FINANCIAL POST

August 28, 2015

Dust off that old policy: Why reviewing your life insurance could save you money

By Jason Heath

Jason Heath: It pays to review your existing life insurance and it could pay off when your family needs it most

When it comes to your finances, ignorance is not bliss. In this monthly "Inside Scoop" column, certified financial planner Jason Heath gets to the bottom of personal finance issues to help you make the most of your money.

Of all the areas in the realm of personal finance that I discuss with clients, life insurance has got to be one of the topics that people are least interested in. However, according to the experts, it pays to review your existing life insurance and it could pay off when your family needs it most.

Single mom with six-figure salary should be affluent, yet she's anything but[1]

She has a net worth of $525,443 including a heavily mortgaged rental property that generates a paltry return, a house, two cars and a fishing boat. Not a lot to show for three decades of work

Read more[2]

The cynic in me worries that reviewing an in-force policy with an insurance agent may just lead to a sales pitch on a new policy to generate a commission for them. After all, when you're a hammer, everything looks like a nail. But there are cases when you should be reviewing your coverage and situations where you might just come out ahead - at the expense of the insurance company. With a good insurance professional and the right tips, it may well be worth dusting off that old policy after all.

"Term life insurance has never been as inexpensive as it is now," says Mark Halpern of illnessPROTECTION.com. "People renewing their term insurance today pay less than they did 15 years ago, even though they may be 15 years older.

"If you are close to the end of a 10-year term plan or in a new renewal past your first 10-year term period, ask your adviser to get the insurance reviewed. Not only is there a good chance you will pay less, but you can also extend the duration of the policy to another 10-year, 20-year or longer term plan with a starting date of today."

Competition between insurance carriers can sometimes mean premiums on similar coverage will differ, so shop around, or work with an agent who can shop around for you. Life changes like quitting smoking, losing weight, giving up risky sports or having a clean driving record can also result in lower premiums compared to what you might be paying on an existing policy.

> When you have a life change - a home purchase, having a child, your children have grown up, you've changed jobs, started a business, etc. - it may be time to modify coverage

Actuary Promod Sharma of Taxevity Insurance Advisory suggests that "if you have universal life (insurance), review your investment choices. You may have options which guarantee a minimum interest rate of four per cent. Try finding that anywhere else today."

Whether or not it makes sense to contribute to the investment component of a universal life policy depends personal circumstances, but if you don't check out your policy and potential investment options, you can't assess whether or not it makes sense to take advantage. High returns on the guaranteed interest accounts for those who are conservative investors with maxed out RRSPs and TFSAs may provide an additional tax shelter.

On the flipside, permanent policies like universal life can be more expensive than term life insurance. Replacing a more expensive universal life insurance policy with a cheaper term policy may result in a larger death benefit for the same price, or the same coverage at a lower price tag.

According to Chad Larmond of Larmond Risk Management Insurance, sometimes there are common sense things that can result in lower premiums.

For example, "group and association coverage is generally not the best coverage, nor does it offer you the lowest premium." This applies in particular with those who are in good health. You should also "pay your premiums once per year versus monthly. By paying annually you will save seven to nine per cent each year."

Some other reasons to consider reviewing policies:

1. If your health has declined, it might be wise to lock in premiums and convert temporary term insurance into permanent coverage.

2. When you have a life change - a home purchase, having a child, your children have grown up, you've changed jobs, started a business, etc. - it may be time to increase, decrease or modify coverage.

3. If you have illiquid assets with large capital gains that may be difficult or preferable not to sell, like real estate or a business, consider your estate needs. A tax bill may cause a liquidity problem with your estate and result in a fire sale on the assets. Beware advisers who try to sell you insurance to pay tax on your RRSPs. This is a weak argument.

It's always a good idea to hold off on cancelling an existing policy until you have a new policy in place. You'd hate to cancel coverage and not be approved for a replacement policy.

And with permanent life insurance policies with a cash value, you should check with your insurance agent and accountant to make sure you understand the potential tax implications of cancelling a policy.

Even if you don't need life insurance coverage from a risk management perspective, consider how the policy might play a role in your investment and estate planning. Sometimes the equivalent rate of return you'd need to earn on an investment versus continuing to pay the premiums makes keeping the policy a good "investment" for your beneficiaries.

As with all things financial, ignorance is not bliss. In much the same way you should review your wills from time to time, use that as a reminder to review the other morbid documents in your sock drawer – your insurance policies. Sometimes a little due diligence can be to your advantage. After all, the only other way to win at the expense of your insurance company is to die.

Jason Heath is a fee-only Certified Financial Planner (CFP) and income tax professional for Objective Financial Partners Inc. in Toronto, Ontario.

References

1. business.financialpost.com/personal-finance/family-finance/single-mom-with-six-figure-salary-should-be-affluent-yet-shes-anything-but
2. business.financialpost.com/personal-finance/family-finance/single-mom-with-six-figure-salary-should-be-affluent-yet-shes-anything-but