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*TAX*MATTERS

When it comes to insurance, choose an advisor with expertise and save your money

Buyer beware

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Using life insurance to provide a financial security blanket is one of the most thoughtful gifts you can leave your family.

But just remember that "thoughtful" should never be confused with overspending your hard-earned money.

Insurance companies are business enterprises, and are not obligated to keep you – their customer – updated when prices drop, or to tell you there's a better/smarter way to use your money.

The fact is, it is clearly to their benefit that you continue paying premiums for higher-priced policies.

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And that's where an experienced, knowledgeable insurance professional comes in. Unlike an insurance vending website, a trusted advisor will help you determine your needs, find the most appropriate insurance products tailored to those specific needs, and keep you informed of changes and opportunities as they occur in the future.

Here are just some of the reasons why insurance companies don't want you to review your policy:

☛ *Hidden finance charges:* When you buy home and car insurance and pay for it with installments, property and casualty insurers typically take the annual premium and simply divide by 12.

That's not the case in the life insurance industry.

Some insurers may suggest you pay your term insurance or whole life insurance premium monthly, but seldom tell you they are adding a big chunk of financing premium – often as much as nine per cent.

The result is that you pay the equivalent of an extra month's premium, unnecessarily, for the modest benefit of cash flow management.

If you have money in the bank or access to an inexpensive line of credit, consider paying the annual premium in a single payment and save your money. If your cash flow changes in the future, you can always revert back to the monthly payment plan.

Now that you know, contact your insurer or financial advisor. Depending on the type of insurance and insurer, you can probably eliminate those financing charges at any time during the year.

☛ *Term rates have dropped*: If you purchased term life insurance a long time ago, you should know that it is now priced as a commodity.

Prices have dropped sharply, and policies offer more flexibility than you may remember. People renewing their term insurance today usually pay less than they did 15 years ago – even though they are 15 years older!

If you are nearing the end of a 10-year term plan or in a new renewal past your first 10-year term period, ask your advisor 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 or 20-year (or longer) term plan with a starting date of today.

There is also a great deal more diversity and flexibility available in term life insurance. Some insurance policies now allow a client to exchange 10-year coverage for a new 10-year, 20-year or 30-year term coverage with no need to show new proof of insurability.

Then there is Simplified Issue term insurance, which allows you to purchase the policy without having to take a medical exam or tests (instead, you are only required to answer some health-related questions).

☛ *Revisit your ratings:* Losing weight is a great way to get on the path to better health. If you were heavier when you bought your policy – or smoked, or participated in dangerous sports like scuba diving or skydiving – then your policy was probably "rated."

That means an additional amount was tacked on to your insurance premiums due to the greater likelihood of death or serious injury.

If you have since lost weight, quit smoking, hung up your parachute or made other lifestyle changes after you bought your policy, you are now in better shape and should get your policy reviewed. The premium may be reduced and the rating adjusted downwards, or even removed altogether.

Losing weight therefore not only makes you healthier physically, it gives you a leaner bill when it comes time to pay for the insurance.

But unless you have an advisor who stays on top of these issues, your insurance company will continue reaping the higher premiums.

☛ *Policy Conversions:* If you own a term insurance policy now and develop a health problem, do not let your insurance policy lapse. Continue paying your premiums or your insurance will get cancelled.

Did you know that most term insurance policies have an option that will allow you to convert the policy to permanent insurance – either a portion or all of it – without medical evidence? Yes, it will be more expensive than term insurance, but at least you will continue to have coverage exactly when you need it most. Otherwise, you wouldn't qualify for coverage.

☛ *Make sure you tell someone:* Tell someone else, especially your executor, that you have life insurance. More often than not, a spouse is aware of the existence of an insurance policy, but in a disaster, both spouses can die without leaving notice for anyone that they have a policy – and the money stays in the hands of the insurer.

NBC News reported last year there is a huge pile of money – about $1 billion – of unclaimed life insurance benefits in the United States. In Canada, with a population only about a tenth of the size of the U.S., that translates to somewhere in the neighbourhood of $100 million that should be in the hands of beneficiaries, not in the treasuries of insurance companies.

Canada's Ombud Service for Life and Health Insurance (*www.oapcanada.ca)* provides a policy search service. (These problems can be easily avoided using the estate directory available in our free estate planning toolkit available at *http://illnessprotection.com/estateplanningtoolkit.php*).

☛ *Insurance companies anticipate lapses:* If you move or change your banking, you must inform the insurance company; otherwise, your policy may lapse without you knowing. Imagine paying insurance premiums for many years and then finding out your policy is no longer in force

Doing it yourself often carries unintended consequences

A subscriber recently read my article about selling personally-owned policies to a corporation. He promptly sold his universal life insurance policy to his corporation and subsequently received a T5 indicating he had income of $43,000 and owed a pile of income tax. He was understandably shocked.

The problem was that he did the work himself and didn't use the expertise of a financial advisor or actuary. Had he done so, one of the first things discussed would have been how to deal with the cash value that's always taxable on a transfer.

A trusted advisor would have told him there are ways to offset the gains. Remember: this is an issue that needs to be considered beforehand. I always tell people to get proper legal, accounting and tax advice before, not after the fact.

because you changed banking and missed payments.

This could have disastrous consequences for you and your family. Your advisor should be contacting you to ask if there are any administrative changes that need to be done.

☛ *Don't do it yourself:* I have great admiration for many do-it-yourselfers – but insurance is a complicated matter (see box below). Insurers profit the most from well-meaning people who go online to get their insurance, or through a one-time meeting at a bank, because there is no one to sift through all the information and keep tabs on their needs after signing up for a policy.

The long and short of it is that insurance companies benefit if you don't ask questions and don't truly understand what you are buying.

If nothing else, please take away from this article the understanding that consulting an advisor with experience and expertise will: ensure you get the right product; keep you informed of any changes to your insurance that are to your advantage; and advocate for you if necessary. ❒