Life + Living Benefits Insurance for Beginners

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Chapter One

What is Life Insurance?

Life insurance pays out in the event that the insured dies while the life insurance policy is in-force. 17.5 million Canadians own a life insurance policy, which represents about 55% of the country's population[1]. Those people collectively own about $2.7 trillion in policies and pay $13.5 billion in premiums[2], all to ensure that their spouses and children have something to live on when they die, or at least enough to pay funeral expenses.

LSM Insurance broker Jack Bendahan knows the importance of life insurance first-hand. His soon to be father-in-law passed away from lung cancer only weeks before Bendahan married the father's daughter. To make matters worse, the man only had enough life insurance to cover the mortgage. "Obviously, emotionally, it's something you never get over," says Bendahan. "But financially, it's crippling because you have a mother with three daughters and now she's forced to take care of her daughters with one income and not enough life insurance protection."

Most Life insurance policies pay out on an immediate basis, but they also have a two-year suicide exclusion and a two-year incontestability period. Incontestability means the insurance company can contest the claim for the first two policy years, if material information is misstated. Also, the insurance company will deny a claim if the death is a result of suicide in those first two years.

"*Life insurance covers you for when the people close to you need it the most,*" says Syed Raza, a fellow LSM Insurance broker. "*It's a unique product that provides the type of piece of mind that can't be obtained through investments because, chances are, you can save all you want, but you'll never be able to make up the type of return that you get on a life insurance policy.*"

No medical life insurance policies often have a deferred payout, meaning that the life insurance amount is limited to a return-of-premium plus interest, in the first two policy years, when the death is not ruled an accident.

Traditional, non-guaranteed issue life insurance policies are generally broken down into two categories:

Term insurance, which has lower initial premiums, but the premiums increase as the insured gets older. Term policies can range in length from five years to 40 years. Some companies, such as Industrial Alliance, even have a Pick-a-Term option, which allows the insured to choose between a few options when it comes to the length of the term itself.

Bendahan's father-in-law did have a Term 20 life insurance policy for $1 million, but Bendahan says that when those policies become renewable in the 20th year, the premiums jump up four to eight times higher.

1 Statistics courtesy of the Life and Health Association.
2 Globe and Mail

"*My wife's parents ended up cancelling it because financially, they just couldn't afford the premiums and, sure enough, two years later, my father-in-law passes away. It just shows you that life insurance is something that's needed for every family and it's not something to be stingy about.*"

Bendahan's father-in-law may have been able to convert his Term 20 life insurance policy into a permanent life insurance policy without medical evidence before he died.

Permanent Insurance has premiums that start off higher, but they typically do not increase as the insured gets older. Permanent policies can be further subdivided into three categories:

Term 100 Insurance, which has fixed premiums and lifetime protection. Term 100 policies generally do not have either a cash value or paid-up values. Unfortunately, more and more carriers in Canada no longer offer this type of insurance due to low interest rates. Canada Life, Standard Life and Foresters Life Insurance Company have all stopped offering Term 100 policies.

Universal Life Insurance, which offers permanent life insurance with an optional tax-sheltered investment. Universal Life policies offer flexible premiums and a variety of investment options. For example, BMO Insurance's universal life policy offers over 400 different investment options.

Whole Life Insurance, which provides permanent life insurance with a cash value component. Whole life policies can be either participating, or non-participating. Participating policies allow the policyholder to participate in the profits of the insurance company.

Some people believe they don't need life insurance because they don't have dependents, but Syed Raza will tell you, just because you're young and single, doesn't mean you shouldn't give life insurance a look:

"*I'll use myself as an example, I have ulcerative colitis. It's a non-life threatening illness, but there's no cure. Since the risk of colon cancer is there, I have to pay a higher rate than what the average 29-year-old would pay. If I had gotten life insurance in my early 20s, before I was diagnosed, I would've been locked in at a lower rate.*"

There are also a number of other variables that influence the pricing on a life insurance policy:

1. **Age** - The older the insured, the higher the premium.
2. **Gender** - Males pay a higher premium than females.
3. **Smoking Status** - Smokers pay a higher premium than non-smokers. Marijuana smokers are also classified as smokers and may be charged a surcharge based on use.
4. **Health** - Unhealthy people pay a higher premium than healthy people. The manner in which insurance companies analyze health risks varies from company to company. Many insurance companies have underlying guidelines, which are available to their brokers. This criteria can change frequently, so it's important your broker is up to speed.

5. **Type of plan** - As mentioned above, term policies start off lower, but increase in cost as the insured ages. However, permanent policies start off higher, but generally do not rise in cost. Term policies are more common, making up 60% of life insurance sales, while permanent policies make up the other 40%[3].
6. **Face amount** - The higher the policy face amount, the higher the premium. Having said that, insurance companies use policy pricing bands and higher face amounts go into higher pricing bands, so they have a lower cost per thousand dollars of insurance.

An example would be a 45-year-old, male non-smoker paying $381 a year for $100,000 of Term 10 coverage at a cost of $3.81 per thousand dollars of insurance, whereas $1,000,000 of Term 10 coverage, for that same 45-year-old non-smoker, is $2750 a year at $2.75 per thousand dollars of insurance, which translates to a big savings on a cost per thousand basis.

"*My general advice to people is, 'The more coverage the better,'*" says Bendahan. *"For myself, I bought a $2 million policy and I don't care if people say, 'I'm over-insured.' I feel comfortable knowing that my wife and children are going to be taken care of, especially after witnessing what her family went through.*"

Jack Bendahan BA

Senior Insurance Consultant

Jack was born and raised in Canada and studied at York University in Toronto, graduating with a Bachelor of Arts. Extensive additional education and professional experience in finance and debt management. Jack is also bilingual (English and French) and is keen tennis player and traveller. To learn how and why he entered this industry in the first place, read Jack's story or check Jack's testimonials.

3 Insurance Direct Canada Inc.

Chapter Two

What is Living Benefits Insurance?

Living benefits insurance is exactly what it sounds like, a benefit that covers the insured while he or she lives. Naturally, this is very different from life insurance that pays out when the insured passes away. Living benefit policies, which include disability insurance, critical illness insurance, long-term care insurance and health and dental insurance are all types of coverage, which help the insured cope financially with health issues.

"*It can cover you for injury or illness through either a lump sum or through a monthly indemnity,*" says Syed Raza, one of LSM's Insurance consultants. "*Disability insurance covers your income earning ability and will pay a monthly benefit if you become disabled and cannot work.*"

"*It's very different from life insurance,*" adds Aman Kapur, an LSM senior insurance consultant and broker.

"*People are living longer, but they're also getting more unhealthy as they get older. At that point, they're lifestyle changes and they need to be compensated, so a living benefit plan comes in very handy during loss of income and it helps you maintain the lifestyle to which you've become accustomed.*"

Disability insurance is the most common type of living benefit insurance. Close to 8 million Canadians have a disability plan through their employer's group insurance plan, but many of them are not adequately covered and more are not covered at all[1].

"*Disability insurance is more an income benefit,*" says Kapur. "*You take a disability insurance plan simply because you fear that you'll be out of work due to injury or illness and, with your bills, you have to make sure money continues to come in. So, the way it's structured is you declare what kind of profession you're in and, depending on your profession, your age and your income, the insurance company determines the maximum amount of coverage you can get.*"

The three definitions of disability are **Own Occupation**, **Regular Occupation** and **Any Occupation**. The meaning behind these three classifications are explored in more detail in chapter 9 What is Disability Insurance (Pg. 31)

"*Arguably, disability insurance is more important than life insurance because if you cannot work, your ability to make a living becomes non-existent,*" says Raza.

It goes almost without saying that the better the definition, the higher the premium because the likelihood the insurance company will pay out a claim increases. The problem with the Any Occupation definition, found in many group disability plans, is it leaves a tremendous amount of grey area surrounding the insured's ability to find employment at another occupation at the time of claim.

