Life Insurance Needs

There are many reasons one needs life insurance, but generally the needs focus on providing for loved ones. The general rule of thumb is to ensure that at a minimum, all debts are eliminated upon the death of one or both spouses. Other expenses one may wish to provide for are as follows:

- **Funeral expenses**
- **Final expenses**
- **Tax liabilities** (accrued and unrealized capital gains on investments such as a cottage, RRSP's or RRIF's)
- **Emergency funds for survivors** (e.g. 3-6 months' worth of expenses)
- **Provide for children's post-secondary education**

When one is insuring the financial provider(s) in the family, income replacement also becomes an issue. A rule of thumb is to ensure that the survivors would have approximately five times the deceased's income in the form of life insurance proceeds, in addition to the aforementioned expenses. Don't forget to insure the stay-at-home parent (if applicable); if something were to happen to them, the time they spend looking after the children and taking care of the home would have to be replaced by outside help, at a cost.

There are different types of insurance policies that allow an individual to provide an adequate level of coverage, depending on one's needs. There are essentially three types of policies: term insurance, whole life (or permanent) insurance and universal insurance. Term insurance is the least expensive and allows individuals to purchase a larger face value at a smaller cost. The premiums can be guaranteed for a period of time but increase with age. This type of insurance is often purchased by parents with young children and a large mortgage – when finances are at their tightest and the need at its greatest. A joint-last-to-die policy would be appropriate for a couple with a cottage on which a large unrealized accrued capital gain would be triggered at the death of the second spouse.

Whole life or permanent insurance is a useful tool for planning to eliminate a permanent liability or tax implications at the death of an individual or a couple. Premiums for these policies are fixed at the time the policy is purchased and does not increase with age. Universal life insurance provides an opportunity to provide insurance coverage and shelter investments from tax.

In order to meet their insurance needs, individuals within the education community and their family members can purchase life insurance through many education-oriented companies including OTG Financial, Teachers' Life, RTO and OTIP. Should you wish to further discuss your insurance needs, don't hesitate to contact one of our financial planners.

Marie C. Blanchet, Hon. B. Comm, CFP, RFP, CIM, FCSI is a salaried financial planner with OTG Financial Inc., Manager of Client Advisory Services and has her Level II insurance license. OTG Financial is a mutual fund corporation dedicated to helping educational employees and their family members achieve financial independence through sound financial advice. The above comments are presented for information purposes only and should not be relied upon as a substitute for professional advice in specific situations.
