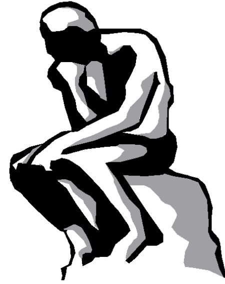
The Canadian Financial Security Program©

Revolutionizing Financial Thinking©



Shopping For Life Insurance

True Financial Security Inc.

*Helping Canadians Identify the **Best** Financial Choices©*

Shopping For Life Insurance

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YOUR NEEDS

So that you will have a basic concept of what we are trying to achieve with life insurance, it is important in the beginning, that you understand the **basic life insurance strategy** taught through the Canadian Financial Security Program.

Although there are other things that crop up in life that may produce special needs, most people can categorize their **basic** insurance needs in **three distinct time periods**.

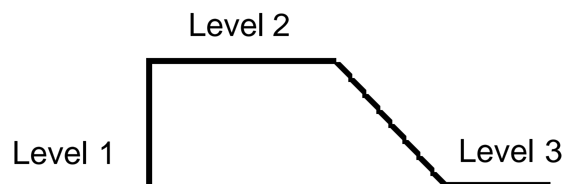
Level One: When you are a **single person** with **no others depending on you for support**. Do you need life insurance? Really, only for two things - to pay for your final expenses if you should die, and to pay off any debts that you might leave behind. Realistically, most young single people don't give this much thought or planning, so it is often up to parents to keep a small policy on their single, adult children, because in most cases they are the ones that would end up being financially responsible if an adult child were to die.

THE EVOLUTION OF YOUR LIFE INSURANCE NEEDS

Level 1: Single / No dependents

Level 2: Partner / Dependents

Level 3: Children are no longer dependent, you alone or you and your partner



Level Two: The moment that you become **financially responsible for someone else**, your life insurance needs change dramatically. As a matter of fact, you go from a very small need, to, for most people, the greatest life insurance need you will have in your life. For the majority of people, this is when you get married and/or have a child or children. If you take your responsibility seriously, you should have enough life insurance so that if you were no longer there to supply your family with their financial needs, then your life insurance proceeds should be able to do just that. In this book you will find the formula to establish how much that is.

Level Three: When your family is grown and all responsible for themselves, and there is now just you or you and your spouse to care for, your needs are sort of back to where they were at level one, except it is unlikely that your parents are there to pay for your final expenses. So, again, your needs are - enough to pay for your final expenses, and any debts that you might have.

Now, this is a little over simplification. There are other things to consider. If you raise your children while you are quite young and they are grown and no longer dependent on you, and you are still young yourselves, the main income earner may wish to carry some extra coverage for the benefit of the partner that stayed home and raised the children all those years in case he/she (the main income earner) were to die. This, so that the one who was out of the work force to raise the family, would not have to go to work "late in life" if the other died. The answer to the "unexpected" is to purchase an insurance program that has the flexibility to meet these challenges if they should arise. As you will see, this **is** possible when you have a proper understanding of what is available today.

Of course, we can't plan for every variable, but we can plan for the basics and **the inevitable**. Some day, we all die, and someone will have to pay for those final expenses. Consider this: there is an ever expanding segment of the life insurance industry that is completely focused on supplying life insurance products to a very large population of **"seniors"** who, because they didn't plan properly, find themselves in their 60's and 70's and have no life insurance and no other financial resources to pay for their own funerals. Now, they are scrambling to buy life insurance, which **if they can qualify for**, they are paying extremely high premiums for very small policies, sometimes with two year waiting periods before the full coverage kicks in. You see, eventually, someone has to pay, even if it ends up being the government in the form of a welfare funeral.

So, the evolution of your life insurance needs will probably look something like this. If you were to die today, you would need around $15,000 coverage to pay for your final expenses plus an amount to cover any debts. That's if you are single with no dependents. Once you have dependents, you will need enough coverage so that the insurance proceeds can be invested and the interest or profit from those investments will give your loved ones enough to **replace the income** that you once supplied. After your dependents are no longer "dependent" on you, you are back to the basic need again - final expenses and debt coverage, which, if you live a normal life expectancy, depending on your present age, could be a lot more than $15,000 when you do die.

