

Topic 5

LIFE INSURANCE



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Most Canadians would like to leave as much of their hard-earned wealth to their family and/or charity as possible. They would also like to be prepared for health care costs they may face as they age. Insurance can help you do both.

- **Life insurance** can help you transfer your wealth efficiently and effectively by covering taxes due on your estate.
- **Health insurance** can help you cover the costs of prescriptions, vision care, dental care and more. **Critical illness and long-term care insurance** can provide financial help if you fall seriously ill or can no longer live independently.

A licensed insurance agent can help you choose the right insurance for you.



Would you like to learn more about insurance?
Read **Insurance: A critical tool for managing risk.**

What's to talk about?

A. **Why would you buy a life insurance policy?**

Life insurance is commonly used to replace income when a family member dies or to pay off debt. But it can also be used for other purposes:

- It can cover the taxes and fees due on your estate.
- It can add value to your estate.
- In some cases, you can borrow against your insurance to top up your retirement income.

What do you need your life insurance to do? Here's how to start the conversation.

If you are parents of adult children:

- If you have life insurance, let your child(ren) know what role it plays in your financial planning. Why did you choose this type of insurance? Did you get professional advice?
- It's easy to make mistakes with insurance. For example, you may choose the wrong type of insurance. Or not enough insurance. An insurance agent can help you create a plan that will enable you to leave more wealth to your loved ones and/or charities. If you are looking for an insurance agent, ask your child(ren) if they could recommend anyone.
- If you are relying on dividend payments from your insurance to pay the premiums, keep in mind that dividends are not guaranteed. If you receive a lower or no dividend at any time, you may have to borrow to pay the premiums or pay them from your savings.

- If you planning to use life insurance to cover the taxes due on your estate, make sure your beneficiary/beneficiaries is/are on board. For example, make sure they understand what will happen if they use the money for something else. Will your executor be forced to sell another property or cash out investments to pay taxes at a time when markets are down?

If you are an adult child:

- Are you wondering if your parent(s) has/have a plan to cover their final taxes and fees due on their estate? Ask your parents if they've talked to an insurance agent and have life insurance. If they're looking for advice, let them know if you can recommend someone.
- Ask your parent(s) if they've considered life insurance as a strategy to cover estate costs and final taxes. Even a smaller estate may benefit from life insurance planning. Do some research and share what you learn with your parent(s).



- One way to start the conversation is to share stories about people who have used life insurance to cover taxes or estate costs. Or, share stories about someone who did not have a plan for their final taxes and how that affected their loved ones.
- If your parent(s) have life insurance, ask them where they have recorded the name of the insurer and their policy number.

Ready to learn more? Read
Insurance: A critical tool for managing risk.



B. **Is there tax on money received from life insurance?**

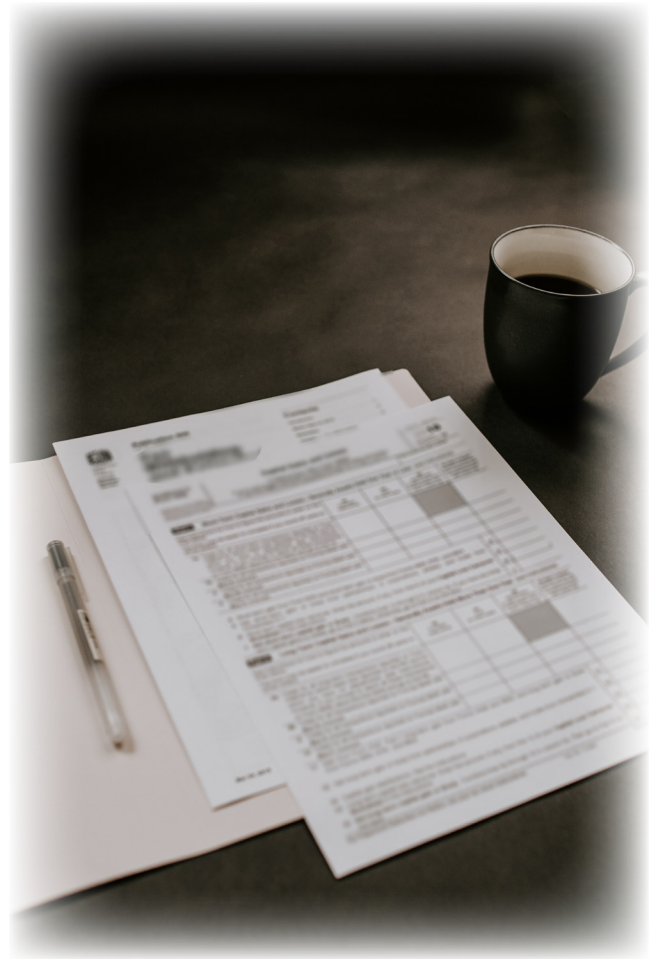
Most amounts paid from life insurance are not taxable – whether you have term or permanent insurance. But there are some cases where taxes may apply, including:

- You do not name a beneficiary, or the death benefit is paid to your estate.
- You have accumulated cash value through your permanent life insurance.

