *Assumes 5% inflationary/promotional increases each year*.

The majority of us depend on our income to sustain our current lifestyle. To earn that income, we need to be healthy. But accidents do happen and people do get sick. That is why it is important to recognize our exposure to the possible loss of our ability to earn future income and to manage that risk by transferring a portion of it to someone else through the acquirement of insurance.

What are your chances of actually suffering a loss of income as a result of a disability before you reach age 65? And if your disability did last 90 days, what would be the average length of your disability? The following table shows your chances of being disabled more than 90 days, and the average duration of your disability if it does indeed exceed 90 days.

THE CHANCES OF BECOMING DISABLED:

Your Age	*Chance of being disabled longer than 90 days*	*Average length of disability after 90 days*
25	58%	1.2 Years
30	54%	2.5 Years
35	50%	2.8 Years
40	45%	3.1 Years
45	40%	3.2 Years
50	30%	3.1 Years
55	25%	2.6 Years
60	14%	1.6 Years

Source: 1985 Commissioner's IDA Morbidity and Commissioner's SO Mortality Tables, Society of Actuaries

The above statistics tell us that our chances are about 50/50 of being off for more than 90 days before age 65 and the average duration of disability being approximately 2.5 years. This of course takes into account sicknesses or injuries which result in permanent disability. Fortunately the chance of loss of income through disability is an insurable risk, with some limitations.

While we don't always associate pre-mature death with the loss of income, if the deceased was gainfully employed, the loss is very real. However, unlike the loss of income from disability, the loss is most likely permanent. Aside from the emotional trauma, the magnitude of the financial loss can be very dramatic and fortunately, the loss of life and the loss of permanent income is an insurable risk, with some exceptions and limitations.

PRINCIPLES OF RISK MANAGEMENT

With an understanding of our exposure to the chance of loss, we recommend strict adherence to the following risk management principles:

1. Insure your Income

If your earned income is necessary to attain financial independence, then transfer the risk of loss of income resulting from long term disability to an insurance company if it is possible to do so.

If you are a professional or business owner and have expenses which would continue even if no income was coming in, then consideration should be given to transferring this responsibility to an insurance company by acquiring an office overhead/business overhead expense policy

2. Insure your Life

If loss of income through pre-mature death would pose a threat to your family's financial security, transfer the risk that you are uncomfortable in having your family assume on their own to an insurance company by acquiring life insurance.

3. Insure your Property

Insure for the chance of major loss of property, such as, your home, cottage, cars and other prized personal possessions. Minor losses that can be reasonably self insured should be.

4. Insure against Contingent Liabilities

It makes sense to eliminate chances of loss which would impair your ability to attain or retain your financial independence. This can be accomplished through a combination of home owner insurance, auto insurance, professional liability insurance (if applicable) and in some cases, excess liability insurance.

5. Insure against Major Medical Expenses

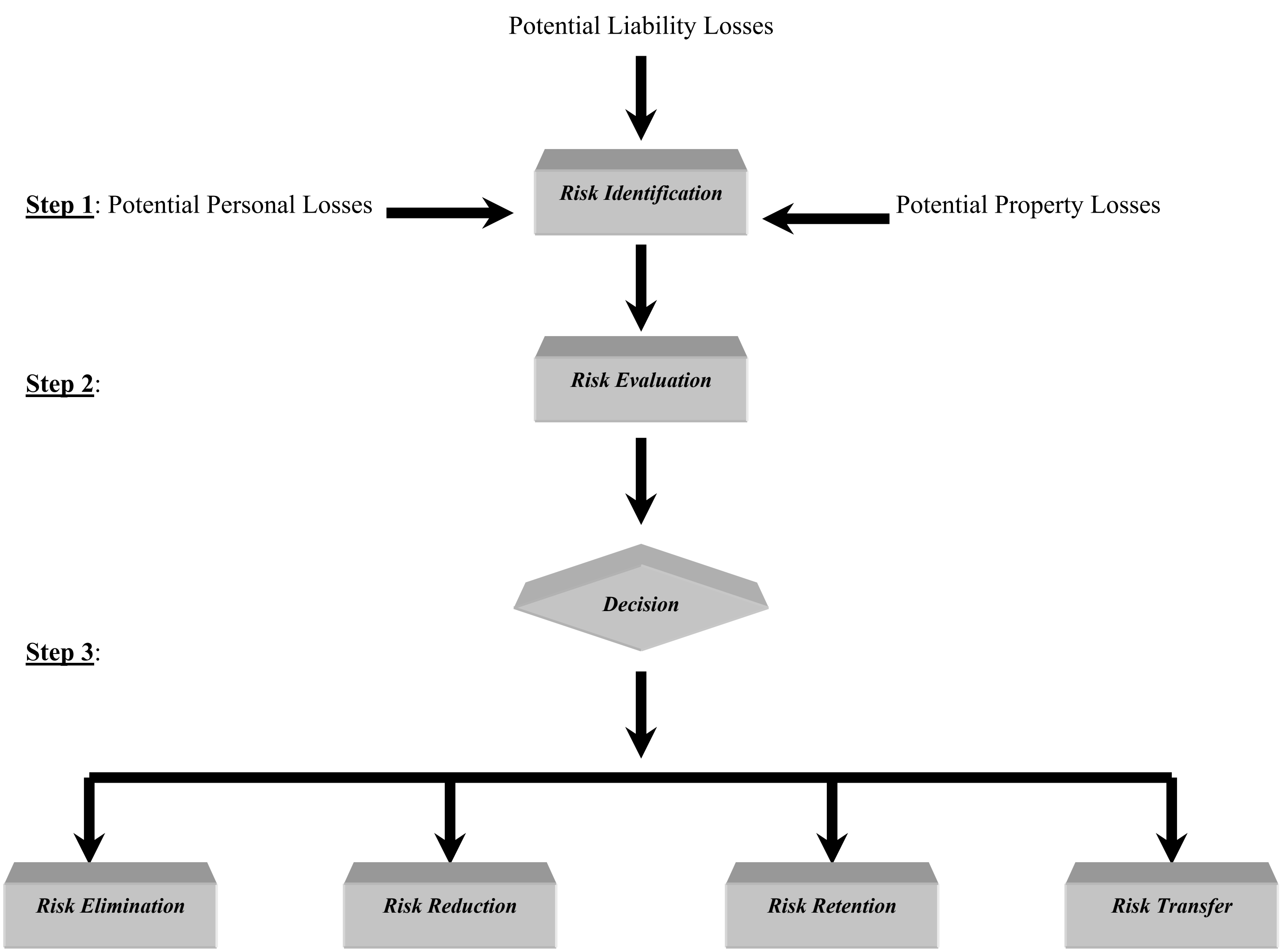
As Canadians, our primary area of concern for major medical expenses is when we are traveling outside of the country. Private health insurance is available to provide protection at reasonable rates when traveling outside of Canada.

THE RISK MANAGEMENT ROGRAM

When you abide by the above risk management principles, you are taking a planned systematic approach to the potential losses that you may encounter some day. Risk management anticipates losses in advance and when you know your options in advance, you have peace of mind knowing that if a loss does indeed occur, you will have the necessary resources to help cover those losses.

By following the four simple steps as outlined in the diagram below, 1) identifying the potential risks 2) evaluating the effects of each risk 3) determining how to manage each risk and 4) selecting the correct insurance coverage, you can design a risk management program that is applicable to your situation.

STEPS IN THE RISK MANAGEMENT PROGRAM



Step 4:

Selection of Insurance Coverage Needed

To acquire assistance in completing the Risk Management Program, please speak to your Financial Advisor.

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