The upgrade from Any Occupation to Regular Occupation provides significant value. However, the upgrade from Regular Occupation to Own Oc-

1 Advocis "Disability Insurance: A Necessity

cupation can be questionable in certain instances, unless you happen to have a highly skilled occupation, like a surgeon. The reason is, a surgeon could easily have an injury to their hands, which ends their surgical career, but still means they can work as a family physician. In this instance, the insured would continue to receive their disability benefits, even though they're gainfully employed as a family physician. However, the likelihood of an office manager, or even a lawyer, collecting under the Own Occupation definition is significantly lower.

Disability policies also have a number of additional variables, which can influence pricing. The standard variables would be the insured's age, gender, smoking status and health. Additional factors are the elimination period, (how long until the benefit begins to pay out) the benefit period, (how long the monthly benefit is paid for) and the monthly indemnity, which is the amount of the monthly benefit.

A whole host of riders can also be added to disability insurance policies, including a return-of-premium benefit and an inflation protection benefit. Some carriers, such as RBC Insurance, allow the insured to convert their disability policy to a long-term care policy in the future.

"*Critical illness insurance is a major type of living benefit, which will pay you a lump sum if you're diagnosed with a major illness,*" says Raza.

"*You can use that lump sum any way you want, so you can use it for paying down your debt, getting yourself treated, living a better lifestyle or doing renovations in your house in order to live comfortably,*" adds Kapur.

The first critical illness policy in Canada was sold in 1965. Critical illness coverage is different than disability insurance because it is not tied to the insured's ability to work. The three most common illnesses are heart attack, stroke, and cancer. These generally account for up to 90% of critical illness insurance claims. Many critical illness carriers in Canada offer a payout for up to 25 illnesses.

The money is paid out tax-free and the insured can use it however he or she wishes. Critical illness policies can be level for a stated term and the premiums can be fixed to age 75 or for life.

"*Typically, what you find is, people overlook critical illness because they think about their life insurance needs and their disability insurance needs, but sometimes they haven't budgeted for critical illness, so all their premiums are getting sucked up by life and disability,*" says Raza.

"*This is why it's important, when building an insurance portfolio, to assess your needs and budget your premiums accordingly. For critical illness, generally, I recommend one to two times your salary because you don't want an amount that isn't really going to help you. But, you also don't want an amount so large that the premiums are unaffordable. For long-term care, you'll see policies that pay between $100 and $200 a day and disability is typically up to 70% of your income.*"

Long-term care insurance is a type of living benefit that will no doubt increase in popularity as Canada's population ages. In the last few years though, sales have been modest, despite the product being on the market since 1987. By the end of 2008, only 69,000 Canadians had an individual long-term care policy with in-force premiums that amounted to $80 million. In addition, only 105,000 Canadians had group plans that included long-term care.

5 Essential Tips When Buying a Long-term Care Insurance Policy

Long-term care insurance provides individuals with a **weekly tax-free benefit** in the event that they require assistance with two of six basic activities for daily living. These activities include **bathing, dressing, eating, maintaining continence, toileting, and transferring** (Check the appropriate policies for more details).

The proceeds received from a long-term care policy can prevent individuals from depleting their savings and/or forcing their family into debt due to unforeseen or unplanned medical expenses.
There are several factors to investigate when determining which long-term care policy is right for you:

1. **Does the policy have limitations on when and how you receive your benefits?** Many long-term care policies will payout only if you require facility-care assistance.
2. **Determine the elimination period and/or benefit period, which best suits your needs and budget.** The elimination period refers to the amount of time that must pass before you begin to receive your weekly benefit and the benefit period refers to how long you'll receive that coverage for. Those two variables, combined with your daily benefit, will help determine your monthly premium.
3. **Determine if there's a premium cap on the policy.** Most long-term care policies in Canada offer guaranteed premiums for only the first five policy years.
4. **Determine if you need any riders, such as a cost of living adjustment and/or a return-of-**

premium rider. The former allows your benefit to increase in line with inflation, whereas the return-of-premium benefit returns the premium to your beneficiary in the event you pass away.

5. **Be sure to work with a trusted independent broker who can provide you with unbiased independent advice when purchasing a long-term care policy.**

A fourth type of living benefit coverage is health and dental coverage. These policies pay the insured for out of pocket health and dental related expenses. It can also cover additional expenses, such as chiropractors, speech therapy, massage therapy and other treatments not covered by government health plans.

Supplementary health plans come with varying deductibles and maximum benefit amounts. Individual health and dental policies generally have an exclusion on pre-existing conditions.

There are many advantages to a group health and dental plan versus an individual plan. The following are just some of these advantages:

- Group insurance premiums often provide better value because the cost of coverage is pooled among a larger number of individuals.
- Group insurance policies generally do not require a medical exam, making it easier for individuals who have a past history of poor health and pre-existing conditions to qualify for the coverage.
- Employers generally cover all or part of the group insurance premium.
- Some group, life, disability and critical illness plans allow the employee to continue all or part of the coverage.

However, the one downside of a group policy versus an individual plan is, the coverage is not tailored to the individual, but the group instead. Individual health and dental plans also generally allow the individual to choose from a wider variety of coverage options.

Aman Kapur MBA

Senior Insurance Consultant

Aman was born and raised in New Delhi, India where he acquired a BA (honours) in Economics. He further went to the United Kingdom to do his Masters in Business Administration from the Heriot Watt University. Aman has tremendous experience of working over four continents and has performed various roles in Marketing and Finance. See Aman's testimonials.

Chapter Three

Should I Buy Direct or Use a Broker?

When buying life insurance, there are two choices:

- The consumer can buy via an insurance advisor. (either an independent broker or a captive agent)
- The consumer can buy the policy direct from the insurance company.

"*An insurance company works for its shareholders. As a broker, I work for you, my client, not a specific company,*" reminds Mark Potter, another one of LSM's insurance consultants.

Independent brokers also work with a variety of insurance companies and they generally are not tied to company quotas. Because a broker can shop the market, he or she should be able to find the consumer the best plan at the best price. However, keep in mind that some brokers, while independent, only work with a handful of companies.

"*For example, I've known brokers that will only deal with Manulife, Sunlife and Canada Life,*" says Raza. "*If they're just representing the big three, they may not be able to take advantage of competitive pricing from smaller companies like RBC Insurance and BMO Insurance. The problem with dealing with a captive agent is they're not going to show you rates for companies other than their own.*"

So, what's a good strategy when it comes to selecting a quality insurance broker?

Mark Potter B Comm
Insurance Consultant
Born and raised in London, Ontario Mark's goal is to provide his community with the financial acumen and peace of mind that comes from sound financial advice. Mark is often a guest speaker on the Rogers Cable 13 television show "Planmar Financial Forum.", and provides a free a quarterly investment newsletter for those looking to increase their financial IQ. Mark is Bachelor of Commerce graduate of McMaster University, and holds several industry designations.

"*What you want to do is make sure you're working for a broker who represents a good sample of companies,*" advises Raza. "*Typically, in my opinion, at least ten companies should be represented because there's over 100 insurance companies in Canada, and if a broker is only representing two or three, they're basically as good as a captive agent.*"

Captive agents (sometimes referred to as career agents) work primarily with one carrier. They may be allowed to work with an outside company if a particular product is not offered by their parent company or if they have surpassed any company sales quotas.

"*A good broker will know the ins and outs of different companies,*" recommends Potter. "*Who has better underwriting for a specific situation? What companies will allow me to smoke cigars and still be a non-smoker? Et cetera. Knowing this, and other inside information, can save you hundreds, if not thousands, of dollars over the life of your policy.*"

Most insurance carriers in Canada sell life insurance directly to the public using independent brokers or captive agents as a conduit sales of force. On the other side, a handful companies sell insurance directly through their call centre and a few carriers in Canada, such as BMO Insurance, Manulife Financial and RBC Insurance, use insurance advisors and sell direct. However, policies sold directly to the consumer are usually limited to term life policies.

