BACK TO BASICS

THE RUBACH WEALTH GUIDE TO LIFE INSURANCE

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LIFE INSURANCE BASICS

Canadians generally agree that life insurance is an important part of a sound financial plan. However, many aren't sure what type of life insurance is right for them or how to purchase it.

So let's start with the basics and tackle some key questions:

- Do you need life insurance?
- How much life insurance do you need?
- What different types of life insurance can you buy?
- How should you select the right life insurance for you?

Making informed decisions about life insurance today will benefit you and the people you care about for a lifetime.

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WHAT DOES LIFE INSURANCE DO FOR YOU?

Life insurance can create financial security for you and your family.
If you die prematurely, life insurance can:

- Cover final expenses and pay off debts
- Ensure your family maintains a comfortable standard of living
- Leave a legacy gift to your favourite charity

While you’re alive, some types of life insurance can:

- Build a tax-advantaged cash value you can draw on for personal and business opportunities
- Supplement your retirement income
- Provide for long-term care and home care

Regardless of how successful you are, you owe it to your family and your causes to make a financial plan. With a plan in place, you can focus on giving meaning to your success, building a legacy and giving back.

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WHAT ARE THE ADVANTAGES OF LIFE INSURANCE?

AN INSTANT ESTATE

Few individuals, particularly young families, have enough savings to protect their loved ones if an income earner dies. Life insurance can create an estate at the very moment when you family is most in need of funds. It's a cost-efficient way to ensure your family's continued financial well-being.

MONEY WHEN IT'S NEEDED MOST

Your beneficiaries can get the life insurance money within days of the insurance company receiving the required information. By contrast, savings and other assets can be tied up legally for some time.

FINANCIAL BENEFITS DURING YOUR LIFETIME

Some people think life insurance pays only if you die. That's not always true. With permanent life insurance, you can build up cash value, or equity, in your policy, which you can access during your lifetime. What's more, you can accumulate this cash value on a tax-advantaged basis.

Cash withdrawals can be used to:

- Provide ready cash in an emergency
- Make a down payment on a home or cottage
- Launch or expand a business
- Act as collateral for a loan
- Supplement your retirement income
- Pay for long-term care and home care for you and your spouse

WHO NEEDS LIFE INSURANCE?

PEOPLE WHO ARE RESPONSIBLE FOR OTHERS

If a spouse, child, grandchild, adult child or parent depends on you, life insurance can play a fundamental role in their continued financial well-being.

- Immediately after your death, life insurance can provide the money your family needs for the funeral, unpaid bills, legal fees, taxes, medical expenses, mortgages, loans and credit cards.
- Over the longer term, life insurance can give your family a source of funds to make up for the loss of your income. If you're a stay-at-home parent, your role also needs to be covered as your death could lead to additional childcare costs

PEOPLE WITH NO DEPENDENTS

Life insurance still plays an important role in your financial plan.

- Life insurance can provide an efficient, cost-effective way to take care of final expenses, unpaid bills and other debts.
- You can use life insurance to supplement your retirement income and leave a gift to a loved one or a favourite charity.

PEOPLE WITH ESTATES TO PROTECT

Many people believe that as they get older and more financially independent, they don't need life insurance as much.

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Many people believe that as they get older and more financially independent, they don't need life insurance as much.

As the value of your estate increases, so does the burden of estate taxes that must be paid when you die. Life insurance can help protect your estate by covering these growing tax liabilities.

This lets you pass as much of your estate as possible on to your beneficiaries or favourite charity.

PEOPLE WHO WANT TO LEAVE A LEGACY

You may want to leave money to a favourite charity. Life insurance can enable you to leave a lasting personal legacy and provide your favourite charity with stable, long-term funding.

A carefully planned gift can be tax-effective without jeopardizing your own financial independence or reducing the estate available for your family.

PEOPLE WITH YOUNG CHILDREN OR GRANDCHILDREN

A life insurance policy for your child or grandchild can provide a strong foundation for their financial future. It's a flexible asset that grows with them. In addition, premiums for children are relatively low and can remain low throughout their lives.

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WHY BUSINESS OWNERS NEED LIFE INSURANCE

Business owners can make smart use of life insurance in several ways.

DEBT PROTECTION

You may be personally liable for your business's debts. At your death, business creditors could significantly reduce your personal estate. Life insurance can cover these claims, ensuring your beneficiaries aren't left without the financial security you intended.

LIQUIDITY

Most of your money may be tied up in your business. If your policy has a cash value, you can use it as a source of liquidity for business opportunities or retirement. After your death, any remaining life insurance proceeds can give your family a ready source of income.

SUCCESSION PLANNING

Life insurance can help fund a well thought-out succession plan. This allows a smooth transition of ownership to a family member, partner or key employee. It also helps ensure your family receives fair value for the business, which may well be your family's largest asset.

TAX EFFICIENCY

As a business owner, you can make smart use of life insurance to minimize your tax bill. The key is understanding how to optimize it within various tax structures so you can do more with every pre-tax dollar.

