FROM YOUR ADVISOR

PROTECTING YOUR DEPENDENTS

Life insurance can do other things, too, such as leaving a legacy for a cherished beneficiary or covering taxes after death

Talking about life insurance can be uncomfortable because it means contemplating what happens if you die, so Rob Knight has a trick when discussing the topic.

Knight, investment advisor and director, private client group, with HollisWealth Inc. in Cambridge, Ont., asks clients to imagine what would happen if they died yesterday. "As they are alive today, they don't worry about it as much," he says.

Despite the discomfort in talking about life insurance, Knight says it can play an important role in your financial plan.

If your death isn't going to affect anyone financially, then you probably don't need life insurance. But if your passing will have some sort of financial effect, then you need to start thinking about how you can use insurance to protect your loved ones.

To determine how much life insurance you need, Knight says, consider what you owe and what percentage of your income you may want to replace for those who remain.

If you're a high-income earner and the sole breadwinner in your family, you may need to consider providing for more income after you're gone than if you are not the only provider.

"The question that I ask clients is, 'How much of this income do you want if something happens to Person A?'" Knight says. "It is sometimes a gut answer; and other times, it is pure math."

Jeff Hull, senior financial advisor with Manulife Securities Inc. in Mississauga, Ont., Ont., says it's important to understand the purpose of the insurance policy. "For a young family with a big mortgage, safety and security could be their prime objective or goal [because] if they were to lose their breadwinner, they would be destitute," he says. "For someone later in life, [the reason for buying life insurance] could be estate planning — to leave a legacy for a cherished beneficiary, to donate to charity or to cover income taxes at death."

Life insurance can take different forms.

With term life insurance, you're covered for a set period of time, often 10 or 20 years. Depending on your age, term policies often can be renewed until you reach a certain age. Permanent life insurance continues until your death.

Most people lean toward term insurance because it can appear to be cheaper. However, permanent insurance policies offer some advantages, Hull says. Most permanent or whole life insurance policies have a savings component that grows as the years pass.

"[Permanent insurance] might be a little more expensive up front," Hull says. "But over time, as you build the savings component into [your policy's benefits], there is a potential of having that insurance policy pay for itself with the savings that are built up."

Reviewing your life policy regularly is important because your needs will change as your personal circumstance evolve. Marriage, the birth of children, the purchase of a major asset such as a home — these are examples of the key points in your life at which you will want to be sure to review how your life insurance fits within your financial plan.

"You don't necessarily have to change your policy," Hull says. "But revisiting it is good just to make sure the plan and the purpose and the need as to why it was purchased still exist and whether [your policy] has to be upgraded or downgraded."

It is important to review your coverage regularly as your personal circumstances evolve

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