At first glance, this may seem like a very good idea, but anyone considering buying direct should consider the following seven factors:

Are the rates really cheaper? On the surface, it probably seems that buying directly from an insurance company, and avoiding paying the agent's commission on top of the policy, would be cheaper.

However, when buying direct, keep in mind that no preferred rates are available to individuals who are in very good health and have a very good family health history. Life insurance companies will look at many variables when analyzing whether an applicant qualifies for preferred rates, including smoking/tobacco use, height and weight, blood pressure, cholesterol, driving record, family health history, risky sports and occupations, such as pilot or skydiving, and past substance abuse.

Some direct carriers use blended rates, meaning they price smokers and non-smokers at the same rate. This can have a big impact on the premium a non-smoker would pay. Direct carriers also do not offer rated policies, which translates to an acceptance or a decline without any nuance that takes into account your individual situation.

Individual life insurance plans have far more flexibility and can be categorized in the following ways:

Preferred Rates - Preferred rates are often broken down into 'Preferred' and 'Super Preferred' categories. 'Super Preferred' is given to the healthiest individuals with the best family health history and can result in a savings of up to 30%.

Standard Rates - Most life insurance applications receive standard rates. Standard rates are given to individuals who are in good health. However, family history typically does not factor in to receiving a standard classification.

Substandard Rates - Substandard rates, aka policy ratings, are given to individuals who have health or lifestyle issues that cause them to be an increased risk for the insurance company. Health issues, such as angina and diabetes, or lifestyle issues, such as past alcohol and drug abuse, can result in policy ratings of anywhere from a 50% to a 300% premium increase on top of standard rates. If the insured receives a policy rating of 100%, they pay double the normal standard rate.

Declines - Individuals who are in very poor health, or have severe lifestyle issues, may find their policy application declined. If the insured's application is declined, they can try a simplified issue or guaranteed issue policy. These policies often have a two-year waiting period on the death benefit, which means if the insured passes away in the first two policy years, the beneficiary will receive only a return-of-premium, plus interest.

You don't need to deal with an insurance agent or a broker. While this is often marketed as a benefit, ("*I won't have to deal with a pushy sales person*") in reality, it's a disadvantage. If clarification is needed on policy details or beneficiary changes, the insured is left to deal with no one but a call centre.

The process seems very simple. You can answer a few questions and you qualify for your coverage within minutes. The problem is, this cookie-cutter approach does not work well for most people in terms of fulfilling their actual life insurance needs. Ninety-nine per cent of the time, It's hard to determine in five minutes how much life insurance you truly need and which plan is best.

You're dealing with a large and reputable company. While it's true that most direct insurance providers are large companies, most life insurance policies sold through a brokerage network are backed by Assuris, which covers the greater of $200,000, or 85% of the policy face amount, in the event the insurance company that holds your policy becomes insolvent.

One strategy to minimize the risk of an insurance company bankruptcy, is to take out policies with multiple insurance companies. For example, rather than taking out one $400,000 policy, the applicant could take out two separate $200,000 policies. Remember though, the policies have to be with separate insurance companies or Assuris will treat them as one policy. Unfortunately, this strategy does have a downside, you will be paying multiple policy fees and many insurance companies give volume discounts, which means that the higher the coverage amount, the lower the cost per thousand.

Most direct term life insurance policies are not convertible. If the insured can't convert a term plan to a permanent plan for the future, this can be problematic, especially if the insured has a permanent insurance need and has developed health issues since the initial application date. An example would be a 40-year-old who takes out a $500,000 Term 20 policy to cover a mortgage. If he or she develops a health issue, like diabetes, or heart disease, obtaining a new policy could be problematic. If there was a convertibility option however, they could convert all or part of the coverage, without a medical, to a permanent plan.

Less selection. Most direct insurance policies are only available as term policies. Permanent policies offer more features, but are likely too complicated to explain by phone. As a result, they are less likely to be sold directly through insurance carriers. There's no doubt that this translates into a lack of selection that can be a disadvantage to the consumer. In addition, direct policies are known to be very skimpy on policy options and riders.

It is difficult to integrate your other life insurance policies with the new plan via a phone call or a website. As much as many people would like to quickly scratch "life insurance" off of their to-do list, it is a good idea to speak with a broker before you buy. The broker can explain the different options available and take into account your financial goals and additional insurance needs, along with any insurance and investments you already have.

Syed Raza

Insurance Consultant

Born in Toronto and raised in Pickering, Ontario, Syed completed the Life Licensing Qualifying Program and passed the provincial exams in 2007. Since 2009, Syed has worked closely with LSM Insurance's senior brokers and has been continually studying part time to stay on top of recent changes in the financial services industry. See Syed's testimonials.

Chapter Four

What are the Advantages and Disadvantages of Term Life Insurance?

Term insurance provides premiums that are level for a certain number of years - or until a certain age – in other words, a stated term. Term lengths can range anywhere from five years to age 100. Term 100 policies though, are essentially permanent policies. More traditional term life insurance policies usually extend to a maximum of 40 years.

The first modern term insurance policy ever sold can probably be traced back to Britain in the 17th century, as selling life insurance in the rest of Europe was illegal at the time[1]. Though there were a few offices for British life insurance companies in Canada, it wasn't until Canada Life became the first Canadian life insurance company in 1847 that term insurance was truly being sold by Canadians for Canadians[2].

"*Buy term insurance with the face amount you need for the length of time you need,*" says Raza. "*For example, you can buy it to cover your child's education fund and if you want to cover them until they're a certain age, choose the length of time it takes for them to turn that age. If you need term insurance to cover a loan or outstanding debt, choose the number of years that you will have that loan. Then, everything you save, the difference between the term rate and what would've been your permanent insurance rate, should be invested. You can use that money however you see fit down the road.*"

1 Financial Shopper Network: The History of Life Insurance
2 Canada Life: The Early Years

Potter, adds that term insurance can be a great alternative to mortgage insurance sold by the banks when it comes to insuring your mortgage or any other kind of loan.

"*Use term insurance to cover all debts at a bank. The bank has you in front of them and uses this to their advantage. They rely on people's lack of knowledge and passivity to push lucrative 'insurance' products to cover lines of credit, credit cards and mortgages. Don't be a sucker! A term insurance policy from your broker is a much better option.*"

As reported in the March 2012 issue of The Insurance Journal, 10-year term life insurance costs have plummeted over the years. The article cites many examples of companies that have significantly reduced their premiums. For example, in 1998, Transamerica offered a 40-year-old, male non-smoker $500,000 of term coverage at a rate of $510 per year. Now, that same 40-year-old non-smoker can get $500,000 of Term 10 coverage for $305.00 dollars a year.

However, the downside for consumers is that renewal premiums have risen dramatically in recent years. Ten years ago, insurance companies were charging renewal premiums that were two to three times the initial annual premium. This probably sounds expensive, but now many insurance companies offer renewal premiums in excess of seven times the initial annual premium. When it comes to 20-year term policies, the renewal premiums can be up to ten or 12 times the initial premium.

"*Term insurance is cheaper to start with, but becomes more expensive later on in life,*" emphasizes Raza. "*Its purpose is to be kept for a short period of time and then cancelled or converted into a permanent plan.*"

Thankfully, most life insurance companies in Canada offer similar rates among their term line-up, but there can also be big differences in the riders or features available on the policies, such as critical illness riders, disability income riders, disability waiver riders, accidental death riders and children's term insurance riders. Depending on the company you're dealing with, you can even bundle coverage together to save on the policy fees.

