

Life Insurance 101

Life insurance is an essential financial tool. It is meant to provide money when someone dies to cover last expenses, pay off debts and replace income. Unless you already have all the cash necessary to cover these obligations, you need life insurance.

Term Life Insurance

As the name implies, this form of life insurance is in effect for a certain term. Like your auto and home insurance, the premiums for term life insurance generally increase at regular intervals as well. The most common policies today have premiums that "renew" every 10 or 20 years and the coverage term is only to a certain age, often age 80. Most term life insurance policies can be converted to Permanent Life Insurance at any time prior to a certain age, usually five years before the term expires.

Initially, the premiums for term life insurance are very low. Remember that premiums will increase regularly and may ultimately become difficult to pay. This type of life insurance has the greatest risk of automatically terminating. Because there is no value building in a term life insurance policy, if a premium is not paid on time, the policy will expire thirty days after the due date. You will have to pass a medical again in order to get the coverage back.

Term life insurance does have a place in many financial plans. Because it is essentially temporary coverage, it is ideal for temporary needs, like mortgages and other debts, and while there is still someone dependent on your income. It also fits well

for those just starting out or with limited cash flow for a short period.

Permanent Life Insurance

The premium for permanent life insurance is higher than the initial premium for term life insurance, but generally will never increase. In other words, the initial premium is as bad as it will ever get. Many companies offer a guaranteed premium period policy as well. This means that premiums are only payable for a certain number of years (usually 10, 15 or 20), yet the insurance will remain in force for the whole life of the insured.

There is a term life insurance policy that provides level coverage and level premiums to age 100 that is also known as permanent term. The risk with this type of policy is that if a premium is missed, the policy will terminate 30 days later. A permanent life insurance policy usually has a build up of cash value that can pay a premium so coverage won't lapse.

Permanent life insurance can be an ideal solution for our long-term cash needs. No matter when we die, there will be certain last expenses that need to be paid and usually very soon after death. These include funeral and burial costs, legal and probate fees, and outstanding debts. Many Canadians are building substantial amounts in their Registered Savings Plans (RSP) and other tax postponed investments. When a large RSP balance gets added to your final tax bill, as much as 50% (depending on province of residence) will be owed to the government for income taxes.

Life Insurance - because it's the right thing to do. Call today!



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