Therefore, your life insurance needs could go from $15,000, suddenly to two, three or four **hundred thousand dollars**, and then back to 25 or 30 thousand dollars.

Now, there is a strategy, often promoted by investment people, where you are encouraged to *"buy term and invest the difference"*. The plan here, as long as you are young enough, is to buy the cheapest term life insurance you can get and invest what you save by not buying permanent coverage, in a good investment that will accumulate so much in the next 20, 30 or 40 years, that you will not need any life insurance. In principle, it is a correct strategy that can work. However, in practice, it is turning out to be a dreadful mistake and a very high and unnecessary **risk** for most people who try it. If any of those "unexpected" things that crop up in real life force you to "stretch" your budget, it's always the investment that gets postponed, and many people, who followed this plan, are ending up without reaching their investment expectations and with **no life insurance**.

This is not unduly negative, just realistic. After all, we buy insurance to reduce "risk". As you will see when you finish this book, the strategy taught here will cover the risk of the "unexpected", just in case you still need a small amount of life insurance in your later years, without jeopardizing a good investment plan.

You will see that, indeed, the Canadian Financial Security Program, is all about creating financial security by proper investing, reducing taxes, and **managing** risk. You can't possibly cover **all** the potential risks of life, but you can learn how to manage them sensibly and economically.

So, as we explore the different products and many decisions that will face you as you make financial choices in relation to life insurance, keep these basics in mind, and relate them to the products that are available to fill your needs in the best and most economical manner.

THE MAIN QUESTIONS

Why buy life insurance? Basically, we buy life insurance to leave money to our loved ones when we die. Although many people leave behind life insurance when they die of **old age**, and it is a good idea to do so, its more important function is to care for those we support if we die **prematurely**. We do this by buying enough life insurance to replace the income that we would have generated if we had lived. This sounds fairly simple. However, through the evolution of the life insurance industry, many products have become complicated and confusing. Other than basic "term" coverage, most people don't understand some very important facts about life insurance. The purpose of this book is to help you understand those misunderstood facts and help you choose the kind of life insurance that is best for **you**.

THERE ARE THREE MAIN QUESTIONS TO BE ANSWERED BEFORE YOU BUY LIFE INSURANCE

- **How much** coverage do you need?
- What **kind** should you have?
- How much will it **cost**?

There are around 120 life insurance companies in Canada and they each sell a variety of products. With hundreds of insurance products with, literally, hundreds of different names, is it any wonder that the general public is confused and doesn't know whom to trust. In the last ten years there has been a very positive evolution of insurance products, which I think speaks very well for the industry as a whole. Many companies are engaged in truly trying to supply products that really are what is "best for the consumer" and not just profitable for the company. But, how do **you** find what is really "best" for **you**? Knowledge is power, and we hope to empower you to be able to discern what **is** and **isn't** good for you for the rest of your life when it comes to this very important subject: life insurance to protect your most precious possessions - your family.

THE DECISION

As complicated as this topic may seem, there is generally only three things to consider when buying life insurance.

- **How much coverage do you need**
- **What kind of coverage should you buy**
- **How much do you spend**

HOW MUCH DO YOU NEED?

- Replace Income
- Pay Debts
- Pay Final Expenses

- Education for Children
- Extra Money
- Money for Charity
- Estate Protection

HOW MUCH COVERAGE DO YOU NEED?

To analyze your need you must consider the reasons for buying life insurance. The main reasons are:

- **Replace your income for your family**
- **Pay debts**
- **Pay for final expenses**

Some other reasons may be:

- **Future education for children**
- **Leave extra money to loved ones**
- **Leave money to a charity**
- **Estate protection**

To establish the amount you need to replace your income, the accepted formula is to take your annual income X 10, minus 25%. The plan here is to leave behind enough money for your loved ones to invest so that at a 10% return they could receive the same income as though you were still able to provide for them. The less 25% is because expenses should drop by about 25% because you are no longer a consumer. Add to this “income replacement”, an amount to cover your final expenses and pay your debts, and you have a rough total of your insurance needs.

