

Life insurance needs

Life insurance provides a sum of money on the death of the **insured** or until a specified period during his/her lifetime, for example, 100 years. You might want the **amount** of life insurance to be sufficient to cover:

- ❑ Funeral expenses;
- ❑ Notary and testamentary executor (liquidator) expenses;
- ❑ Taxes: On death, most of a deceased's assets are deemed to be sold, and the applicable tax may then be payable. The amount of life insurance paid out by the insurer however is always tax-free;
- ❑ Your debts: credit cards, mortgage, personal loans, etc.;
- ❑ Children's education;
- ❑ Expenses resulting from death. For example, if you took care of your children while your spouse worked, childcare services would have to be arranged.

Briefly, being adequately insured means having enough insurance so that, upon your death, your **beneficiaries** will be able to maintain their lifestyle. Also, the insurance **premium** should be in line with your budget. Since there are a number of types of insurance, there is bound to be one that meets your needs.

Insurability

Insurability is the set of conditions required by an insurer in order to cover you. In the same way that an insurer will not cover a house that is on fire, it is not likely to be interested in covering someone who is critically ill.

Don't wait until you are sick to purchase insurance, as you may not be insurable. The younger and healthier you are, the lower the cost of insurance. But be careful. Some insurance policies cost less in the first few years, but then increase over time, whereas others have premiums that never change. In addition, some policies have higher administration fees. Before taking out insurance, make sure you ask your representative plenty of questions.

Check that your insurer and representative are authorized to practice

Insurers and insurance representatives practising in Québec must first be licensed by the *Autorité des marchés financiers* (AMF). Consult the "Register of firms and individuals authorized to practice" on the [AMF website](#) home page or by calling the Information Centre.

Shop around!

No matter what type of insurance you choose, it's important to shop around. Prices can vary significantly from one insurer to another, as much for premiums as for contract features (fixed or increasing insurance cost, administration fees, etc.). You might also want to check the cost of purchasing life insurance through your employer, if offered.

Insured

Person whose death gives rise to the payment of life insurance.

Insurance amount

Amount paid by the insurer in the event of the insured's death.

Beneficiary

Person who will benefit from the insurance.

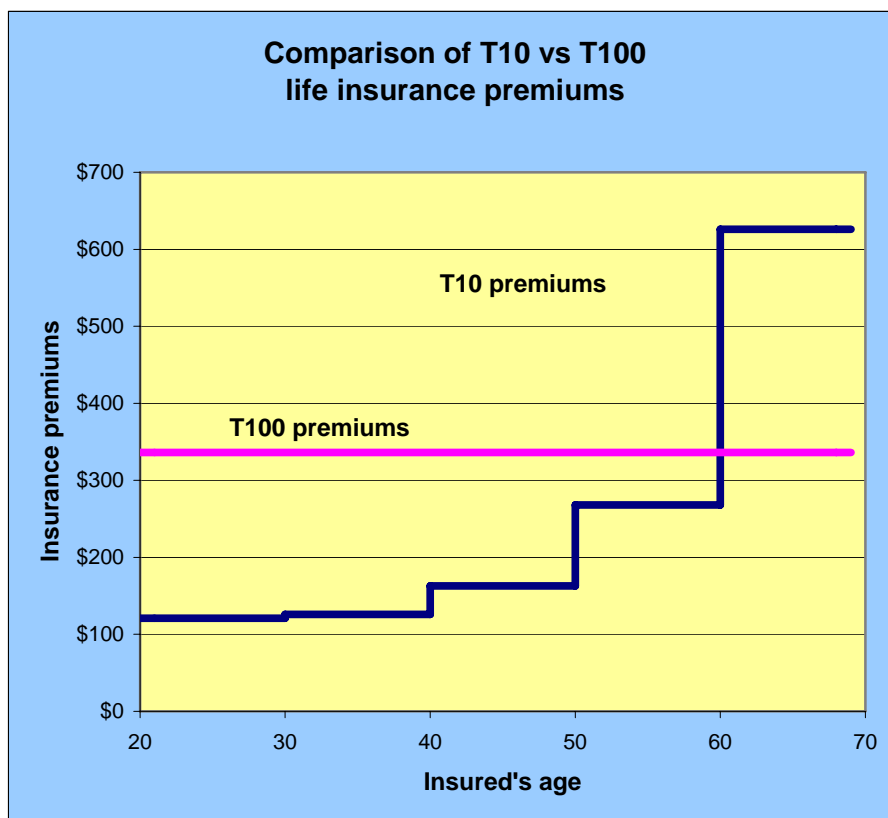
Premium

Amount an insured must pay to his insurer to keep his insurance in force.