"*All the term insurance plans that LSM Insurance offers are guaranteed renewable and convertible,*" continues Raza. "*For someone who wants permanent, but can't afford it right now, it's just not within their means, they can lock in a rate with a term insurance plan and then they can convert that term insurance, at any time during the duration of the plan, into a permanent insurance plan offered by the same company.*"

However, he warns that when you do convert, the rate will be based on your attained age at the time. So obviously, the earlier you convert, the better.

Term Insurance Advantages

- **The cost of the premium is initially low**, which allows the insured to get a lot of coverage for a relatively inexpensive price. For example, $500,000 of Term 10 life insurance for a 40-year-old, male non-smoker costs $342 a year. (Standard rates as of April 2012)
- **The coverage is easy to explain** because the premiums are generally level for a stated term and, in most instances, they're renewable and convertible.
- **Policies can be available on a single-life, multi-life, or joint-life basis.** Multi-life policies cover a husband and wife with what are essentially two individual life insurance policies, which happen to be under one policy number. Joint First-to-Die policies also cover both spouses under one policy, but the surviving spouse will lose his or her coverage after the death of the partner who was insured first.

The Disadvantages of Term Insurance

- **The premiums do increase substantially at the renewal.** Renewal premiums, depending on the length of the term, can be anywhere from six to 12 times the initial premium, making the coverage more unaffordable down the road.
- **Most term policies expire between ages 75 and 85.** However, in reality, the high cost of renewals makes it difficult to maintain the coverage beyond the first term period. It should be noted that some companies, such as Empire Life, do offer renewals up to age 100, but, once again, at a very high renewal premium.

- **Some companies do not offer a conversion option on the policy**, which means the insured cannot convert the plan to a permanent one automatically, without medical evidence. The convertible feature on most term policies, when its available, goes up to age 65, but some carriers do offer conversion options up to age 75.

Most term life policies are available with standard or preferred rates. Standard rates are given to individuals who are in good health and have no major health issues. Preferred rates are given to individuals who are in very good health with an excellent family health history. Preferred rates can be up to 30% to 40% cheaper, but some companies have up to five preferred rate classifications, making understanding preferred rates, and who qualifies for them, somewhat complex. However, comprehending those classifications is worth it because the difference in premiums between preferred and standard rates is much greater in term policies than in permanent policies.

Elisabeth Prosper

New Business Cordinator

Elisabeth was born and grew up in Haiti before heading to France where she completed a Master Degree in Economics at the University of Aix-En Provence. Elisabeth is trilingual (French, English and Creole) and enjoys putting her strong organizational and communication skills to work helping clients. Elisabeth has her life insurance license and takes a deep interest in natural nutrition.

Chapter Five

What are the Advantages and Disadvantages of Permanent Life Insurance?

The opposite of term insurance is permanent insurance. It's a policy that has level premiums and lifetime protection.

"*With term insurance, you're basically getting something designed to be temporary – something that will stick with you for the term,*" says Bendahan. "*For example, my father-in-law's policy was a Term 20 and in the twentieth year you have a choice, you can either renew it for another 20 years or you can cancel it. If you renew it, you're going to be paying eight to ten times the price because of your age and because there's no medical test.Term is a temporary solution, whereas permanent insurance will be with you for life at a guaranteed rate, so the rate remains level and is not going to change like it will for Term 20.*"

"*The advantage is it provides coverage for a long-term need that will never go away,*" says Andrew Burdi, another of LSM's brokers. "*It's a guaranteed way to take care of final expenses or leave a final gift of some kind.*"

Permanent life insurance can generally be broken down into three types of plans:

1. **Term 100 Insurance** - The simplest form of permanent life insurance that can basically be understood as a term plan that doesn't expire until the insured person turns 100, effectively rendering it a permanent plan. However, lower interest rates have meant that many Canadian insurance companies have taken Term 100 policies off of their product lines.
2. **Universal life Insurance** - A permanent policy with an interest component. In addition, any amount above the cost of insurance goes towards the cash value of the policy.
3. **Whole life insurance** – This plan remains in-force for the insured's whole life. It's a type of policy that is certainly propelling the market at the moment. Sales of whole life insurance is on the rise for the sixth year in a row in 2011 – growing by 9% between 2010 and 2011. This is because whole life is most likely the more inexpensive permanent option, as companies that still sell Term 100 and Universal Life raise the prices on those premiums[1].

Term 100 Insurance

Advantages of Term 100 Insurance

- Policies are easy to understand, premiums and death benefits are generally stated in the contract and the insured pays premiums, that are guaranteed to never increase, for their entire lives.
- Policies are fully guaranteed.
- Plans are available in small amounts. For example, Term 100 policies are often available in face amounts as low as $10,000 – making it an affordable way to cover final expenses.

Disadvantages of Term 100 Insurance

- There is no cushion if the insured misses a pre-

1 LIMRA Research

mium. Most Term 100 policies do not have a cash value and do not have an automatic loan provision. So, if the insured needs to miss a premium down the road, the policy will lapse after 31 days. This can be very problematic for individuals who have paid into a policy over a number of years and can no longer afford the coverage.

- Most Term 100 plans do not have a paid-up option. However, most whole life and universal life plans can use the cash value to help offset premiums at some point in the future.

There are a limited number of carriers. As stated off the top, most life insurance providers in Canada removed Term 100 insurance from their life insurance product portfolio. The limited competition has had a negative impact on pricing: rates have gone up significantly in recent years.

Universal Life

Universal Life insurance comes in a variety of forms. The policy can come with a number of cost-of-insurance and death benefit options. Some plans have an increasing cost-of-insurance, which goes up as the insured gets older, while others have a level cost-of-insurance, which remains level through the insured's lifetime. The death benefit can be a level death benefit, which has a cost that, once again, remains level, or an increasing death benefit, which increases with the policy's fund value.

Advantages of Universal Life Insurance

- **The flexibility.** Most plans allow the insured to choose between a minimum and maximum premium. The minimum premium is the premium needed to keep the coverage in place, but the maximum premium is the premium the policyholder can contribute to and still have the cash value build-up on a tax-sheltered basis.
- **Universal life insurance allows the policy owner to unbundle life insurance and investment components.** Unlike Whole Life policies, Universal Life insurance separates the life insurance and the investment component. When it comes to a Universal Life policy with a level cost, the insured can contribute to minimum premium without worrying about complex investment components. Any premium above this minimum amount would go into an investment account, which grows on a tax-sheltered basis. A unique opportunity with the Universal Life policy is, if the accumulation fund is used to offset future premiums, premiums are being paid with pre-tax dollars, rather than after-tax dollars.
- **There are a wide variety of investment options.** Universal Life investment options can range from fixed investments, such as GICs or Money Market Funds, to non-guaranteed risky investments, such as Small Cap Equity Funds or Specialty Funds. Some companies, including BMO Insurance, offer up to 400 different investment options on their Universal Life accounts.

Disadvantages of Universal Life Insurance

- The policies are very complex. Many captive insurance agents and independent insurance brokers do not understand the features and provisions within Universal Life policies.
- Yearly renewable insurance options can result in escalating policy premiums in the later policy years.
- The surrender charges on cash value. Most Universal Life policies have surrender charges on the policy's cash value within the first seven to 10 policy years.

Whole Life Insurance

Whole Life Insurance can come in participating or non-participating formats. Non-participating whole life policies are essentially guaranteed permanent policies with guaranteed cash values, while participating policies have guaranteed values and non-guaranteed values, which means policy dividends can fluctuate with the insurance provider's profitability.