If you are concerned about the other potential reasons, it is quite simple to add an amount as a “leave behind lump sum” over and above what you might consider a “present need” to cover the other things that you wish to provide for.

Now, here we are dealing with **basic** life insurance needs. There is an area of coverage which is much more complicated called “estate protection”. This is where you have accumulated a fair amount of assets or “wealth” and you wish to use life insurance to maintain the value of your estate on your death, especially in regard to taxes. We are not going to deal specifically with that in this publication. We are going to stick to the basics, which really covers the needs of 90% of Canadians.

On the next page, is a form which is intended to help you work out your life insurance needs in a very simple manner. Remember, it does not have to be complicated to be effective. This method will suffice for most people.

Before going on, you should try to establish *your* life insurance needs. Calculating your needs in Level 1 is simple. The following form will help if you fall into Level 2 or Level 3.

INSURANCE NEEDS WORKSHEET

STEP 1 - NEEDS NOW

Annual Income__________ X 10 minus 25% = __________

Basic Need _______________

ADD:
Uninsured Debts _______________
Final Expenses _______________
Education Fund _______________
Extra for Family _______________
Charity _______________
Miscellaneous _______________

Needs for next _____ years = _______________

STEP 2 - NEEDS AFTER FAMILY IS GROWN

Final Expenses _______________
Extra for Family _______________
Charity _______________
Miscellaneous _______________

Needs for remainder of life = _______________

THERE ARE ONLY THREE KINDS OF LIFE INSURANCE

- WHOLE LIFE
- TERM
- UNIVERSAL LIFE

WHAT KIND OF COVERAGE

No matter how many different names you have heard given to life insurance products, there are really only three basic kinds:

- **Whole Life**
- **Term**
- **Universal Life**

All those different names you hear on TV are just catchy names for the same things. They all fit into one of these categories.

WHOLE LIFE

Whole Life Insurance is permanent insurance coverage where, in most cases, both the premium and the face value are guaranteed for life. So, if you purchased a $50,000 Whole Life Policy **and** you were paying $75 a month now, you should never have to pay any more than that $75 a month, and you should always have the $50,000 in coverage. Unfortunately, many companies have put so many variable characteristics in these policies that it has made it impossible to properly define the product in terms that the average person could understand.

Time was when the consumer had only two basic choices - Term Life Insurance, which offered coverage that increased in price as you got older, and Whole Life Insurance, which offered a level premium for life (most of the time). The argument in favor of Term Insurance was that you could afford all the coverage you need because it was cheap. Those promoting Whole Life favored the idea of still having coverage when you get older. It retrospect, the proper answer has always been the same - most people need some of both - a **Permanent policy** that you keep forever, and a **Term policy** to look after your larger temporary needs when your family is young. Unfortunately, far too often people have settled for one or the other, which still exposed them to unnecessary risk. Whole Life Insurance with a guaranteed premium and face value would fill the permanent part of your life insurance need, however, today, we favor Universal Life as a superior alternative.

Here are the main characteristics of the **most common** Whole Life Insurance policies:

FACE VALUE is guaranteed for life.

PREMIUM is guaranteed for life.

CASH VALUE that accumulates is usually a combination of a "guaranteed" cash value, interest, and dividends.

A **DIVIDEND**, in the case of Whole Life, is a refund of excess premium based on the company's mortality rate and some other factors; it is not a sharing of profit like a dividend in an investment.

With most of these policies, when an insured person dies, the **death benefit** that the beneficiary receives is greater of the **FACE VALUE** or the **CASH VALUE**, but **not both**.

WHOLE LIFE

- Combines life insurance and savings
- Savings are usually interest-bearing
- Provides life-long protection
- Cash Value not (usually) paid with death benefit
- Savings can be borrowed
- Savings can be withdrawn if policy cancelled

The **CASH VALUE** often does not begin to accumulate until 3 to 5 years into the policy.

