Life insurance can help take care of your loved ones after you're gone

Danielle Kubes, Special to CTVNews.ca

When Canadians think of retirement they may think of scrimping and savings, of RRSPs, but they don't necessarily think of life insurance.

Maybe they should.

Although life insurance can't replace a solid retirement plan, it can supplement it, especially if you're concerned about estate taxes and have dependents.

"Life insurance can help a surviving spouse but if you haven't saved enough to make it to the time the first spouse dies," you might have to rely on the government or family to support you, says Steve Bridge, a money coach with Money Coaches Canada.

A major benefit of life insurance is that upon death, life insurance is a payout that is tax-free.

A life insurance policy can also help pay a tax liability owing at death.

"If someone, for example, owned a cottage and wanted to gift it to their children, the estate might owe capital gains tax on the cottage," Bridge says. "A life insurance policy could be put in place to help pay off the tax bill."

Life insurance becomes more important if you have dependents.

Nobody likes to think of the worst. Unfortunately, the worst can happen, and when it happens, it's often sudden and unexpected.

"A married person with four children and a large mortgage and is the sole breadwinner will want to know their family is protected," Bridge says. You may also have parents or siblings depending on your income.

The lump-sum payment that life insurance provides upon your death can be a crucial part in ensuring that your loved ones can still achieve those shared dreams and maintain their lifestyle without undue hardship.
The question then becomes: *What kind of life insurance fits best into your financial plan?*

The two major types of life insurance products are term and permanent. For term insurance you pay premiums for a fixed period, and if you pass away during that term, your beneficiaries get a payout. Initially, term insurance premiums tend to be lower than permanent insurance premiums but term insurance has an expiry date.

Permanent life insurance usually covers you until you pass away, regardless of your age. However, permanent insurance premiums may be higher than premiums for term insurance

"Not everyone needs a permanent policy", says Shannon Lee Simmons, a fee-only financial planner. Term life is better utilized when you are covering an expiring liability such as a mortgage. It all depends on your situation and how vulnerable your dependents would be if you pass away. "A term policy could work wonders to manage risk during the years when the financial stakes are high," she says. "For example, if you're 35 with young kids and have a 20-year mortgage, a 10-year term policy may be too short as it only covers risk for a decade and may have limiting options for renewal at the end of the term." In this situation a 20-year term policy would probably fit the needs better.

The earlier you decide to get life insurance and the healthier you are, the better the rates may be.

Since there are so many variables involved, make sure not to make any decisions before you talk to a licensed insurance advisor.

“There are a so many different types of products out there,” Simmons says “Be sure to do your research and get advice from someone you trust.”

You should always discuss your specific needs with a licensed insurance advisor.