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Prepare to meet your insurer

Common questions

Life insurance is a financial tool whose main purpose is to replace income that is lost when a wage earner dies. It is an efficient way to protect your survivors and dependants against financial hardship and to ensure they are not burdened with significant debt when you die. It can also be a way of ensuring your mortgage or tax bill is paid up, or be a mechanism for leaving money to organizations or charities.

How much life insurance do I need?

To determine this, it is important to carry out an analysis of your financial needs. You can do this yourself, but a trained and licensed life insurance agent will conduct a more thorough review. Take into consideration immediate financial needs such as medical bills, funeral expenses and estate taxes. Keep in mind what costs would be involved in a readjustment period for family members who relied on your financial support. Other items to factor in are monthly bills and other ongoing expenses, rent or mortgage payments, day care and tuition fees. A rule of thumb is that you should buy life insurance equal to five to seven times your net income.

What kinds of policies are there?

There are two basic kinds of life insurance. One is permanent insurance, which is best suited to cover long-term financial needs, such as funeral expenses, income for survivors and dependents, and capital gains taxes and other liabilities at death. While term insurance is designed to look after shorter-term financial needs, such as mortgages, education and other expenses for younger children and some business commitments.

Group life insurance through employer usually is term insurance.

PERMANENT INSURANCE is known by various names: whole life, universal. Permanent insurance also has several distinguishing features.

One is that premiums remain level for the life of the policy. Another feature is that reserves in the policy accumulate as a cash value, which you may borrow against, or receive if you surrender your policy. There are also non-forfeiture options, which allow you to use the cash value to pay premiums, to buy a lesser amount of permanent insurance with no further premiums or to buy an equal amount of term insurance. Permanent participating insurance policies have potential for earning policyowner dividends. Favourable investment returns, mortality and expense experience generate a surplus in the par account that can be paid to policyowners in the form of dividends.

TERM INSURANCE provides protection for a specified period (one, five, 10 or 20 years; or to age 60, 65 or 70) and it pays a benefit only if you die during the term of the policy. Premiums remain level during the term chosen, but they increase when the policy is renewed.

There is no cash value or non-forfeiture options. One form of term insurance, called Term to 100 provides protection to age 100, but generally does not pay dividends or include cash values.*

GROUP LIFE INSURANCE, made available by most employers and unions, is usually term insurance to age 65 and often does not require a medical examination or other evidence of insurability. Care should be taken to determine if your insurance coverage can be converted to individual insurance at the termination of employment.

*Note: We want to point out that Term to 100, or T-100, is actually permanent insurance, not term insurance as explained in the above article. Also, most T-100 products' coverage goes beyond age 100; no more premiums are paid after age 100 but coverage continues. Traditionally the expiry date for regular term products was in the range of age 65 to 70, now most term products provide coverage to at least age 75.