The **CASH VALUE** bears interest and therefore the return paid into the policy is similar to the return in a GIC.

The **CASH VALUE**, other than the dividends, cannot be simply withdrawn like it can in a Universal Life policy. The cash value can only be accessed through a **"POLICY LOAN"**, which then becomes a debt against the policy. If it is not paid back, the policy loan plus interest is deducted from the **FACE VALUE** on death.

The full **CASH VALUE** can be accessed by cancelling the policy.

TERM LIFE INSURANCE

- Low in cost
- Is "temporary" coverage
- Cost increases as you get older
- Ends between age 75 & 85

This is what most people should buy to cover most of their insurance needs especially if they have a young family or money is tight.

BUT REMEMBER - IT *WILL* "RUN OUT"

*By that time you must have built a good investment portfolio so you don't need insurance any longer, or you should purchase a **small permanent policy** now.*

TERM LIFE

Term Life Insurance is the simplest kind of insurance you can buy. It is basically the same as the insurance you buy to insure your home against fire and the kind you would buy on your car. It covers the "risk" and nothing more. If you don't have an accident with your car, then the insurance company keeps your money to pay the claims of others and to make a profit. They don't start a *savings program* for you. With Term Life you pay a "premium" and if you die, the company pays your beneficiary. If you live out the **"term"**, they keep your money to pay out on behalf of others who have died and to make a profit. It is **priced much lower** than any permanent life insurance because most people live beyond the "term" and the company only has to pay out on the policy holders who do die before the "term" is expired. The most common Term coverages are:

- **5 Year Term**
- **10 Year Term**
- **15 Year Term**
- **20 Year Term**
- **Term To 100**

Most Term Policies are **"Renewable"** and **"Convertible"**. Renewable means that as each "term" expires, you can "renew" the policy for another term by paying a new, pre-established price which is offered in the original policy. To renew, you do not have to qualify or submit health information. Convertible means that you can "convert" the Term policy, in whole or in part, to a "permanent" policy which the company sells, during the "term" and within a certain age limit. There are some benefits to having these things available in future years.

10 Year Term expires or renews every 10 years, 15 Year Term every 15 years, and so on. The **"Term to 100"** is kind of a misnomer because it is actually a "permanent" insurance coverage that, in most cases, is guaranteed **not to increase** in cost up to age 100 and even then the coverage doesn't end. It becomes "paid-up" and you no longer have to make premium payments, but when you die it still pays out the face value. What makes Term 100 different from other permanent policies is that it has no frills. There is **no cash value** and usually no "paid-up" value until you reach age 100. Because of this, it is priced very reasonably.

There are two situations where you should consider temporary Term insurance. When you have young children, this is when most people have their greatest life insurance need. To cover this need with permanent insurance is not usually financially viable for most people. **This is the greatest correct application for Term insurance.** Another correct application for this kind of coverage is to cover a debt. Term insurance can be the best way to cover a mortgage, a business loan, or other debt, so if you die prematurely the debt is paid off by the insurance. A well priced Term policy can often cost less than the life coverage sold by the lending institution and may have other very important benefits.

UNIVERSAL LIFE INSURANCE

It must be acknowledged here that Universal Life Insurance is one of the more complicated types of insurance for most people to fully understand. As a matter of fact, there are a good number of insurance people who do not understand it as they should, and sell it to their clients as nothing more than a good "permanent" life insurance policy. Having said that, it must also be said that, other than Term insurance, it is probably the **best insurance product** that the industry has ever created. For that reason, if you wish to gain the most benefit from your life insurance (and investment portfolio), **it is an absolute must that you have some understanding of this product**.

UNIVERSAL LIFE INSURANCE
(With Level Premium Option)

- Cost is **guaranteed** for life
- Economically priced **like Term 100**
- Becomes **"paid-up"** at age 100
- Can be paid up **early**

HAS A CASH VALUE WHICH.....