"*My favorite type of whole life insurance is called 20-Pay,*" says Bendahan. "*It's called 20-Pay because you only pay for 20 years and then after the 20 years, you're paid-up in full. So, you're covered from day one, but you stop paying in the twentieth year, which is especially advantageous for young people because if you're 30 and you take out a policy, you know that the policy will be paid for at the age of 50 and you'll have coverage for the rest of your life without payment. There's also a guaranteed cash value, which gives you a guaranteed and automatic asset, which you can always fall back on in hard times or use for your retirement down the road.*"

Most participating whole life policies have multiple dividend options. The following is a brief look at some of the different dividend options:

- **Dividends on Deposit** – The annual dividend is kept on account within the policy.
- **Paid-up Additions** – The annual dividend is used to purchase additional paid-up insurance.
- **Premium Reductions** – The annual dividend is used to reduce the annual premium.
- **Term Option** – The annual dividend is used to buy paid-up term insurance.

Advantages of Whole Life Insurance

- They offer guarantees and an automatic loan provision. This is an advantage particularly if the insured wants to stop paying the premiums.
- Policies can be paid-up in a limited number of years. The insured would be covered for their lifetime, but would not have to continue paying premiums.
- Similar to Universal Life policies, the policies have a tax-sheltering feature. Any cash values and death benefits are growing on a tax-sheltered basis. All death benefits are tax-free.

Disadvantages of Whole Life Insurance

- Whole Life policies have very minimal cash value build-up in the first three or four policy years. If the insured is going to take a Whole Life policy, it is important for the long run.

- The higher initial premiums. The initial premiums are much higher. Therefore, the insured will be able to get less additional coverage for a given premium.
- There are a limited number of providers that offer participating whole life insurance in Canada. Non-participating whole life policies have been rising in cost in recent years, as a result of historically low interest rates.

"*The disadvantage of all permanent plans is that they can be costly, but it's more costly doing nothing about it down the road,*" says Burdi. "*The premiums can be much more, but the premiums don't rise as you age. It never expires and it helps reduce your financial obligations down the road.*"

Andrew Burdi
Senior Insurance Consultant
Andrew has always gladly called Toronto home. As a proud father of two girls, age five and seven, Andrew focuses much of his spare time around them, just as his own father did when Andrew was growing up. After graduating at the top of his class at the Business Studies Program at Seneca College, Andrew decided to follow in his father's footsteps helping the community in their personal insurance needs. Hard work and commitment have made Andrew one of Canada's leading advisors in Critical Illness solutions. His 14 years of professional experience in the critical illness insurance sector means Andrew brings a unique perspective and wealth of specialized knowledge to LSM. See Andrew's testimonials.

Chapter Six

What is No Medical Life Insurance?

"*No medical life insurance is basically a policy with fewer health questions and, in some cases, no health questions at all,*" says Tamara Humphries, an LSM senior insurance consultant. "*The key is to find a policy where you can answer "No" to all of the questions. There are many different policies, which you can choose and the more questions that are in these no medical policies, the more they look like medically underwritten policies anyway. However, the fewer questions involved with the policy, the more expensive the coverage and the more limited the coverage.*"

People are living longer, but they're not necessarily any healthier, with the obesity epidemic and its related complications gripping North America, making no medical life insurance an increasingly popular option among those who would otherwise be uninsurable or receive insurance with a rating.

"*Why is No Medical life Insurance getting more popular?*" asks Aman Kapur. "*Simply because if our health is not up to the mark and we fear that the conventional or traditional way of getting life insurance, which is actually doing a medical test, will not get us life insurance, then we have No Medical Life Insurance, which is going to be an option for us when we don't want to give up our urine and our blood for a medical test. It's a more straightforward way of getting life insurance.*"

Non-medical life insurance plans can be divided into two categories: Guaranteed Issue Life Insurance and Simplified Issue Life Insurance

Tamara Humphries
Senior Insurance Consultant
Tamara was born in Sudbury ON and moved frequently while growing up. Living in cities such as Kingston, Peterborough, London, Timmins, North Bay, Whitby and North York, she developed a deep appreciation for Canada and all things Canadian. After achieving the BPHE, Tamara went on to complete the MBA program in finance and marketing at York. In 1998 she completed the Certified Financial Planner designation and spent 12 years training and mentoring new advisors in the industry.

Guaranteed Issue Plans

- No Medical Questions
- No Medical Tests
- Usually a two-year waiting period on the death benefit for non accidental deaths.
- Lower face amounts and higher premiums than simplified issue plans.

Simplified Issue Plans

- Have three to 12 medical questions
- No medical tests
- Depending on the plan, it can pay out from day one or on a deferred-basis.
- Higher face amounts and lower premiums than guaranteed issue plans.

On the right are the pros and cons of the simplified issue and guaranteed issue plans from three of the leading suppliers:

Simplified Issue Plans

Assumption Life's Golden Protection

PROS:

- Coverage starts from day one
- Built-in, paid-up and guaranteed cash values
- Insures applicants up to age 85
- Multi-life discount
- Very well priced among non-smokers over 50
- Accidental fracture option
- An increasing death benefit
- Available on a deferred-basis, but clients can still qualify if they have been declined in the last two years.

CONS:

- Maximum issue amount is $50,000
- Not available on a term-basis and only available as a permanent plan

Canada Protection Plan Underwritten by Foresters' Simplified Life Plan

PROS:

- Available with a pay for life or with a 20-year pay option
- Free transportation benefit
- Face amounts as low as $1000 or as high as $50,000
- A deferred option and a Simplified Issue Term 10, Term 20 and Term 100 plan is available.

CONS:

- Maximum issue amount of $50,000, but higher face amounts are available when combined with a term plan.

- There are more questions on the Simplified Life plan than on CPP's Golden Protection plan.
- No multi-life option

Industrial Alliance's The Perspective

PROS:
- Multi-life discount
- Coverage from day one
- Discount for non-smokers
- A simplified issue Term 20 plan is also available

CONS:
- Generally higher rates than CPP and Assumption Life.
- Insulin dependent diabetics do not qualify

Wawanessa Life Final Expense Plan

PROS:
- Only five health questions.
- Policy is paid-up after 20 years or until age 85.
- Automatic loan provision available in the third year

CONS:
- No discount for non-smokers
- Death benefit is limited in the first two policy years to a return-of-premium, plus interest, unless your death is ruled an accident

Guaranteed Issue Plans

Manulife's Cover Me Guaranteed Issue Life Insurance

PROS:
- No health questions
- Paid-up at age 95
- Fixed premiums

CONS:
- Limited to applicants age 40 to 75
- The maximum face amount is limited to $20,000.
- The death benefit is limited in the first two policy years to a return-of-premium, plus interest, unless the death is ruled an accident

BMO Insurance's Guaranteed Acceptance Life

PROS:
- No health questions
- Pays-out double when the death is by accident
- A simplified issue plan is also offered

CONS:
- Applicants must be 50 to 75-years-old.
- The death benefit is limited in the first two policy years to a return-of-premium, plus interest, unless the death is ruled an accident.
- The maximum face amount for a 55-year-old is $4,500.
- Can only buy the policy over the phone.
- Sold direct and not available through brokers.

The Edge

PROS:

- Available to applicants age 18 to 85
- Face amounts anywhere from $5,000 to $25,000.
- Insures applicants up to age 85.
- If the insured dies in the first two policy years, the payout is limited to a return-of-premium, plus 10% interest.

CONS:

- The pricing is very expensive at the older ages.
- The $25,000 face amount is not bad for a Guaranteed Issue Plan, but low when compared to other simplified issue options.

Bingham Group Services Corp. Guaranteed Issue Mortgage Life and Disability Insurance Underwritten by Foresters Life.

PROS:

- Provides applicants up to $500,000 of protection.
- Discounts to non-smokers.
- Can add a disability component

CONS:

- The plan must be linked directly to the insured's mortgage.
- There is a pre-existing condition exclusion: applicants with pre-existing conditions within 12 months from the policy issue date, will not be covered for that condition for the duration of the policy contract.