It's important to plan ahead to avoid costly mistakes. Here's how to start the conversation.

If you are parents of adult children:

- Talking about your life insurance and taxes can be easier if it's part of a larger conversation about your estate plans. You might start with something like, "I/we have been talking with an insurance agent. I/we would like to share what we're thinking about with you."
- Sometimes it helps to have a member of your advice team walk your family through your financial plans. An insurance agent can explain what it means to your child to be a beneficiary of a life insurance policy. They can also answer specific questions about taxes on life insurance.



If you are an adult child:

- Sometimes it's easier to talk about life insurance with your parent(s) as part of the financial planning they are doing at different stages of life. For example, you can start a conversation by saying, "I've been looking into life insurance lately. Do you have any? Are you thinking about any changes as you retire?"
- To learn more, ask your parent(s) a few questions about their plans. What type of life insurance policy do they have? Have they looked into whether taxes will apply to the death benefit? Have they named a beneficiary?

Ready to learn more? Read
Protecting your wealth with insurance.

C. Should you inform beneficiaries of life insurance policies that may affect them?

It can be helpful to let your beneficiaries know they are named on a life insurance policy. It can be part of a bigger conversation about your plans for your estate. Here's how to get started.

If you are parents of adult children:

- Are you planning to name your adult child(ren) as beneficiaries of your life insurance, or as a back-up beneficiary to your spouse/legal partner? If you are, let them know. Make sure they know where to find the policy information and whom to contact.
- You may also want to explain how naming your child(ren) as a beneficiary helps you achieve important financial goals, like passing on more wealth to them or reducing taxes on your estate.

- You may also want to let your child(ren) know if you are not naming them as a beneficiary. Are you naming someone else or a charity? Why did you make this decision? How will it affect the taxes due on your estate?

If you are an adult child:

- If are a beneficiary, you need to know where to find a copy of the policy.
- You may also want to ask your parent(s) a few questions about why they have the insurance. Is the death benefit designed to help pay taxes or fees on their estate, or is it for your personal use?

D. Can you have multiple beneficiaries for a life insurance policy?

Yes. For example, if you have more than one child, you can name them all as a beneficiary of the same policy. Your insurance company will divide the death benefit equally among them. Or, you can state in your will how you would like to divide the payment.

Another option is to share the death benefit amongst your child(ren), your spouse/life partner and/or a charity. Here's how to start the conversation about your plans if you have multiple beneficiaries.

If you are parents of adult children:

- If you make your child(ren) is/are a beneficiary, let them know if you are naming anyone else. If the insurance is only part of their inheritance, make sure they're aware of the bigger plan.
- You might also let them know if you had a particular reason for dividing the death benefit and if you divided it equally or not. They may not agree with your decision, so be open to listening to their point of view. You don't have to change your plan but at least you'll have had an open conversation about it.

If you are an adult child:

- If you learn that your parent(s) has/have named multiple beneficiaries for their life insurance, you may want to ask a few questions to understand their plans. For example, are they dividing the death benefit equally among their children? If not, are they doing so to equalize inheritances for their different children?
- At the end of the day, what they do with their insurance is not up to you. But if you have any concerns or suggestions, you may provide input if your parent(s) is/are open to hearing your thoughts.

E. Can you change your life insurance beneficiary? If so, why might you want to do this?

Families change over time. So do your responsibilities. If your life or your financial situation changes, you may want to change the beneficiary of your life insurance. For example, what if your chosen beneficiary dies? What if you divorce or remarry? Or your wishes change? For example, is there a charity you'd now like to receive some or all of your death benefit?

Here's how to start a conversation about changing your beneficiary.

If you are parents of adult children:

- You can change a revocable beneficiary at any time without telling them. However, you may want to let them know to avoid surprises later. It will also give you an opportunity to explain why you're making the change.
- If you want to change an irrevocable beneficiary, you must have their written permission. Your success in getting permission from an adult child will depend largely on the nature of your relationship and your reasons for the change. If you have a new responsibility in your life – like a new dependent – this may be easier for your adult child to understand.

If you are an adult child:

- Ask your parent(s) when they last reviewed the beneficiaries of their life insurance and other accounts. This conversation may be easier when you're talking over other aspects of their financial plans. Or you can mention that you were just updating your papers and discovered you needed to update your beneficiaries.
- If your parent(s) needs/need your permission to remove you as a beneficiary, you can ask them to explain their reasons. If you're not happy with their decision, remember that in many cases your parent(s) may legally change their beneficiary. Get advice before you start a legal dispute.