- Can be paid as part of the death benefit **TAX FREE**
- Is a **separate** investment account inside the policy
- Can be **withdrawn** by you at any time
- Can be used to pay future **premiums**
- Offers **mutual fund style** investments
- Grows **"tax sheltered"**
- Has no **"foreign content"** rules
- Can be withdrawn by you **TAX FREE** if disabled
- Can be "leveraged" as a **TAX FREE** income

Universal Life is available as a very effective combination of **permanent life Insurance**, like Term 100 - **not** overpriced, a "tax-sheltered" **investment program** with "mutual fund style" investment options, plus great **tax advantages** when used properly, and with options to **add temporary term coverage** to the package with cost benefits to you by reducing the administration costs to the company.

So, as we explore this product we are looking to fill **two life insurance** needs and to learn about one very lucrative **investment vehicle**. To find a good Universal Life Product, you will be looking for:

- Low cost **permanent coverage** with a guaranteed premium - to give you, at least, a small amount of coverage that will last for life.

- The possibility of covering your **temporary (term) coverage** in the same policy with a reduced cost because of the reduced administration cost to the company.

- A flexible "tax sheltered" **investment program** with variable investment options. Specifically, we will be looking for an investment choice that can demonstrate a strong possibility of superior returns.

A very important fact that most people are unaware of is that the insurance industry has, for many years, enjoyed a unique position in its relationship with the powers that levy taxes. Whether this is because of their enormous collective size, their ability to influence, or other factors is immaterial. The fact is that you can gain a considerable tax advantage by using insurance products when your strategy is properly applied. The key here is to, at least, understand enough so that you see that your strategy **is "properly applied"**. This prod-

uct, when purchased with the guaranteed level premium, is a permanent insurance product like Whole Life, but has many additional features that may benefit most consumers.

Look at Universal Life as one policy with **two** distinct products inside. One is **life insurance** and the other is an **investment**. We will first look at the insurance side.

THE INSURANCE

There are **two choices** of insurance inside the policy.

One insurance choice is **"One Year Renewable Term"**. This choice should be considered if your main motivation is to create a fair size tax sheltered investment and the insurance is just a secondary concern. The main decision for people in this category is how much they wish to invest annually and usually not how much insurance do they need.

The more popular option, and the one we will mainly be dealing with, is the **"Guaranteed Level Premium"** which is similar to Term 100. In some cases it is actually priced **lower** than Term 100 and therefore makes Term 100 pretty well obsolete. For most people, that is those who are using this policy to get low cost permanent coverage, the Level Premium option is the best choice. The "minimum premium" is guaranteed for life and will not increase so you will never have to be concerned about the cost going up or it "running out of money" which is something that can happen with the other option. In the worst case scenario, the policy becomes "paid-up" at age 100. In other words, like Term 100, if you happen to make it to age 100, the coverage stays in force but you don't pay any more. **When used properly**, these policies will be paid- up long before you reach 100, as you will see.

Here's how they work. The policy is offered with a **"minimum"** and a **"maximum"** premium. You need only pay the minimum premium to maintain the coverage and that is guaranteed. A "maximum" premium is calculated by the company using present tax guidelines. If you put in more than what is permitted under these tax rules, the extra will be placed into a "holding" account where only that portion is **not** tax exempt. By this maneuver, the company always protects the "tax exempt" status of your policy without you having to worry about it. Of course, there is usually enough extra room to satisfy most people's needs and if there is not, you can increase the maximum by increasing the amount of insurance coverage.

Let's say you have a policy where the minimum premium is $50 and you choose to deposit $80 to feed the investment. Most of the $50 is taken to pay for the insurance coverage. A small amount from the minimum premium does end up in the investment and, depending on which company you are dealing with, all or most of the "extra" $30 should end up in the investment as well. Now a word of caution here. There is a vast difference in something called "surrender fees" that can affect your investment, and in particular, your access to that money for the first 5 to 10 years. So, read the section on "surrender fees" carefully.

THE INVESTMENT

If you choose the company and the policy properly, there will be a "pool of money" building up inside your policy in the investment side as soon as you deposit premium dollars over and above the minimum premium. In a moment we will be covering how this money should be invested, but let's just focus on the "pool" itself for a few minutes. How can you access this money if you want to, and what can it be used for?