LSM broker Mark Potter has great advice for those considering life insurance, but are unsure if they will qualify for a more traditional policy:

"*All life insurance contracts in Canada are unilateral, which means you can walk away at any time but the company is bound to the terms of the contract. Therefore, if you are unsure if you will qualify for a life insurance policy that requires a medical exam, use non-medical coverage as a bridge until you know whether or not you have been approved,*" he says.

Chapter Seven

How are Insurance Brokers Compensated?

Life insurance brokers are typically compensated by commission. According to PayScale.com, the average salary of an insurance broker in Canada is between C$28,553 – C$57,353 with between C$103.18 – C$5,169 in bonuses, C$783 – C$4,085 in profit sharing and C$582 – C$24,74 in commissions[1].

"*Brokers are compensated just the same way any sales professional could be compensated,*" says Kapur. "*So, a policy is issued, the policy gets delivered and then the broker is compensated by the insurance company for placing that policy with the client.*" Some brokers with larger firms are given a salary, or a draw against future commissions. But, for the most part, life insurance brokers are compensated by straight commission. This can make some consumers wary of dealing with a broker, but most successful brokers realize that success in the insurance industry is a marathon, not a sprint.

"*There are two ways the broker gets their compensation,*" Kapur continues. "*First, when they place the policy and second, something called renewal compensation. Renewal compensation is a factor of the annual renewals of the policy. But the important thing to understand is, it's not just about making a sale. A life insurance broker is someone who has to be committed to adding value to someone's life insurance needs. The better he does at adding value, the better he does in the business and the more compensation he gets.*"

"*Initially, the compensation is for assisting you with the application process and then delivering to you your coverage contract,*" adds Tim Doubroff, another LSM broker. "*The ongoing renewal compensation is for providing services which should include annual reviews to make sure that what you purchased still properly addresses your insurance needs.*"

Delivering high quality service and exceeding customer expectations is the best recipe for maximizing a broker's long-term income potential. Brokers who do a good job for their clients make themselves referable, which really is the lifeblood of success in the industry.

"*If you cancel your contract within the first two years, the broker is responsible to pay back up to 100% of the compensation initially received from the insurance company,*" continues Doubroff. "*This action, called a 'chargeback', helps keep the broker accountable and Insurers that they have done proper due diligence with you in directing you to the best available product to address your insurance needs.*"

"*The moment a client cancels a policy on me, there could be a chargeback of my compensation and I wouldn't get any renewal commissions from it,*" adds Kapur. "*If I want people to continue to take my service, I need to sell them the right products. Therefore, my compensation will be good, I will have good financial stability and I will be able to focus on adding value to people's financial and insurance needs,*"

1 'PayScale.com 'Insurance Brokers'

Life and living benefits insurance commissions are generally broken down into **first year commissions, production bonuses**[2] and **renewals**. The payout on first year commissions will vary depending on the product. For example, a typical Term 10 life insurance policy will pay a 40% first year commission rate and a Term 20 policy will pay 45%. Therefore, if an individual pays a premium at $1,000 a year, there will be a first year commission for their broker likely ranging from $400 to $450.

"*You are compensated based on the annual premium the insured pays,*" says Kapur. "*So if the annual premium is $1,000, your first year commission is based on that annual premium. Depending on what plan the client buys, the percentage of first year commission varies from plan to plan.*"

The next component of an insurance broker's commission is the production bonus. Production bonuses can range anywhere from zero to 180%, depending on the insurance broker's production level. As a rule of thumb, the more productive the insurance broker, the higher the production bonus.

A typical production bonus for an average active broker would be 120%. Therefore, on a premium of $1,000 a year for a 10-year term policy, the first year commission would be $400 and the production bonus would be $480, which results in a total compensation of $880.

Typically, there is a chargeback if the policy lapses within the first two policy years. This means the broker would have to pay back a percentage of the commission should the policy lapse during the chargeback period. After the chargeback period ends, there are usually no further chargebacks directed at the insurance broker.

Finally, as Kapur mentioned, renewal commissions are the final source of income for the broker. Renewal commissions will usually start in year two and, depending on the product, will be between two and five percent. The renewal commission gives a broker the added incentive to provide high quality and ongoing service.

2 The first year commission rate and production bonus are built-in to the product's pricing.

Chapter Eight

What is Critical Illness Insurance?

"*Critical illness is brand new, as far as insurance goes, because it has only been around for the last 15 years,*" says Humpries.

"*The reason critical illness came about is, the illnesses that used to kill us, aren't killing us any more. But, they come with all of their own costs of living, which are higher than they once were. So, just like when life insurance kicks in when the person dies and the family needs help, when the person is alive, but perhaps they're disabled, or their quality of life is such that they need a little more to get by, there used to be no insurance for that, so that's where critical illness insurance comes in.*"

Critical illness insurance pays out a lump sum if the insured is diagnosed with a critical illness, such as cancer, heart attack or stroke, and survives the waiting period on the policy.

Typically, the number of illnesses covered ranges from three to 25. Most illnesses have a 30-day waiting period that the insured must survive before the policy pays out. For cancer related payouts, in addition to the 30-day waiting period, the policy usually has to be in-force for 90 days.

"*You need money to heal. It costs money and where does that money come from? Likely from retirement savings, which defers your retirement if you don't have critical illness insurance,*" says William Shung another LSM senior insurance consultant.

As reported in the April 2012 issue of The Insurance and Investment Journal, critical illness insurance sales rose in Canada for a fourth consecutive year[1].

Annualized new premium sales rose by 6% to $103.8 million in 2011. The insurance industry sold 7 % more policies than they did in 2010 during this period and insurers sold 100,775 individual critical illness policies in Canada last year.

"*Critical illness insurance protects against the largest financial risk my clients will be exposed to,*" says Burdi. "*There's approximately a 34.7% chance that, before the age of 65, they'll get a critical illness, which is a chance ten times greater than dying prior to age 65.*"

In addition, Burdi advises against relying on various assets to bail you out during your time of need. "*The economic cycle shows us that the fair market value of an asset today changes over time. So, in the event that you do get sick, one of your assets takes a turn and the fair market value is no longer the same as it was. Then, you could be in a position where you have to sell something at a fire sale price and it may be cheaper for you to purchase some critical illness insurance instead and pay those premiums.*"

In terms of policy sales in 2011 versus 2010, the renewable term critical illness product lost steam,

1 http://lsminsurance.ca/life-insurance-canada/2012/05/critical-illness-insurance-sales-increase-for-a-fourth-consecutive-year

but limited-pay and permanent critical illness policies had very strong and positive results.

Critical insurance policies can be sold directly by insurance carriers, through captive agents or independent brokers. However, direct carriers of critical illness insurance policies generally offer much more limited coverage. Captive agents represent one or two companies and generally only provide critical illness solutions from those specific carriers. Independent brokers work for a variety of carriers and are able to shop the market for the best rates and features on a critical illness policy.

Critical Illness policies come in a basic or expanded format. Some companies offer critical illness policies with as little as one illness, but other companies offer up to 25 illnesses. Most basic critical illness policies cover the main three illnesses, cancer, stroke or heart attack, while full-scale critical illness policies cover kidney failure, loss of hearing, Parkinson's disease, Lou Gehrig's Disease and others.

Critical Illness policies come in term or permanent plan formats. Term durations can be 10, 20 or 75 years. Permanent plans can either last for 100 years or are a limited-pay plan, where the insured pays for a limited number of years, but is covered for life.

Critical illness policies can also come with a return-of-premium feature. This feature adds significantly to the overall cost of the premiums on

Chad Larmond, RHU, CPCA

Independent Insurance Broker

Chad Larmond specializes in helping Business Owners and Professionals replace income in the event of injury, sickness & death. Chad is an expert in the areas of Disability Insurance, Critical Illness Insurance, Long Term Care Insurance and Life Insurance. Chad began his insurance career in 2003 with the largest Disability Insurance carrier in North America (UnumProvident). Read more.

the policy, but returns part or all of the premium if the insured remains healthy. Some companies have partial returns-of-premium after a certain year, such as 10 or 20 years, and then a full return-of-premium at ages 65 or 75.

