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Is Term Insurance Enough?

Many Canadians face their first decisions over buying life insurance when they are first married or new parents. These are often difficult times, when couples are supporting young children on a single income or hoping to buy a home. It is critical to get advice from a financial advisor on whether to buy term or permanent insurance.

What is term insurance?
Term insurance provides a benefit if the insured person dies within the time of the term. You work out the term with your insurer, according to your own life needs. The term might be until your children are grown, or until you reach retirement age. You pay for the coverage period and at the end of the term the contract, or policy, expires. If no claims are made against the policy during the term, you don't receive any benefits after the policy expires.

What is permanent insurance?

Permanent insurance never expires. Like term insurance, it provides a death benefit, but it also acts as an investment vehicle. A portion of the premium goes toward investment account, which can build up savings for you. You can borrow against this investment during your life or put it towards your retirement. In many situations, a term life insurance policy may be the best way to provide financial protection for you and your family. The policies are usually straightforward and simple, and the premiums are low, particularly at younger ages.

Differences in premiums

Term insurance is geared to meeting temporary needs such as paying off a mortgage, meeting high expenses when children are young, or perhaps covering certain business obligations. Term policies provide a guaranteed premium for a specified period such as one, five or 10 years. Except for guaranteed term-to-100 policies, the premiums will increase when you renew a term policy for another period of time.

While the guaranteed payment at death is a major reason to buy any insurance policy, many people look for more from their life insurance. Permanent life policies provide level premiums throughout your life and cash value build-ups or dividends. They are a more effective way of planning for more complex needs such as long-term needs of your survivors or planning a business succession.

Insurance checklist

Your Advocis advisor will help you:

Add up:

- Your income
- Family income
- Savings
- RRSPs and investments

Plan for:

- Mortgage
- Business obligations
- Other debt
- Future expenses such college tuition
- Retirement plans

Insurance can:

- cover your family's needs
- make up the difference between your financial obligations and your savings.

Benefits of permanent insurance

Even when you are still alive, permanent life insurance can provide additional protection from a variety of life's uncertainties and be a source of funds for emergencies through policy loans. The cash value at later stages of permanent insurance policy may supplement retirement income.

Permanent life insurance policies, whether they are some form of whole life, universal life or variable life are, by their nature, much more complex and sophisticated. However, these products can be designed to provide more flexibility in meeting your unique needs both now and in the future.

Consulting an advisor

A member of Advocis has a full understanding of both the various types of insurance policies available, and the needs you should be considering. He or she can provide guidance and help you develop solutions which may include, among other products, term and/or permanent life insurance, other insurance products, or a combination of insurance and other financial products that can best meet your present and future needs.

An Advocis advisor can walk you through the process of assessing what kind of insurance you need. To properly assess those needs, you need to prepare a checklist of obligations, income sources, present and potential expenses and, most importantly, dreams and wishes for the future. Family responsibilities are a first priority. If you have, for example, a disabled child or relative who may need long-term care, your insurance needs will be more extensive.

Analysing your needs

Your analysis would include all your current or potential assets such as insurance policies, including those from work, your savings, RRSPs and other investments, and equity in property or a business. Next you'd need to look at all your liabilities including mortgages, taxes, credit card balances and so on. If you own a small business, it is important to plan for the succession tax that anyone who takes over your business must pay.

The final stage would be to work out, with the help of your insurance or financial advisor, the long-term income needs of your family and any dependants, your retirement plans and ongoing financial obligations. Then it's a question of calculating the shortfall, if any, that you need to cover with insurance.