As long as it is not tied up due to high surrender fees, this **is your money** and you can withdraw it anytime you want. Most companies do charge a "withdrawal fee" of around $25, so it is not intended to be used like a bank account. A more appropriate use is that this money can be used to pay future premiums. If you get in financial difficulties and can't make your premium payments, you can instruct the company to take the payments from your cash value. Indeed, if you have a premium pre-authorized payment returned from your bank unpaid, putting your policy in arrears, the company will automatically go to your "pool of savings" for the premium payment and keep doing that until it runs out if necessary. Now, this is a good thing. It can keep your valuable coverage alive during hard times or just allow you to take a "premium holiday" if you wish sometime down the road. Also, as the investment balance grows, at some point in time, it can have a large enough value that the "interest" on that balance can be sufficient to pay the "cost of insurance" and you can stop paying for the rest of your life. As you can see, there are no real negatives in this program, as long as you find the right company, and there are lots of positive features and benefits.

MUTUAL FUND STYLE INVESTMENTS: As well as the separation of insurance and savings, most UL (Universal Life) policies offer a variety of good investment choices suited to the risk tolerance of the individual. In other words, you can invest in guaranteed investments similar to GIC's, in diversified investment products, or in pure equity investments or equity "substitutes" like Index Funds.

SAVINGS ARE HELD SEPARATE: Unlike "savings type" life insurance products of the past, the investment portion of Universal Life is treated quite **separate** from the insurance side. It is really like a GIC or Mutual Fund with a "tax protected" coating that the tax department can't penetrate. When used as part of your overall investment strategy, Universal Life is a powerful vehicle.

NO FOREIGN CONTENT RESTRICTIONS: Another very important feature of this vehicle is there are no foreign content restrictions. You are not confined to keeping a certain percent of your investment in "Canadian Investments" like you are in RRSPs. You are free to choose the higher performing 100% U.S. equities or other international investments if you wish.

TAX SHELTERED: As long as you don't exceed the maximum allowed in the policy, all the funds are going to grow "tax sheltered". Although they are not "tax deductible", you will not have to claim the interest as income each your as you earn it. The long term tax consequences will be explained further on.

SURRENDER ACCOUNT IS AVAILABLE TO YOU: As mentioned, any funds in the "surrender account" can be withdrawn by you whenever you wish and for any purpose. They can also be used to pay future premiums. This money is withdrawn like most other investments; you do not have to take out a "policy loan" like you would have with older style life insurance products.

TAX CONSEQUENCES: As pointed out, the policy keeps your savings "tax sheltered" as they grow. However, at some point in time, you will probably want to access this money. If you just withdraw it in large amounts, there is going to be a tax liability. A large percentage of it is going to be treated as income and will trigger taxes similar to withdrawing funds from an RRSP.

THERE ARE THREE WAYS TO GET THIS MONEY OUT OF THE POLICY WITHOUT EVER PAYING TAX ON IT. THESE FEATURES ARE WHY MANY WEALTHY PEOPLE USE THIS POLICY AS A SUPERIOR INVESTMENT VEHICLE. HERE ARE THE THREE WAYS:

DEATH BENEFIT: If you leave the investment in the policy until you die, it becomes part of the death benefit as long as it is so stated on the application and in the policy. As there is some variation from company to company on this issue, be sure to **ask your financial advisor** when you purchase this product if it is set up so that the accumulation fund forms part of the death benefit on your death. Confirm this fact when you receive your policy; it is very important.

DISABILITY: If you become disabled, **you** may be able to withdraw all the saving from your policy without any tax liability. Again, there is a difference from company to company. With some, you must become disabled before age 60 or 65, and with others, under certain circumstances, there is no age limit. No one is looking forward to becoming disabled so they can access this money; it's just an extra feature. The next one is the one you will look forward to using.