Critical illness can be obtained on a simplified issue or a full underwriting basis. Simplified issue critical illness policies are usually only going to cover basic illnesses and the face amounts are more limited, while fully underwritten critical illness policies cover a full range of illnesses and can provide the insured with up to $2 million in coverage.

Critical illness policies are general much more aggressively underwritten than life insurance policies. Critical illness underwriting looks more deeply into family health history than life insurance applications.

Critical illness insurance is not tied to the insured's income or his or her ability to go back to work. The coverage pays out a lump sum regardless of the insured's income or his or her ability to remain employed. Instead, the benefit is strictly tied to the definition of the critical illness diagnosis according to the insurance company.

There are no occupation classifications for critical illness. Unlike disability insurance, which provides better classifications for select occupations and thus, lower premiums. Critical illness just looks at the insured's gender, age, smoking status and overall health when determining the premiums.

"*Critical illness insurance is a great product to consider in tandem with your life insurance and/or your disability insurance coverage,*" says Chad Larmond, a LSM broker.

"*The nice thing about this product is that you can include a feature on your plan, whereby you receive 100% of your premiums back after 15 years, if you haven't claimed the benefits. This creates a 'no lose situation,' as you enjoy the benefits of being covered, along with the knowledge that you will receive all of your money back if you don't claim.*"

What is Disability Insurance?

Disability insurance pays a monthly income in the event the insured is unable to work and meets the definition of disability under his or her policy. Most disability policies will pay out in the event of an injury or illness. Some carriers however, provide injury only coverage, which is often available on a no medical test and no health question basis. It should be noted that the majority of disabilities are illness-related and not injury-related.

"*Disability basically pays out if the person is unable to do their present job,*" confirms Humphries. "*It's the person's doctor who determines if they are unable to do their present job and then a portion of their income (usually 60 to 70% depending on the occupation of the person) is replaced by the disability insurance. I would have to say that disability is the most complex of all of the policies.*"

According to the Center for Disease Control[1], the most common cause of disability in America is arthritis, with nearly 19 million Americans reporting activity limitations. In 2005, 133 million Americans, almost one out of every two adults – had at least one chronic illness. About one-fourth of people with chronic conditions have one or more daily activity limitations and diabetes continues to be the leading cause of kidney failure, non-traumatic lower-extremity amputations, and blindness among adults aged 20-74.

As reported in the April 2012 issue of The Insurance and Investment Journal[2], disability insurance sales rebounded in 2011 from a two-year lag. After that slide, policy sales in the Canadian disability insurance marketplace rose by 12% and premiums grew by 4% in 2011, compared to the previous year.

Disability insurance sales experienced their first upswing in four years. The increase is in response to the solid growth of non-cancellable products, which had been in a tailspin before 2011. Non-cancellable products are aimed at professionals and mean the insurance company can not adjust the premiums or cancel the policy.

"*The underwriting is determined by the risk of the occupation and, in general, no insurer will cover more than 70% of your income. Most of the contracts have what's called an 'All Source Maximum' in them, which means the insurer will look at all sources of disability income (including other disability insurance coverage you may have) and you can't get more than 80% of your previous income*" continues Humphries.

There are also many other variables that go into disability insurance pricing:

- The insured's age.
- The insured's health.
- The insured's smoking status.
- The insured's gender.
- The insured's occupation.
- The plan's design.

1 "Chronic Diseases are the Leading Cause of Disability in the U.S."

2 "Individual Disability Insurance Sales Increase in 2011"

Unlike critical illness insurance, which does not look at occupation when determining pricing, disability insurance premiums are greatly impacted by the insured's occupation. For example, a landscaper would pay a premium that's 200% higher for similar coverage when compared with a lawyer or doctor. The reason for this is, insurance companies view certain occupations as riskier in terms of their ability to go on claim. Higher income occupations are less likely to make a disability claim.

There are many variables that go into designing a disability policy and each one of them impacts pricing:

- **The monthly indemnity** - The amount the insured would receive.
- **The elimination period** - How long until the insured begins to receive their disability benefit.
- **The benefit period** - How long they receive their money for.

There are a whole host of riders that can be added to disability policies, including a cost of living benefit, which increases the monthly indemnity by adding a cost of living allowance. A future income option is also available. This allows the insured to upgrade their coverage in the future based on their income and not on medical criteria. Other riders, such as return-of-premium options, which can return all or part of the premium depending on the company and the policy, are an option as well.

There are three main definitions of disability when looking at a disability insurance contract:

- **Any Occupation** - Under this definition, total disability means the inability to work at any occupation. Therefore, if the insured is a computer consultant and the disability prevents them from performing his or her regular occupation duties, but they can still work as a checkout clerk, the insured would not receive any money.
- **Regular Occupation** - Under this definition, total disability means the inability to work at the insured's regular occupation due to an injury or illness.
- **Own Occupation** - Own occupation is the gold standard definition of disability. Under this definition, total disability is also defined as the inability to work at your regular occupation, regardless of whether you work in another gainful occupation.

"*You want to protect your own occupation as long as possible, which is why I'd recommend this option,*" says Shung. "*It's usually available for a certain number of years, but then you can extend it if you need to. I would suggest and prefer that you extend to age 65.*"

All things being equal, the better the definition of disability, the higher the monthly premium. This makes sense because the insurance company has an increased likelihood of paying out a claim the better the definition.

The problem with the "Any Occupation" definition, common in any group disability policies, is it leaves a tremendous amount of grey area surrounding the insured's ability to find employment at another occupation at the time of claim.

The upgrade from "Any Occupation" to "Regular Occupation" provides significant value. However, it can also be questionable in some circumstances. Lastly, an "Own Occupation" definition provides the most value in a highly skilled occupation, such as a surgeon, but less value for occupations, such as an office manager.

The reason for this is, a surgeon could easily have an injury to his or her hands which prevents them from being a surgeon but allows them to work as a family physician. In this instance, the insured would continue to receive his or her disability benefits, even though he or she is gainfully employed as a family physician. The likelihood of an office manager, or even a lawyer, collecting

William Shung FIC, EPC
Senior Insurance Consultant
William was born in Johannesburg, South Africa, fluent in both English and Chinese. He held directorial positions in several multi-national advertising agencies and visited Southeast Asian capitals. More on William.

under the "Own Occupation" definition is significantly lower. The "Own Occupation" definition is not cheap either. It usually carries an extra cost of 20% to 30% on top of the base premium. For example, on a policy with a $1,500 premium, the "Own Occupation" definition can cost an additional $300 to $450 a year.

"*It is vitally important to deal with an expert when considering disability coverage, as there are many products available in the marketplace, but they are not all created equally,*" advises LSM broker Chad Larmond. "*You truly get what you pay for in the disability insurance market.*"

Chapter Ten

What is Long-term Care Insurance?

Long-term care insurance generally provides individuals with a weekly tax-free benefit in the event that they would require assistance with two of the six activities of daily living. Those activities include, bathing, dressing, eating, maintaining continence, toileting, and transferring. (Check the appropriate policies for specific details.) The proceeds received from a Long-term care policy can help prevent individuals from having to deplete their savings and forcing them or their family into debt due to unforeseen or unplanned for medical expenses.

