



LIFE INSURANCE

The primary purpose of life insurance is to:

- Replace income in the event of the death of a wage earner
- Pay debts (such as a mortgage) on death
- Provide an endowment to a charity
- Pay final expenses
- Pay tax due upon death
- Create an estate
- Conserve an estate
- Maximize an estate
- Equalize an estate

Two Types of Life Insurance

Characteristics of Term Insurance

- Initially inexpensive but premiums increase dramatically with age
- Premiums increase at each term renewal
- Variety of term options available
- Term Options:
 - Yearly
 - Finite life – coverage ends at age 75-85 (depending on the insurance company)
 - 5, 10, 15, 20 years To age 65 or age 75
- When selecting a term product you should consider the time frame that you will need the coverage, and take into account when:
 - Debts such as mortgages will be repaid
 - Retirement savings will be fully funded
 - Primary dependency period will end especially children's education

Characteristics of Permanent Insurance

- Level Price for life*
- Coverage stays in place until death, no matter what age, provided premiums are paid
- Universal life and Whole life have two components consisting of insurance and investments

* Most companies offer a form of universal life insurance for which the premium increases annually. This product is appropriate in certain specialized circumstances

Characteristics of Universal Life

- Cost of insurance may be either level cost or yearly renewable term.*
- Face amount of insurance is level and guaranteed.

Who Should Buy Term Insurance?

Individuals looking for:

- Coverage for short (10-20 years) periods of time,
- Mortgage repayment,
- Debt repayment,
- Income replacement, or
- Any temporary need.

Who Should Buy Permanent Insurance?

Individuals looking for:

- Coverage which will last for a lifetime,
 - Estate creation, conservation, maximization or equalization,
 - Part of an insured annuity or pension maximization,
 - Providing an endowment to a charity, or
 - Any permanent need.
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- Death benefit is a combination of the face amount of insurance and the value of investments.
 - Additional funds, above the cost of insurance, may be deposited. The funds are invested at the discretion of the policy owner. Investment options may include:
 - Fixed income options
 - Stock market index accounts
 - Mutual Fund mirrored accounts
 - The earnings on the funds invested in the policy are exempt from tax, within certain limits outlined by CRA. The funds stay in the policy and are paid out tax free as a death benefit.
 - Funds can be accessed by loan or withdrawal.
 - It is possible to have sufficient funds in the policy to pay insurance charges, thus creating a policy with no further premium requirements.

Characteristics of Whole Life

- Premium is usually guaranteed
- Minimum face amount is guaranteed
- Policy will have a minimum guaranteed cash value
- Premium paying period may be guaranteed, for a period of years or to age 100
- Policy has a cash value, however, the investment of the cash value is determined by the insurance company, not the policy owner
- Policy may pay dividends which can be used to reduce future premiums or purchase more insurance or to increase the cash value
- Cash value can be accessed by way of a policy loan

Notice:

The information contained in this section is intended solely for the readers' guidance and must not be considered as advice specific to the readers' financial situation and therefore not relied upon as advice or representations as to taxation and related matters. Readers should seek independent legal, tax, accounting and financial advice as to how the information contained here within relates to their own unique financial planning circumstances.

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