LEVERAGING: Here is the method that most people plan on using. If you are sheltering this money with the intent of using it someday for yourself, as opposed to leaving it behind when you die, you will want to understand this strategy. As we explore this "leveraging" method, remember that a "death benefit" is not viewed as income and is not taxable. That includes the accumulation fund when it becomes part of the death benefit as long as it is done properly. When you have accumulated a substantial balance in your UL investment account, it can be used as **collateral to borrow money**. Let's suppose you have a UL policy with $300,000 in the surrender account. You take your statement into a bank and apply for a loan using this as collateral. Providing, of course, that you have good credit, the bank will lend you up to 90% of the value of the fund. If you qualify for the full 90%, you would walk away with $270,000. You would ask the bank to "capitalize" the loan. This means there are no payments of principle or interest. The loan will be paid, including accumulated interest, when you die - **from the DEATH BENEFIT**. The death benefit is not taxable. Any funds over and above what you owe the bank will go to your designated beneficiary. As the interest is accumulating on your loan, so also is the interest still accumulating in your policy, hopefully faster than the loan. You just acquired $270,000 and it has not drawn a penny of tax; you **don't** pay tax on borrowed money.

Now in practice, most people will probably not want to access a large amount of money like that all at once. Instead of taking this money as a lump sum, you might prefer to get a "line of credit" from the bank which will allow you to withdraw the money as you need to, or want to. This will reduce the accumulating interest and make the money go further, or allow you to leave more behind when you die. This is now an accepted and advertised strategy with the insurance companies, and some have already set up relationships with a specific bank to streamline the process.

MAKING THE INVESTMENT CHOICES

A good UL policy is going to offer you a variety of investment choices. Among those choices should be some "aggressive" investing options. The investment choice you make should be in line with your risk tolerance and your long term expectations. Everybody says they want the highest returns possible. To achieve this, you may have to adjust your risk tolerance. Your risk tolerance will usually go up quite dramatically as you learn more about the true principles of good investing. It is ignorance that breeds fear. There are a number of different approaches to successful investing.

Most companies are going to give you the choice of GIC style investments and mutual fund style investments. We are very opposed to putting money into low paying, guaranteed investments, which in the long term will barely keep up with inflation. Give serious consideration to investing in funds with high potential.

Many UL policies offer "Index Investment" choices. All the major stock exchanges have indexes. Indexes are usually not created by the stock exchange itself but by large independent companies like Standard & Poors. To use the S&P500 from the New York Stock Exchange as an example, this index takes 500 of the largest companies from that exchange, and adds up the value of a certain number of shares from each company, thereby establishing the value of the S&P500. As these stock prices fluctuate every day, the value of the index moves up or down. Index **Funds** will perform in direct relationship to the index on which they are based. Despite the volatility in recent years, we still favor the S&P500 Index Fund, which has had a 10 and 15 year average return that is substantially higher than the Canadian alternatives offer by the Canadian TSE .

SURRENDER FEES AND OTHER CHARGES

SURRENDER FEES: One of the main objections that some financial commentators have to using UL as an investment vehicle is the "surrender fee". I believe that a word of caution is appropriate here. The surrender fee is an amount kept by the company from your cash value if you cancel your policy in the first 5 to 10 years. Some companies have a surrender fee that is levied only on the minimum premium. In other words, if you put in extra money to feed the investment, and cancel it early or want to withdraw it -most of your money is there and available to withdraw. Other companies, and this is where you have to be diligent, have surrender fees for the first **TEN years** where, if you cancel your policy, they keep most of or all your savings. We agree with those who criticize this negative element. A small surrender fee is acceptable, but these large, outrageous fees are not a good element for most consumers. The reason given for the large fees is that, accord-

ing to the tax regulations, the policies with the larger fees allow larger amounts of money to be tax sheltered inside the policy than do the policies with the lower fees. So, they are somewhat justified - if you are wealthy and your main goal is to tax shelter money, and there is **no chance** that you are going to cancel the policy until the surrender fees are dissolved - usually 10 years into the policy.