Main types of life insurance

Term life insurance

This type of insurance offers the beneficiary coverage over a fixed period, for example, 5, 10 or 20 years. Hence the name T5, T10 or T20 policy ("T" meaning "term"). Term life insurance is usually renewable at prices that increase over time. For instance, the annual cost of T10 insurance could be \$126 before age 30, \$163 until age 40, \$268 until age 50, \$626 until age 60, and so on. For young persons, term insurance in the first years of the contract costs far less than permanent insurance. However, if the insured lives a long time, the insurance cost increases significantly. With term life insurance, you pay to be insured: nothing more. There are no savings with this type of insurance, so if you take out insurance for 15 years and decide not to renew the contract, you may feel as though you've thrown your money away, since you will not receive any payout from the insurer. Term life insurance is intended mainly for couples with high insurance needs because they have dependent children. These needs will diminish once the children are grown. There are also term insurance products on the market that offer coverage for 100 years (T100).



Whole life insurance

This insurance covers the insured until death and is mainly intended for individuals who wish to leave an inheritance. If you maintain whole life insurance, you can be certain that the insurer will eventually have to pay out the amount stipulated in the policy. On your death, the amount paid by the insurer will be tax-free. Therefore, paying insurance premiums for this type of product is the same as making an investment in that you know the amount payable on your death. The unknown factors are the number of years you will be paying the premium and the date on which the policy amount will be paid to the beneficiary.

Universal life insurance

This insurance combines an insurance portion with an investment portion. The insurance premiums may therefore be higher than the cost of the insurance. For example, the insurance costs \$300 a year, but the insurer allows you to pay up to \$1,000. The additional amount you pay accrues in a **capitalization fund** tax-free, provided you do not make any withdrawals. You have the option of investing in several products, such as segregated funds. For more information, consult the brochure [*Is an individual segregated fund right for you?*](#) The amount accumulated in the fund can be used to pay the cost of your insurance. You may also make withdrawals. In addition, you are not required to pay an insurance premium each year, although you must ensure that there is enough in the fund to pay the insurance cost.

Capitalization fund
The amount accumulated in a universal life insurance policy.

Two types of universal life insurance are sold: premiums increasing with age and fixed premiums.

Example of universal life insurance

Anne takes out a \$200,000 universal life insurance policy. The policy costs \$700 a year. Anne's insurer tells her that she can pay a maximum premium of \$1,500 per year. Here is the breakdown if Anne pays \$1,300 annually:

Start of first year:

Amount paid by Anne:	\$1,300	
Insurance cost, including expenses:	- <u>\$700</u>	
Amount accumulated in capitalization fund:	\$600	

Anne decides to invest \$600 in a segregated fund offered by her insurer and anticipates that her investment will generate a return of 6% per year.

Start of second year:

Value of account (previous year):	\$600	
Return credited to account:	\$36	(6% X \$600)
Amount paid by Anne:	\$1,300	
Insurance cost, including expenses:	- <u>\$700</u>	
Amount accumulated in capitalization fund:	\$1,236	

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Start of 25th year:

Amount accumulated in capitalization fund:	\$32,919
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Because she has \$32,919 accumulated in her capitalization fund, Anne does not need to pay any further premiums. Also, she could make withdrawals from the fund for her personal needs. HOWEVER, in this case, tax may be payable on the funds withdrawn!

Before buying insurance, ask yourself:

- What type of insurance do I need?
- How much insurance should I have?
- Is the amount fixed and guaranteed?
- Does the premium increase or is it fixed? Is it guaranteed in the contract?
- Are the returns guaranteed?
- What are the applicable expenses?
- Could these expenses increase or are the amounts guaranteed in the contract?
- What happens if I don't pay the premium?
- What are the tax consequences?
- Does the insurance have a **cash surrender value**?

**Cash
surrender
value**
The amount
you receive
when you
end your
insurance
policy. Not
offered with
some types
of
insurance.

Always ask your representative to indicate where this information is located in the insurance contract.

Doubling up on insurance

If you like, you can insure your life with more than one insurer. In the event of your death, your beneficiaries will receive several insurance payouts.

Information Centre

Québec City: 418-525-0337

Montréal: 514-395-0337

Toll-free: 1-877-525-0337

www.lautorite.qc.ca

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