"*The greatest threat to depleting your wealth in your retirement years is your health. Long-term care insurance provides funds to pay for ongoing costs associated with your care,*" continues Larmond. "*This product doesn't just protect your wealth - it allows you to maintain your independence and dignity by taking control of your future care plans and protecting your family members from being forced to be your primary caregiver.*"

The first individual long-term care policies were sold in the U.S. in the early 80s, according to the U.S. Dept. of Labor[1], with Canada following suit in the early '90s[2]. Only a handful of insurance companies offer long-term care insurance in Canada and these plan features are not standardized. Therefore, it's a difficult product for brokers to deal with, so not many do. If you're looking to buy long-term care, your best bet is to work with a broker who specializes in long-term care insurance.

1 "Long-term Care Insurance Gains Prominence"
2 "FSNA: Long-term Care Insurance in Canada"

"*It's something very important that hasn't really sizzled yet. But, with baby boomers now coming into retirement, you will see this product flourish in the very near future,*" says Bendahan.
"*The reason is, we are living longer, but we are not living better. The stats show that we're living ten to 15 years longer, but those last ten to 15 years are in retirement homes where we're in need of full-service care. The problem with that is, the care is very expensive and the government doesn't cover a lot of it. So, if you don't have long-term care insurance, your kids will be funding that and that isn't fair to them, when they have their own family to worry about.*"

There are several factors to investigate when determining which Long-term care policy is right for you:

1. **Does the policy have limitations on when and how you receive your benefits?** Many L.T.C policies will pay out only if you require facility care assistance.
2. **Determine the elimination period and benefit period that best suit your needs and budget.** The elimination period refers to the amount of time which must pass before you begin to receive your weekly benefit and the benefit period refers to how long you'll receive that coverage for. Those two variables, combined with your daily benefit, will help determine your monthly premium.
3. **Determine if there's a premium cap on the policy.** Most Long-term care policies in Canada offer guaranteed premiums for only the first

five policy years. After that, premiums can adjust annually. RBC Insurance does offer a maximum premium guarantee after five years, which is a maximum increase of 50% on the original premium amount for the lifetime of the policy.

4. **Determine if you need any riders, such as a cost of living adjustment and/or a return-of-premium rider.** The former allows your benefit to increase in line with inflation, whereas the latter returns the premium to your beneficiary in the event you pass away.
5. **Long-term Care plans usually pay on a receipt basis. As in, they reimburse the insured for expenses incurred while requiring assistance.** As a carrier, Desjardins is unique: it allows the insured to spend the proceeds however they wish. This can be of value if the insured wants a family member, or someone other than a qualified healthcare professional, looking after them.
6. **Unlike life insurance, most Long-term Care plans do not offer a discount to non-smokers. The plans price smokers and non-smokers at the same rate.** Some carriers even price males and females at the same rate. The latter provides a good value for males, but a poor value for females because the average female lives longer and is more likely to be on claim for a longer period of time than a male.
7.

"*The premiums for long-term care are relative,*" says Burdi. "*There's no cookie cutter approach because they are based on age and are relative to the lifestyle the client wants to protect and what they are trying to supplement. There's both facility care and home care that are optional. You can purchase either, both, or just one or the other. If you'd like to be cared for in the comfort of your own home, that's an option, so you don't have to rely on family members who are often too busy and have a life of their own.*"

A recent report by the American Association for Long-Term Care Insurance (AALTCI) indicated that $6.6 billion in long-term care insurance benefits were paid to 200,000 people in 2011[3]. As of December 31, 2011, more than 8 million Americans own long-term care insurance.

While most long-term care insurance claims typically begin in one's late '70s or '80s, accidents and illness are common reasons for younger people to claim long-term care. The report found that in 2011, 10.4% of new individual claims were from people who where under the age of 70.

The top five reasons that long-term care policyholders claim are the following:

- **Alzheimer's disease or related dementia** (www.alzheimer.ca/english/index.php)
- **Stroke** (www.heartandstroke.on.ca)
- **Arthritis** (www.arthritis.ca)
- **Circulatory Issues**
- **Injury**

3 "LTCi Claims Reach $6.6 Billion in 2011"

Chapter 11

Putting It All Together

What is the best way to put together a life and living benefit insurance plan?

Life and living benefit insurance are each part of one's financial security, along with preservation of their income. But, what many people don't realize, is that all three make up the basis of any sound financial plan.
"*Insurance products are one of only a few tax-advantaged options left to the Canadian public,*" says Mark Potter, "*Giving your broker the whole scope of your financial situation could help them create a custom tax avoidance strategy. The rich use them, why shouldn't you?*"

People often overlook Life, Disability, Critical Illness, and Long-Term Care insurance in favour of other aspects of their financial plan. When, in reality, it is a person's ability to earn an income that pays for all those other components of a financial plan. Additionally, if the insured requires care, this will eat away and erode their other investments. A survey by RBC Insurance revealed that 68% of people believe they have enough life insurance to protect their family, but that leaves one-third of Canadians who don't have adequate life insurance. Overall, 76% are concerned about the future of their loved ones when they pass on, become disabled or are diagnosed with an illness[1].

"*Creating a comprehensive insurance plan means making sure you maintain both 'later' and 'now' and put later and now into perspective,*" says, LSM senior insurance consultant, Andrew Burdi.

"*Later being your retirement, your objectives and your goals to make sure that if something happened, either in the event of mortality, or passing on prematurely, that there is enough funds to replace lost income in the family. The breadwinner has now become deceased, that would be mortality, but equally as important, and more frequently occurring, is morbidity. This would be looking at 'now'. We would make sure that, in the event of disability or illness, there's enough cash flow to be able to pay for one's lifestyle.*

That's what this is about, it's not about making anybody rich, it's about putting a percentage of one's income aside in the event of something happening in the short-term that negatively impacts the family's financial well-being. So, by putting together an overall plan, you take into consideration the immediate situation. Plus, five years down the road, ten years down the road and when your dependents are no longer dependents anymore.

This is where you can tie-in the right products, so it's important to have a discussion with someone who is knowledgeable and can ask the right questions to find out, as liabilities change through the course of one's lifetime, what are their insurance needs? They can present questions, such as, how much mortgage is left to pay? detecting patterns in one's financial life, so you can find the right product to protect them."

1 "One-third of Canadians feel Under-Insured"

What steps should you take in implementing a comprehensive insurance plan?

- **Determine your budget.** There's no sense putting together an insurance plan if it doesn't fit within your budget. Cancelling an insurance policy in its early years, depending on the type of policy, creates surrender charges.
- **Determine your needs.** There are many available calculators and reference points online, but it's best to speak with a qualified insurance advisor who can help you determine your life and living benefits insurance needs.
- **Work with a broker.** Once you've determined your budget and your needs, an independent broker can shop the marketplace to match the best company and plan with your budget and your individual situation.

About LSM Insurance

LSM Insurance is a leading provider of online life and living benefit insurance solutions for Canadians. We are one of the most renowned brokerages in Canada, and have over 50 years of combined insurance experience.

We understand that different people have different needs and there is no one-size-fits-all policy when it comes to insurance. Therefore, we try to approach each client individually and provide him or her with a personally tailored insurance program, guidance and skilled support.

We pride ourselves in offering comprehensive life, disability, critical illness and long-term care insurance solutions and we are committed to the highest standards of integrity and performance in dealing with both our existing and prospective clients.

Our well established, extensive list of carriers offers a large scope of insurance choices. This allows us to satisfy all our clients' needs and deliver them peace of mind. We believe that it is this level of service that keeps our customers coming back over and over again. Our team of experienced professionals will save you time and best of all, you and your family can count on us when you need us most.

Put us to the test today!

Chantal Marr BEd

President of LSM Insurance

Chantal Marr is President of LSM Insurance, where she is in charge of product development. Chantal is a member of the Independent Financial Brokers of Canada, which gives her the flexibility to deal with all major insurance companies. She is committed to providing her clients with the highest level of individual service coupled with expert advice. Client trust and dedication to excellence continues to be the hallmark of both her personal and professional life. Read Chantal's Background.

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