OTHER CHARGES: Insurance companies, like all other businesses, exist to earn money. Reasonable charges for the administration of these policies is to be expected. There are fees for certain administrative charges, and management fees for caring for your investment. However, other than the surrender fees, they are not of much consequence and are not in need of discussion. One company might point out that they have lower charges for one service and yet, may be less successful in getting the best return on investment for you. Trying to evaluate all these things would be more cumbersome than it would be worth.

RIDERS

As in pretty well all life insurance policies, most companies offer a variety of “riders” that you can purchase as additional benefits to your UL policy. Here are the ones that would be of interest to most people.

TERM RIDER: This is the most important rider to understand. As you will see as you put together all the advice this book covers, we are recommending that you purchase both permanent and temporary coverage in most cases. You can acquire these two coverages by purchasing a small level premium UL policy and purchasing a separate Term policy from the same, or another company, if it is financially advantageous to do so. However, every life insurance policy has a charge called a “policy fee”. If you can cover all your needs **in one policy**, it can often reduce the overall cost. When you look at the Universal Life policy, be sure to get a quote on filling your Term needs with a Term Rider inside the UL policy.

ACCIDENTAL DEATH: With this rider, you can add an additional amount of life coverage, which will pay if you die accidentally. Be careful that you understand this coverage. There are a number of points that most people don’t understand in AD. As an example, if you were hurt in an accident and lived for more than six months, and then died as a result of you injuries, many of these policies would not pay. This is also the case in many of the AD policies that are sold through credit card companies.

ACCIDENTAL DEATH AND DISMEMBERMENT: This is the same coverage as above with the added benefit that if you lose the use of certain extremities or sight, you would receive a payment yourself.

WAIVER OF PREMIUM: This rider would provide that if you become disabled, the company will pay your future premiums for you.

CHILDREN’S RIDER: You can add insurance on your children for a very reasonable premium. They would remain covered until they reach a certain age, usually 25.

GUARANTEED INSURABILITY: For an extra premium, the company will guarantee to sell you addition-

al coverage at a future time. The opportunities for this purchase carry certain restrictions. If you cover your needs properly with Term coverage, you should not need this rider.

SUMMARY

Now, let's try to bring all this information together and put it in simple terms.

1. Most people will experience an **evolution** in life insurance needs. Small need when younger with no dependents, jumping greatly when they have dependents, and reducing again as their dependents go out on their own.

2. Consider covering your needs for your entire life while you are younger and healthy. You don't want to end up as a senior with less savings than you planned for and with **NO** life insurance.

3. Cover your **permanent** needs with a Level Premium Universal Life Policy and your **temporary** needs with a 10, 15 or 20 Year Term Policy.

4. If it is to **your benefit** financially, cover your Term needs inside the Universal Life Policy.

5. At the very least, **if it's all you can afford**, protect your family by purchasing sufficient Term cover age to support them if you should die prematurely.

6. If you choose Universal LIfe, choose your investment option for **long term growth** and forget about it. All the more aggressive investments do have bad years. Expect it and live with it. The alternative is, without a doubt, less money for retirement.

A LAST COMMENT

On the subject of life insurance, the consumer is faced with more confusing choices than ever before. You can buy it over the Internet, from a bank, through the mail, or over the phone. You might think that one of these choices is better than sitting down with a Financial Advisor in his/her office, or in the comfort of your own home. In this, we advise caution. For the most part, we believe your needs can be better filled by consulting a good, well trained Financial Advisor or Broker who has your best interest in mind. Today, Financial Advisors are better qualified than ever before to help you identify your needs, and find you the best products. Don't fall into the trap of thinking that it is better to deal with the bank because of their high profile or the large amount of money they spend on advertising. There is no advantage to buying over the Internet, through the mail, or from a telemarketer. Someday, you may need the personal advice of a seasoned specialist who knows you personally, and will still be there and willing to serve you when you really need it. Let's face it, at most other financial institutions, we are basically reduced to a "number". There are many good Advisors who are still willing to come to your home at your convenience, and help you acquire what you really need.

Now you are capable of "shopping for life insurance".

Want help in finding the best coverage for **you**?

Contact us at info@truefinancialsecurity.com