CONCEPT GROUP

FINANCIAL PLANNING LTD.

Life Insurance Information Guide

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Chapter 1

Mortgage Insurance vs. Life Insurance

Talking about your death is never easy or fun, but it is essential. When organizing your finances to provide for your family in the event of unexpected loss, the mortgage may take the centre stage. Loved ones should not be left wondering if they can afford the family house or not. At first glance, life and mortgage insurance seem similar, but when you dig deeper they show their true colours.

Let's ask some questions and see how they both stack up.

The bank says I can get some insurance added onto the cost of my mortgage; it can protect my family and it's simple to get! Should I get it?

Getting mortgage insurance is that simple, but banks leave out some serious details you may not know about until it's too late. Mortgage insurance, correctly called creditors insurance, is a five minute way to get insurance that will pay off your mortgage, when you die. Sounds good right? Lets dig deeper.

Mortgage insurance requires no medical exam. The insurance is *post approved,* meaning they will dive into your medical history after you pass away, and then decide if they pay. Even though you pay premiums every month it does not mean you are insured. Nothing is guaranteed.

Life Insurance is much more upfront and clear. You will receive a medical exam and the insurers will review your medical history beforehand to determine what risk you pose to them. Once the risk is determined, and a policy signed, you are covered and guaranteed to be paid out upon death.

Well that sounds good, but how about cost?

Mortgage insurance may be cheaper at first, but in the long run Life Insurance is the best choice. Mortgage insurance must be renewed every time your mortgage term is up. Assuming you use five year terms, every five years you have to renew your insurance policy. You will be 5 years older and therefore the mortgage insurance will be more expensive. You could have contracted a serious illness in that time frame, again you're more expensive to insure (or completely uninsurable). Additionally, if you are a non-smoker, you will pay the same rates as a smoker. Life Insurance treats non-smokers favorably, making their premium payments lower right off the bat.

Wait; shouldn't the premiums go down along with a declining mortgage balance?

That would be logical, but sadly, that's not how it works. Mortgage insurance costs increase with your age and potentially declining health, all while you are paying your mortgage down year after year. You end up paying more every term for less coverage!

Term Life Insurance never becomes more expensive during the policy. It is a level cost that is known and agreed upon. The coverage also does not decline with the mortgage unless you specifically structured it to do so. If you are paying for $800,000 in coverage, your loved ones will receive the full amount upon your passing, at any time during the term of your policy.

What happens if I want to move my mortgage to a new bank/institution? I can bring my insurance with me, right?

When you apply for mortgage insurance it is attached to the bank/institution where you have the mortgage, so no, you may not bring it with you.

Life Insurance, on the other hand, is a policy with a Life Insurance company and has nothing to do with your bank/institution or your mortgage. Moving banks does not impact your policy at all.

So if I die, my family gets a cash payment and then pays off the mortgage with it?

With mortgage insurance the answer is a blunt “no.” The bank will only alleviate the remaining, or a percentage of the remaining, debt owed.

Life Insurance pays a tax free cash benefit to your loved ones. They may then decide how to deploy the cash. Do they have high interest debt (credit card, car loan, etc) that would be better paid off first? Go for it, the cash is yours to use. Don’t want to pay off the mortgage in whole? No problem.

This is a basic overview of the comparison between life insurance and mortgage insurance. As life insurance agents we are biased towards life insurance, but the points presented above aren’t just opinions, they are publicly available facts that are simple to verify and compare.

Life Insurance may not be fun or exciting to talk about, but it doesn't have to be confusing and painful, either.

Please read the following chapters to learn about some of the finer points of life insurance and to help you understand it’s advantages.

Chapter 2

Steps for buying life insurance

It is time to consider life insurance when you take on a large financial liability that requires an ongoing need for protection. This can be a combination of buying a home, being married, having children, taking on substantial consumer debt, or owning a business. Here are some steps to follow when you are considering buying life insurance.

Step 1

- Seek out an insurance agent. The insurance agent should be an independent broker, not a captive agent that works for one company. Independent brokers work like mortgage brokers in that they work with several companies to find you the best prices and products.

Step 2

- Have a discussion with the agent to decide if there is a good fit for a professional relationship. They may be your insurance advisor for a lifetime, regularly evaluating your ever changing needs, so a comfortable relationship is beneficial.

Step 3

- Learn from the agent about insurance and how it works. Don’t worry, it won’t be that bad! A basic understanding of each product helps you know why a certain product is being suggested or avoided.

Step 4

- Complete a thorough needs analysis. This will include questions about your life and where it is going. the agent compiles the simple facts like income, dependents, and other debts you may have. Next they talk about the items that are more difficult to predict. Will you have kids? Will you have a bigger home/mortgage in the near future? Do you want to buy another vehicle? What about providing income for your remaining loved ones? Again, don't worry, the agent should explain all of this in simple language that is easy to understand.

Step 5

- After a needs analysis is done, and the amount and type of insurance is selected, the agent can get some quotes. Agents use software that helps build insurance models that can be presented in a few minutes. Once the quotes are looked over and found to be satisfactory, the process of applying for the insurance begins.

Step 6

The application process for insurance is a detailed and personal one. You and your agent will go through an application package that asks questions about past history. While the questions may be personal, you can be assured that no one will see the answers except for the agent and the insurance company. Your information is treated the same as at a doctors office: with both respect and absolute privacy.

Step 7

Along with the completed application the agent will collect a cheque paying for the deposit, which also happens to be the first premium payment. The application is then sent off for underwriting. Underwriting is a process that the insurance company goes through to review your information and determine what type of risk you pose to them. This will help determine what rate you will pay.