F. Is life insurance still a good idea if you have no surviving spouse or financially dependent children?

Your need for life insurance can change over the years as your family situation changes. Even if you are single and no one depends on you financially, life insurance can help pay off your debts or cover your final taxes. You can also use life insurance to leave money to a favourite charity. The important question is whether the cost of carrying the insurance outweighs the benefits.

Here's how to start a conversation about your wishes.

If you are parents of adult children:

- Reviewing your life insurance can be a good time to have a broader discussion about your financial future with your adult child(ren). You may want to get professional advice before you change or cancel a life insurance policy. Let your child(ren) know if you have consulted a financial planner, insurance agent or lawyer.
- Consider letting your child(ren) know if you are going to change or cancel your policy and how it fits into your financial planning – especially if they are currently named beneficiaries.
- If your premiums are high, you may choose to cancel your insurance early and take a pay-out. Keep in mind that if you do this, you may receive a reduced pay-out.

If you are an adult child:

- If you notice a change in your parents' financial situation, ask them if they've thought about updating their estate plan and life insurance.
- If your parents have life insurance and want to stop paying the premiums, discuss the pros and cons of possibly taking over the payments. The death benefit will help pay taxes on the estate of your parent(s) and so protect your inheritance.

Ready to learn more? Read
Insurance: A critical tool for managing risk.

G. **How can insurance help you cover costs related to your health and wellness?**

We enjoy a strong, publicly funded health care system here in Canada. Yet longer life expectancies, rising health care costs and the need for long-term care can all have a big impact on your retirement savings and lifestyle. Insurance can help you financially in three important ways:

- **Health insurance** can help you cover the costs of prescriptions, vision care, dental care and more. These may not be covered by your province's health insurance.
- **Critical illness insurance** can provide a tax-free lump sum payment if you are diagnosed with certain serious illnesses.
- **Long-term care insurance** can provide financial help if you can no longer live independently.

It can be uncomfortable thinking about how your health care needs may change over the years ahead. Here's how to start the conversation about using insurance to help cover those costs.

If you are parents of adult children:

- First think about where you might need health-related insurance. What expenses might you have that are not covered by public and private health insurance plans? For example, these plans do not usually cover day-to-day living expenses, such as travel to and from treatments, home care and so on. Do you have a lot of emergency savings to draw on to pay those bills? If not, how will you manage financially?
- Health-related insurance is not only for older people. In fact, it often costs much less to insure a younger adult. Ask your child(ren) if they have considered buying some type of health insurance and why. It can open up a whole conversation about preparing for unexpected life events.
- Health-related insurance products can be complex. You may have a few different options to consider. A licensed insurance agent can help you choose coverage that will help you cope with any health challenges as you age.

If you are an adult child

- Invite your parent(s) to have a “what if” conversation with you: What if you have unexpected medical or dental bills? What if you were to become seriously ill and need a lot of home care or must travel for special treatments? What if you could no longer live independently? What kind of financial strain might these different situations create? What’s the plan to cover unexpected costs?
- A licensed insurance agent can help your parent(s) figure out what coverage will best help them cope with their health challenges as they age. If they haven’t yet consulted an agent, you can offer to do some research and provide them with some names.

Ready to learn more? Read
**Health and illness in retirement or
Protecting your wealth with insurance.**

Let's Talk Money: Seniors Conversation Starters

Life Insurance

Questions for you as an Older Adult

- What are your thoughts on life insurance as your family grows and you continue to age?
- Did you know that life insurance can be used to help the beneficiaries of my estate pay any taxes that can be levied on proceeds of my estate after I die, or to help supplement my income while I am alive? I would like to have your advice on the current policies that I have.
- Life insurance is part of our overall financial planning. Do you know where are policies are and how to find out details from our Agent?
- Do you know that I have Life Insurance as part of my overall Financial Plan that will be part of my estate when I pass?
- I am finding it difficult to continue to pay premiums on one of my life insurance policies. I could use the money for living expenses now. What do you think of me cancelling the policy now and taking the cash payout – to help pay my current living expenses?

Questions for you as an Adult Child

- I would be interested in your advice about the value of life insurance in your financial planning in retirement. I am thinking I need to build something into my plans to ensure that my family is not burdened if something should happen to me.
- I have a friend whose parent just past – and he told me that the government is coming after the estate for inheritance taxes and other payments. I have heard that some financial planners have recommended insurance policies to help lessen the tax burden related to estates and beneficiaries. Have you had any conversations with your financial planner or insurance agent around these options?
- With all the changes that our family has gone through – your retirement, marriages of each of your kids, and such – have you updated your policies and reviewed the beneficiaries of each to ensure all is still in order?
- Are you comfortable still paying premiums on Life Insurance Policies that you have or have you thought of some alternatives – cancelling the policies and taking the cash payout, or letting me help with the premiums?
- With the challenges that you may face to your health do you think we should chat with your insurance agent about coverage that could provide more health care benefits for you?
