Insurance

Which Type of Insurance Is Best For You?

Many factors must be considered when evaluating your financial objectives. Generally, the main consideration when choosing insurance is your family's financial well-being. Other important points to consider are the age of your beneficiaries and the number of years for which this support might be necessary. However, other factors do exist. The following questions, while not exhaustive, may provide you with some useful ideas:

- Do any of your beneficiaries have special needs?
- Is tax planning important in planning for your estate?
- Is the time frame for access by your beneficiaries to their inheritance important to you?
- For how long would you like your estate to benefit your family?
- Do you want to leave money to a charitable organization?
- Does your estate include a family business or other assets that need special attention?

The Role of Life Insurance in Estate Planning

For many individuals, life insurance is often an important element in planning their estates. Its main role is to create or to preserve an inheritance. For younger individuals, the creation of wealth is often the most important objective. For older people, protecting their accumulated assets, in other words the preservation of their estate, is essential.

One of the main advantages of life insurance is its tax treatment. Premiums are not generally deductible, however, the amount paid to the beneficiaries through your life insurance policy is non-taxable, and this presents numerous tax planning opportunities.

Types of Life Insurance

There are two main types of life insurance:

- A temporary or term life insurance covers a given period and is designed to meet your specific needs.
- A permanent insurance is used to attain long-term objectives and remains in effect during the life of the insured person.

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Insurance

Term Insurance

As we mentioned previously, this insurance generally addresses a specific need, such as repayment of debts, such as a mortgage, or to compensate for loss of future income upon the death of the insured person. The death benefit for term life insurance is only paid out if the insured person dies during the period the policy is valid, which may be defined in years (e.g., 1, 5, 10 or 20 years) or set to a specific age (e.g., up to the age of 65). The insurance remains in force as long as the premiums are paid and the policy has not expired. Usually, this type of insurance is less expensive than permanent coverage, because its duration is limited and it is a very straight-forward product. A renewable policy may be renewed at a higher premium at the end of each period, without having to medically re-qualify. A convertible policy may be converted into a permanent life insurance policy (within a given period), without similarly having to provide evidence of insurability.

Permanent Insurance

· *Universal Life Insurance*

Universal Life insurance (UL) is the life insurance industry's version of "buy term and invest the difference." Essentially, it is a contract that provides permanent life insurance coverage with an investment account, wherein assets grows on a tax-deferred basis. The original death benefit as well as investment account value are paid out tax-free to your beneficiaries when you die. Other features of UL include potential creditor protection, the opportunity to increase foreign investment exposure and the possibility of creating tax-free retirement income by pledging the policy as collateral for a series of annual loan payments.

The major benefit of UL is its flexibility. It affords you the opportunity to create tax-deferred savings for your estate, or simply the ability to pay down your coverage within a few short years. If you annually maximize your RRSP contributions, are in the top tax bracket, have very little non-tax deductible debt, have good cash flow and are willing to commit to a long-term savings program, you may want to consider UL as the permanent part of your insurance portfolio.

· *Term-to-100 Insurance*

Term-to-100 (T-100) insurance is a form of permanent insurance, but its characteristics are more similar to that of term policies. Typically there are no cash values built-in, however some products do offer that feature and premiums are guaranteed and remain level for the life of the contract, which in this case is until age 100. If you do attain that age, your premium payments would end, however, coverage would remain in effect.

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· *Whole Life Insurance*

Participating Whole Life (PAR) is another form of permanent life insurance protection that may include tax-deferred growth. However, unlike UL, where you have a great deal of flexibility with respect to when the premiums are paid and how they are invested, with PAR there are very few choices. The insurer itself invests your additional premiums – you have no control. The growth can be achieved through the crediting of dividends, which strongly reflect the returns that the insurer achieves with your money, and which may be used to buy additional amounts of permanent insurance coverage. PAR policies fully guarantee the level of premiums you pay, the death benefit, and minimum level of cash value. The dividends in a PAR policy are the only feature that is not guaranteed, however they may affect the expected premium schedule and ultimate estate.

Which Type is Best for you?

It all depends on your objectives. Most people need two types of insurance during their lives. Permanent insurance provides protection, both for the beneficiaries and against the eventuality of not being insurable at a later date. Term insurance can often complement permanent insurance by responding to specific needs during your lifetime. As a general rule, the older you become, the less you need life insurance, because you have other assets to leave to your beneficiaries. However, this is not always the case. As they get older, many people want to maintain a life insurance policy for tax reasons to protect the value of their estate upon their death.

How much insurance should you buy?

It all depends on your personal situation, your assets and your objectives. As a general rule, as we have already mentioned, the older you are, the less need you have of life insurance *per se*. However, there are products that will help you in the various aspects of planning your estate and your retirement. Each case should be evaluated in the context of an overall financial plan.

Your ScotiaMcLeod advisor can provide you with a variety of publications about the different types of insurance, with descriptions of certain strategies and options for estate planning that allow for growth while maintaining the value of the estate.

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