Step 8

Medical exam. A phone call will be made to you from a paramedical nurse. The call will be arranged by the insurance agent. The exam can be done almost anywhere, any time of day. They do their best to accommodate your busy schedule and keep you at ease. They may do things like take blood and urine samples, as well as ask medical history questions. This helps determine your risk to insure and the rates you will pay. Remember, they are agreeing to insure your life!

Step 9

Once all the risks are assessed, the policy has been issued and sent to the agent, you have a chance to look at the policy and agree to its terms. If something is not to your satisfaction, you may cancel it before it begins, receiving your deposit back in full. It is important to remember that your insurance policy is a unilateral contract. That means you alone have the power to cancel or make certain changes to the policy after it is signed.

Step 10

You now own an insurance policy on your life. The premiums will continue to be paid until the term is up, the policy is cancelled, or death occurs. Thinking about your death isn’t easy, but you can take comfort in knowing that, should you die, you and your insurance agent have intelligently assessed the financial risks and provided for the needs of your loved ones.

Chapter 3

All the pieces of the puzzle.

You are now at the point where you know some differences between life and mortgage insurance. You now also know the steps involved with getting life insurance, but who are the people involved in this process? What do they do? Here is some key terminology that you need to know.

Insurance Agent/Broker

This is the person who is responsible for the sales part of the process. We use sales loosely because if the agent is doing his or her job they should be doing more educating than selling to the client. The agent is responsible for getting estimates, giving information, and is also your direct link to the insurance company. The agent is your go to person for insurance and can advise you for a lifetime.

Insurance Company

The Insurance Company provides the life insurance product. They assess risks and find suitable methods of covering those risks.

Underwriter

The underwriter reviews all the information collected from the medical questionnaire, agent questionnaire, paramedical nurse, and the doctor, if necessary. They use past statistical data and rates to help determine what your rate will be.

Paramedical Company

These companies are the ones that fill out the medical questionnaire on behalf of the life insurance companies. They are quick and professional, helping accommodate your needs. They keep your information and results confidential.

Beneficiary

The person or persons receiving the death benefit. It may be an individual, multiple people, charity, or business. The options are almost endless.

Death Benefit

The death benefit is the amount of money the insurance company has agreed to pay the beneficiary when you die. No matter what type of life insurance you have, the benefits are handled the same way. If you agree to $300,000 in coverage, that is what your beneficiary receives. The benefit is also received 100% *tax free*. What you agree to is exactly what they get.

Premium

The premium is the amount of money you pay to the insurance company in return for your insurance. The amount you will have to pay monthly or annually will depend on the type of policy you have and the risk factors determined in your application process. Some risk factors the insurance company takes into consideration include your age, overall health, and gender. For example, young people have less risk of dying, so they pay lower premiums. This is why it is a good idea to apply for life insurance while you are young.

Cash Value

"Cash Value" is the reserve that builds up inside certain life insurance policies over time. Specific kinds of life insurance products are designed for financial planning as well as life insurance. During the early years of the policy, the actual cost of the insurance is low but the premium is high; the cost differential is held in reserve in your life insurance policy. In this kind of life insurance product the cost of insurance increases over time and the cash reserve can then be used for investing as part of a broader financial plan or to decrease the premiums.

Insurance Policy

An insurance policy is simply a contract. Both parties have obligations to fulfill to receive the promised benefits. The key thing to be aware of, as mentioned earlier, is that this is a unilateral contract. After the papers have been signed and the payments made, only you have the right to change or cancel the policy.

Chapter 4

Types of Insurance

In the world of life insurance there are dozens of products. They have catchy names such as Genesis, EstateMaster, ExceLife, Estate Advantage, and Wealth Advantage. While these all sound riveting, they are all the same two types of insurance!

Ignore the fancy names. All you need to know are these two basic forms of life insurance and a few sub-categories:

1. Temporary Insurance:
   - 10, 20, 30 year term

2. Permanent Insurance
   - Whole Life
   - T100
   - Universal Life

Now that you know the basic forms, let's look over how the two types of insurance work and how they differ.

1. Temporary Insurance

Term Insurance

Used to cover a set period of time that typically coincides with a defined need such as a mortgage, children's education or outstanding debts. Common term policies can be 10, 20, or 30 years and have set premiums. When the term is up, the insurance can continue but at a predetermined higher rate. Term is great for covering temporary needs, it's both easy to understand and inexpensive. To be clear though, Term is for temporary needs, and is not cost effective to cover your permanent needs.

2. Permanent Insurance

- T100

  This product is often the least expensive way to cover your permanent needs. It has a set payment schedule that never goes up and never goes down, unless you want more or less coverage. There is no flexibility. If you live past 100 years old you may not pay premiums anymore, and the policy will remain in force. T100's beauty is in its simplicity.

- Whole Life
  This product is similar to T100 with some key differences. Though you pay a level cost throughout the life of the policy just like T100, the difference is that you will start to build up a cash value in the policy. If you cancel the policy after a few years you will actually receive a percentage of the cash value back as a refund. This cash value can be borrowed against as well.

- Universal Life
  When used properly for the right type of client this can be a powerful product that has a lot of flexibility. Universal life can help you customize the way your insurance is structured. If you have a combination of permanent and temporary needs, Universal Life may be for you. You can add term insurance to a Universal Life policy to help cover certain needs that will disappear over time. It also allows for investment within your policy that can earn income and help reduce your premiums going forward. Keep in mind, though, that investments can also lose value, and the investment component of a Universal Life policy is no different. This type of insurance requires careful planning and consideration. An agent can determine if it is right for you and your family.

We trust this booklet has been informative. If you have have questions or want to talk further about insurance and providing for your family in the event of unexpected loss, please call Concept Group Financial Planning Ltd.

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