Solutions FOR FINANCIAL PLANNING

Insurance basics

What types of protection are right for you?

Over the years, insurance products have evolved to become more specialized with added features and riders. That makes it possible for individuals to build increasingly customized plans – but it also means it takes a little more work to understand the various solutions available to protect Canadians from different risks.

Insurance falls into two major categories:

- Life insurance, which pays a benefit when the insured person dies, includes term life insurance, whole life insurance and universal life insurance
- Living benefits, which pay a benefit under specific circumstances during the insured's lifetime, include critical illness insurance and disability insurance

These different types of insurance can be combined to help individuals and families meet many high-priority goals, such as covering immediate expenses after death, building a legacy for the next generation, or protecting income in case of illness or injury.

Here are just a few examples:

- **a child protection rider that adds coverage for a child to an adult's policy**
- **a total disability waiver rider that allows the insured person to skip premium payments while disabled and unable to work**
- **a return of premium rider that pays back all premiums if the insured person doesn't experience a covered situation, such as a critical illness**

What can term life insurance add to your plan?

Term life insurance is the simplest type of life insurance, and it's often available quickly through an easy application process. It provides protection for a set period of time – the "term." The term may last for a fixed number of years (e.g., 10 years) or until the insured person reaches a certain age (e.g., age 65). At the end of the term, it may be possible to renew the policy or convert it to a different type of life insurance. Should an individual convert their term policy to a permanent policy, underwriting won't be required unless they increase their coverage.

One way to use term life insurance:

Taran and Pari have 20 years left on their mortgage and want to make sure that, if one of them were to die, their house

would be paid off in full.

They can insure both their lives with a 20-year term life insurance policy, setting the death benefit at the full value of the remaining balance on their mortgage. They will also have the added flexibility of being able to reduce their amount of insurance in the future, as they pay down their mortgage.

What can whole life insurance add to your plan?

Whole life insurance is permanent insurance that provides guaranteed protection for life, as long as premium payments stay up to date. In addition, some whole life insurance build a tax-advantaged "cash value" within the policy that the insured person can access while alive. On death, beneficiaries receive the death benefit, which is an amount equal to the original face amount, plus any paid-up insurance that was purchased.

One way to use whole life insurance:

Min doesn't want her three children to have to pay for her funeral and cover the taxes on her estate after she dies.

She considers term life insurance, but she also likes the idea of a policy that will protect her for her lifetime with guaranteed premiums and accumulate a cash value she can withdraw if needed. She chooses a whole life insurance policy that allows her to pay all her premiums in 20 years, with a death benefit sufficient to cover funeral and tax costs on death.

What is paid-up insurance?

Available as a dividend option on a whole life policy, paid-up insurance is additional coverage that a policyholder can purchase using the policy's dividends. It allows policyholders to increase their death benefit, and in some policies, the living benefit cash value.

What can universal life insurance add to your plan?

Like whole life insurance, universal life insurance is permanent insurance that blends life insurance with tax-advantaged investing. It generally offers even more flexibility and features than whole life insurance, including a wider range of investment choices for the "account value" – such as investments linked to equity market growth. It is possible to access the account value during life. Alternatively, the insured person can choose to include the investment portion of the policy in the death benefit to leave an even larger tax-free legacy to beneficiaries.

One way to use universal life insurance:

Elian wants to make sure his two adult children receive equal shares of his estate.

He plans to leave his cottage to his son, who spends a lot of time there with his young family, so he needs an equal-value asset to leave to his daughter. A universal life insurance policy will allow him to increase the death benefit over time by investing in a wide range of tax-preferred investments. He can also adjust the death benefit as needed if property values rise (note that increasing the death benefit may require medical evidence).

What can critical illness insurance add to your plan?

When people are younger, they are more likely to experience critical illnesses such as cancer, a heart attack or a stroke than they are to die. Critical illness insurance, ideally purchased while someone is relatively young and healthy, pays a tax-free lump-sum benefit that can be used for any purpose – for example, to fund health care or treatment, cover household and family expenses, protect retirement savings or manage business expenses.

One way to use critical illness insurance:

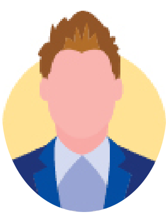
Kendra is 40 years old and married with two young children.

Her best friend was recently diagnosed with breast cancer, and Kendra is concerned about the impact a diagnosis like that would have on her family’s ability to pay the bills. With critical illness insurance, she can ensure her family receives a fixed amount of money if she is diagnosed with a range of covered illnesses, including cancer, and satisfies certain other conditions.

What can disability insurance add to your plan?

When people with disability insurance develop a physical or mental health disability that prevents them from working, they can receive regular payments of a percentage of their income. Like a critical illness insurance benefit, this money can be used for any purpose – for example, to replace income, reimburse business expenses or fund a buyout agreement that allows someone else to take over the insured person’s business.

One way to use disability insurance:



Paul is 32 years old, runs his own consulting business and recently had a baby with his wife, Kioni.

He knows both his business’s continued success and his family’s standard of living depend on his remaining healthy and able to work. Because he is self-employed, he doesn’t have access to disability benefits through an employer, but an individual disability insurance policy can provide the protection he needs.

Putting it all together

A wide variety of life insurance and living benefits products are available to Canadians. Some solutions even combine life insurance, critical illness insurance and disability insurance within a single all-in-one policy. Speak with an advisor who help assess your unique needs and then recommend the right insurance portfolio to achieve cost-effective protection in your specific situation.

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