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WHEN IS THE RIGHT TIME TO BUY LIFE INSURANCE?

Not surprisingly, the cheapest time to buy life insurance is when you least expect to need it – when you're young and healthy.

However, life insurance can be an excellent value at any time of your life because of the fundamental protection it provides and because you can tailor it to your changing needs and budget.

Life insurance meets different needs at different stages of your life, so you should update your coverage to reflect important life events such as:

- A new child or grandchild
- Marriage or divorce
- Death of a parent or spouse
- Children leaving home for college or to start families of their own
- Purchase of a home or cottage
- New job or business

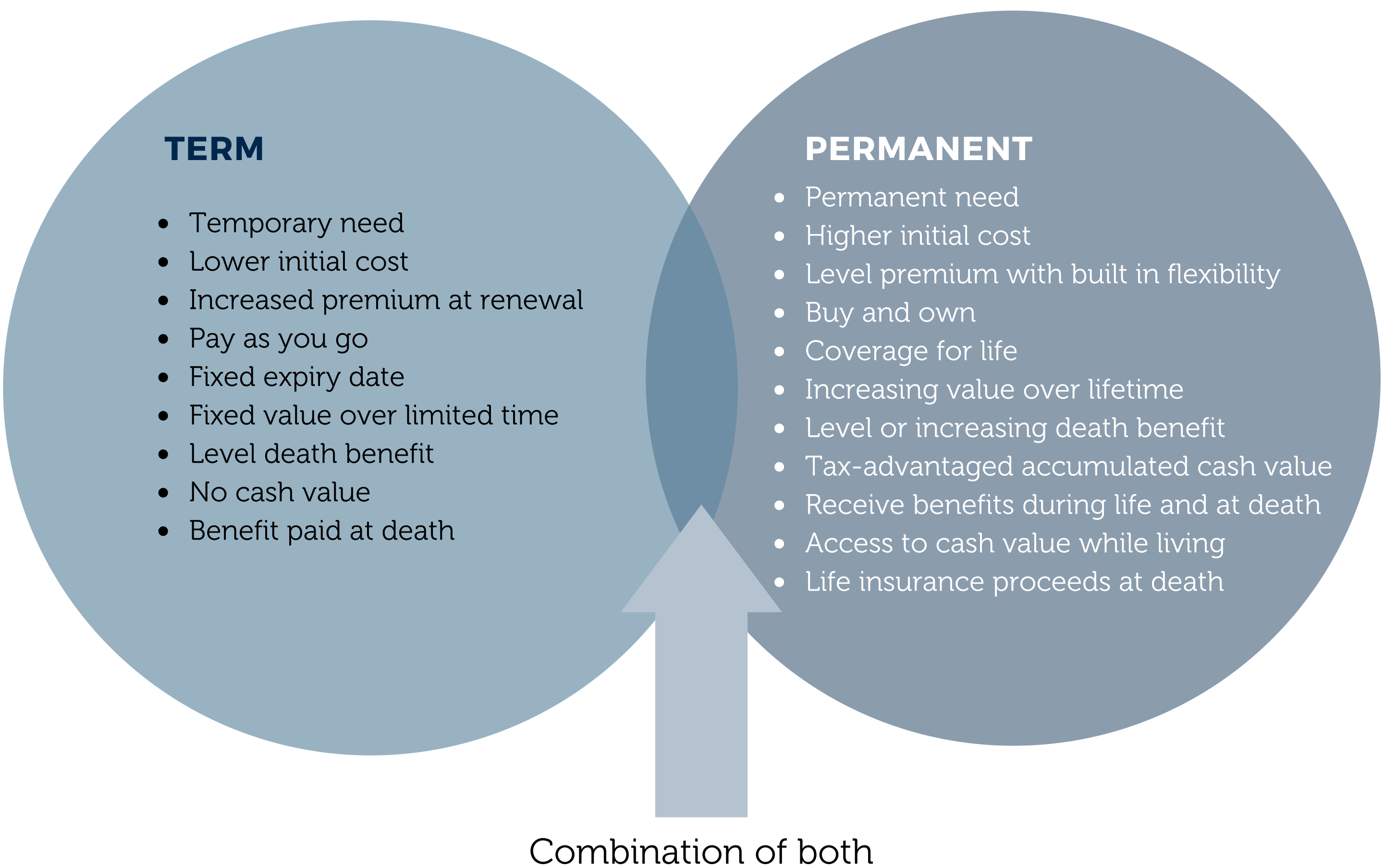
Whenever you face significant life events like these, and at least once a year, you should review your life insurance with your financial advisor to determine whether you need to adjust it to fit your changing needs.

THE DIFFERENT TYPES OF LIFE INSURANCE

There are two categories of life insurance coverage – term and permanent. They offer different features to meet different needs, as shown in the chart below.

How much protection you need, your cash flow, your preferences for flexibility and control, how long you need the coverage – all these factors help determine the type of life insurance best suited to your needs.

WHAT IS THE BEST TYPE OF LIFE INSURANCE FOR YOU?



