

Insurance Planning – What Kind of Insurance Should you Buy?

Should you suffer a premature death, it can have devastating consequences both emotionally and financially on the remaining family members. The amount of insurance coverage you have should include provisions for:

- ✓ Last expenses – funeral expenses which average \$15,000 – uninsured debts
- ✓ Probate fees
- ✓ A fund to pay off your mortgage
- ✓ Education fund proceeds so that your children can still have the opportunity of attending post secondary education
- ✓ The loss of income for your surviving loved ones should be provided for

Life Insurance

Life insurance can cover a short term temporary need usually done through term insurance, such as a mortgage, car loan, business loan, etc. Life insurance can also cover a permanent need like your last expenses, income needs of surviving family member and estate obligations. A universal life policy would be appropriate if you have permanent insurance needs. Term insurance is the cheapest form of coverage initially, however, it is only suited for short term needs as the increasing price can become exorbitant forcing you to have to cancel the insurance when you might need it most. Universal life insurance has higher initial premiums than term insurance but they can be cheaper over the long term so better suited for a permanent need.

Universal Life insurance also has the ability to save on your taxes and some people use it for that purpose. Initially you should have a permanent insurance need to justify the purchase of universal life insurance. In addition, inside a universal life policy you can also bulk up the premiums and have the excess over and above the insurance costs and policy administration fees allocated to an investment. While these investment funds are inside the universal life policy, they are sheltered from tax giving them the ability to accumulate tax-free.

Under your circumstances, I would recommend a combination of term insurance and permanent universal life insurance. Once you have your debts paid down and have lowered your monthly cash outflows, then I would suggest taking advantage of the tax sheltering opportunities inside a universal life policy.