Choosing the Right Life Insurance

Mar 11 2014

Making the right choices for protecting you and your loved ones in the case of a premature death comes down to understanding some basic principles and rules of thumb. The first is that the name is all wrong; life insurance does not help you, it helps to protect the standard of living and lifestyle of those you leave behind. So more accurately it should be called something like: loved one's lifestyle assurance plan?.

Secondly, you buy life insurance with your health. If you are unhealthy you are uninsurable and cannot buy a policy no matter how much money you offer the insurance company.

Generally, there are only four situations that create a need for life insurance: to pay funeral expenses, debt repayment, tax planning and income replacement. For example, a couple has a baby and buys a new house. This creates the need for life insurance to both repay the mortgage debt and to replace the earned income of a working parent in the event of a premature death.

Broadly speaking there are only two types of policies: permanent and temporary insurance and every policy is a subset of these two categories. Choosing one type over the other depends upon whether the need is temporary or permanent.

For example, a mortgage is usually for 25 years or less; children are dependents for (hopefully) 20-25 years which points to a term insurance? contract. A permanent need for example, is to pay Estate taxes on a large RRSP or taxes on the capital gains on private corporate shares or assets and using cheaper life insurance dollars to pay future tax liabilities.

Within the temporary or term insurance category you can buy a policy that covers you for a fixed period of time such as 10 or 20 years or even to age 65. It is payable when the insured dies, as long as it occurs within a specific amount of time. It is typically the cheapest type of life insurance and you can buy large amounts for modest costs. But the costs increase at the end of each term period as the person ages.

Within the permanent category, you can buy Term to 100 (essentially payable for life with no cash build up or savings?), or universal life or whole life contracts. There are too many variations and pricing schedules to cover here.

Policy options can include accident insurance, waiver of premium and children's coverage amongst many others. Most term policies include a guaranteed renewable and convertible clause that allows you to renew the contract, typically until age 80 or older, even if you are no longer healthy and insurable.

The key consumer decision to make is to be sure you have the right amount of coverage at an affordable cost with the correct contract riders (options) for your situation. Talking to an experienced insurance professional will include a needs analysis process to assist you in coming up with the right amount of coverage for your specific situation. Life insurance is just one of the components of a proper risk management program. Call us today to review your risk management programs.

Questions about your life insurance options ?
Contact our office today ! [1]

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