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THE DIFFERENT TYPES OF LIFE INSURANCE

TERM LIFE INSURANCE

Term life insurance is well suited to meeting substantial short-term needs for a low initial cost.

For example, a couple with young children and a mortgage might select term life insurance as an affordable way to obtain the full protection they need today.

Many term life insurance policies are renewable after five, 10 or 20 years, with no proof of health required. At renewal, the price increases as appropriate for your age. These increases can become substantial in later years. Coverage usually ends at age 75 or 85.

Many term life insurance policies also provide the option to convert to permanent life insurance, with no proof of health required. However, this convertibility often expires around age 65 or 70. In addition, some companies impose significant restrictions or have a limited choice of permanent life insurance policies to which you can convert.

The overall cost of term life insurance reflects:

- Initial premium
- Renewal rate and whether evidence of insurability is required
- How long you need the protection
- How much flexibility you want to meet your changing needs in the future

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THE DIFFERENT TYPES OF LIFE INSURANCE

PERMANENT LIFE INSURANCE

As the name suggests, permanent life insurance can protect you and your family throughout your lifetime. It provides a death benefit and usually builds a cash value.

The cash value accumulates within the policy on a tax-advantaged basis. If you need to, you can withdraw cash or borrow against its value. Withdrawals may be subject to tax.

Be sure to review the product guide to ensure you understand:

- How the life insurance works
- How cash value can accumulate within the policy
- The company's track record for providing value to policyowners

UNIVERSAL LIFE INSURANCE

Universal life insurance combines permanent life insurance with a tax-advantaged investment component.

You can customize the investment mix to align with your financial goals and risk tolerance. As your cash value accumulates, you can use it to pay the cost of your insurance or, depending on the option you select, to increase the total death benefit.

This type of life insurance is particularly suited to people who want to actively manage the investment component of their life insurance policy.

PARTICIPATING LIFE INSURANCE

Participating life insurance gives you a foundation of guaranteed value and tax-advantaged growth, plus the opportunity to receive policy-owner dividends.

Participating policy-owners' premiums go into a special account called the participating account. The life insurance company manages this account, investing in a diversified portfolio of bonds, mortgages, equities and real estate.

Earnings come from favorable investment returns, mortality experience and expense management. The life insurance company may then pay some of these earnings to you in the form of policy-owner dividends.

You decide how you want to use your dividends.
Popular options include:

- Use your dividends to buy more permanent life insurance. This can help offset inflation and provide higher long-term growth in your cash value and death benefit.
- Use your dividends to buy a combination of term and permanent life insurance. This can help you buy more coverage today at an affordable price.

COMBINATION OF TERM AND PERMANENT INSURANCE

Many people have both short- and long-term life insurance needs. They require different amounts of coverage over different periods of time.

To meet these combined needs, you can buy policies that combine the features of both term and permanent life insurance.

Most permanent life insurance lets you add low-cost term coverage with no additional policy fee. This gives you the total coverage you need today at a more economical price while providing a base of permanent coverage that won't increase in cost.

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THE DIFFERENT TYPES OF LIFE INSURANCE

GROUP INSURANCE

If you’re working, there’s a good chance your employer offers group life insurance. You may also have life insurance through your association, professional body, union or club.

Group coverage provides simple, low-cost life insurance. However, it can have drawbacks compared with personal life insurance.

For example:

- Group coverage doesn’t offer the same control, portability or flexibility.
- You’re often insured only as long as you’re part of the group.
- Employers own their employees’ coverage. They can change it at their discretion, based on an annual review.
- You usually have the right to convert to an individual policy when you leave the group. However, you may be allowed to convert only to non-convertible term life insurance that expires at age 65. Converting to permanent life insurance could be expensive or impossible.

TAILORING LIFE INSURANCE TO YOUR NEEDS

GROUP INSURANCE

Your financial circumstances and needs are unique, and your life insurance should reflect this. Your financial advisor can help customize coverage to align with your requirements.

PROTECTION IN THE EVENT OF DISABILITY

If an accident or illness prevents you from working, the life insurance company pays your premiums. Be sure you understand the definition of disability, the waiting period before premiums are paid and any additional benefits you receive while disabled.

THE RIGHT TO BUY MORE LIFE INSURANCE

This guarantees your right to buy more life insurance. It protects you from the risk that sickness or an accident might disqualify you or make you pay higher that standard premiums. The cost of this benefit is usually minimal.

ACCIDENTAL DEATH BENEFIT

This option pays an additional benefit in the case of a fatal accident. This is part of your main life insurance policy, not a separate policy. (You may occasionally receive offers to buy a separate accidental death insurance policy. It may offer high coverage at a low cost. However, if you die from anything other than an accident, there is no payment at all.)

IT STARTS WITH A CONVERSATION

At Rubach Wealth, we have the expertise to help you make smart use of life insurance in Canada to achieve your financial objectives. We are Holistic Family Advisors™.

We provide comprehensive financial planning and insurance strategies for established professionals and business owners. Our team will take the time to understand your family's unique circumstances, identify what you need and don't need, and develop a tailored solution.

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