



# UNDERSTANDING YOUR RISK MANAGEMENT OPTIONS

*Depending on an individual's needs, desires and health condition, there are many types of insurance available. These include life insurance, income replacement, critical illness insurance and long-term care insurance.*

## Life Insurance

### Temporary Coverage

"Temporary" life and health insurance is a way of looking at certain financial risks that would be devastating if they arise, but which most often we will live past. For example, the loss of an income earner, especially early in life can cause extreme financial hardship for those left behind. How will the mortgage be paid? How will the children's education be funded? Will the family have enough income to maintain their standard of living?

### Term Insurance – "Renting"

Term insurance is often used to provide coverage for these temporary situations. With term insurance policies, your premiums only pay for the cost of the insurance; there is no savings component or cash value. As a result, the initial premiums on a term insurance policy are generally lower than the premiums on a comparable permanent insurance policy. If you stop paying premiums, the coverage expires. Term life insurance premiums often increase every 10 or 20 years, although some policies provide for level premiums over longer periods of time. However, most Term plans are designed to expire prior to life expectancy.

### Permanent Coverage

Regardless of when an individual dies, there will likely be taxes, funeral costs and other expenses due at death. In addition, some individuals may desire to leave a bequest at the time of their death or wish to maximize their estate value.

For business owners who have accumulated a sizable investment portfolio or estate, permanent life insurance can be an important tool in helping to transfer a business successfully, reducing taxes or as a wealth positioning asset with valuable tax sheltered accumulation and tax effective estate transfer capabilities.

### Permanent Insurance – "Leasing / Owning"

For permanent needs, there are insurance products that provide primarily protection with the lowest annual cost outlay such as permanent term insurance (Leasing) or Limited Pay products (Owning), to those which allow substantial tax sheltered growth and asset allocation potential such as whole life and universal life insurance (Owning with Equity and Growth).

## LIFE LEARNING

This information will help you understand and determine what protection you need today, while keeping in mind what may be important tomorrow.



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## Disability Insurance - Income Replacement

Your ability to earn an income is quite simply your biggest asset.

During a disability, household bills still need to be paid. Disability Insurance provides a benefit, usually 60-70% of the annual salary, in the event the insured becomes disabled and is unable to work. There are various types of disability coverage, ranging from policies that will only pay benefits if you are unable to work at any job, to policies that will pay benefits provided you are unable to perform the duties required for your regular job. Many employers offer their employees group disability insurance coverage. However, self-employed individuals or individuals who are not covered through their employer should ensure that they have adequate insurance coverage to continue to pay their costs of living while they are unable to earn an income.

## Critical Illness Insurance

Critical Illness Insurance is a relatively new product, which was introduced in the 1980s. It pays a benefit to the insured in the event the individual is diagnosed with any of a specified list of critical illnesses such as cancer, heart attack or stroke and survives a waiting period that is usually 30 days. Some Critical Illness Insurance plans may cover as few as three or four illnesses while others cover in excess of twenty.

Whereas Disability Insurance usually pays a monthly benefit equal to a percentage of your salary in the event you are unable to work, Critical Illness Insurance pays a lump-sum, tax free benefit shortly after diagnosis, regardless of the ability to work. This can help pay for items related to the illness, such as medical expenses that are not covered by a health plan, mortgage payment, or a much needed vacation. These plans also come with rent, lease and own options, similar to the life product descriptions.

## Long Term Care Insurance

As the population ages, more and more people will experience the need for long term care. The expenses associated with these services are likely the biggest risk to retirement savings and should be an integral part of every retirement plan.

Canadians want the peace of mind of knowing that they will be able to afford the care they need without burdening their families with the costs. Long-Term Care Insurance provides a benefit that helps cover the cost of nursing home fees or attendant home care fees. Most plans generally pay a stated daily or weekly benefit once it is determined that the insured is no longer able to adequately care for himself or herself. Other plans offer a pool of money that allows a percentage draw periodically.

## Conclusion

Risk Management is an important part of financial and estate planning. From the payment of the first premium, protection of one's income and estate can be established. With all types of insurance, you get what you pay for.

There are relatively inexpensive basic plans and more expensive comprehensive plans. It's important to consult a licensed insurance professional to determine the most appropriate solution for your needs.

## Life Cycle Planning

