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TODAY'S LOCAL BUSINESS

In the driver's seat

When buying a vehicle, choose insurance carefully

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It's probably not the first thing you want to contemplate just as you're about to drive away as a proud owner of a shiny new automobile.

What if you die or become seriously ill before the car loan expires? Would your family be burdened with a major debt they couldn't afford to pay off? It's a depressing thought that might ruin the euphoria of being handed the keys to your new pride and joy.

Your dealer most likely will have an instant solution: Buy some auto loan life and disability insurance. You'll be approved right away while still in the showroom.

The premiums will be added on to your monthly automobile loan, so you may even forget they're there. Your new four-wheel beauty will get paid off even if your own two feet are no longer walking on the face of this planet.

Sounds nice, but consider the cost of that extra insurance could add up to thousands of dollars over the lifetime of your loan.

This is not a decision to be taken lightly. But unfortunately, it's often made at a time when one just can't wait to slip into the driver's seat.

"It comes into the whole category of impulse buying and a captive customer with a salesman," says Mark Halpern, a certified financial planner and founder of illnessPROTECTION.com Inc. in Toronto. "That's where most of the insurance sales are."

"You'll be asked whether you want your car to get paid off if you die. And you're sitting there, with the light pointing on you, and who's going to say no to that, especially when you are sitting there with your spouse.

"I definitely think it's being sold at a time when people are most vulnerable."

Auto loan life, disability or critical illness coverage is part of what's known as creditors insurance. A few months ago this column discussed some of the pitfalls of mortgage life insurance, which also falls under that same umbrella. Many of the same drawbacks apply.

For one thing, premiums for the insurance will stay the same even as your car depreciates and you pay off the loan. In effect, the possible payouts under your policy will decrease by the month.

Another criticism is the policies are subject to underwriting only after claims are made, not at the time when one signs up for the coverage. That means if you have a pre-existing condition, such as heart problems, but didn't say so on the application form, coverage may be denied if your loved ones ever try to collect. "You could be walking around with a policy you're not even qualified to collect on," warns Halpern.

Creditors insurance is great for the banks; it will guarantee there will be no loan default in the event of an untimely death or illness. But the policy won't cover any of the other needs of your family. Many financial advisers suggest a better option may be personal term life insurance. That way, you'll have the flexibility of deciding on the beneficiary.

"Wouldn't it be nice instead if the family got the money and they could decide what they want to do. Maybe they could sell the car privately and pocket the difference," says Halpern.

Stiff competition in the term life insurance business has resulted in some pretty attractive premiums being offered these days, though that will all depend on your needs and specific circumstances such as your health.

Creditors insurance is purchased from a business manager at a dealer. He is trained by a formal program administered by an insurance company that outlines selling procedures, features and the need for full disclosure, notes Wendy Hope, vice-president of external relations at the Canadian Life and Health Insurance Association.

But Halpern cautions that business managers are not familiar with your overall financial and insurance needs, and are offering you a product that they can make steep commissions on.

Auto loan and disability insurance may be worth considering. But the key is to know whether you really need it, and what your alternatives are.

"Whenever it comes to insuring, whether it's insuring your life or insuring your income or your health, the key is to be aware of coverage elsewhere," says Rod Woodcock, regional director with Investors Group. "A lot of people don't realize what they have through their employer and may not realize what they have in place on a private basis.

"Before you make a decision... you should either be talking to an insurance expert or a financial planner. And always ask: Will it add value?"

Hope is quick to point out the many benefits of creditors insurance. It's simple to obtain -- you can sign up while at the auto dealership. It's convenient, as you won't need to go through an underwriting process and a medical examination. And it's flexible: You can decide on the term of the policy and usually be able to opt out during the first few months if you change your mind.

Hope says that it is important for purchasers to read and understand the terms of the policy, which will clearly state there are exclusions to coverage, including pre-existing conditions.

"Even those with pre-existing conditions may still want to consider creditor insurance as it will provide coverage for other events. For instance, an individual who has suffered a heart attack and who might not otherwise qualify for a typical life insurance policy would have coverage should they die in a car accident or as a result of an illness not related to any pre-existing condition."

One underwriter for auto loan life insurance is Industrial Alliance Pacific Insurance and Financial Services Inc. in Vancouver. Azmina Karim-Bondy, chief legal counsel for the group, says post-claim underwriting saves the consumer money.

"If an insurer is underwriting a product at the beginning fully, then clearly that costs more in terms of administration and to actually put the insurance in play," Karim-Bondy says. "And if you do have a condition you will be rated for sure and your premium may be higher because of that."

But Halpern is skeptical of any price advantages that come with creditors insurance, and suggests in most cases personal life insurance is the way to go.

"Just do some comparisons to see if this makes sense or not. Because what you'll likely find is they can get it far cheaper on their own and also it's not going to benefit the creditor."

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Is it right for you?

Using figures provided by a local dealership, here's how much auto loan insurance could cost you.

On a $30,000, seven-year loan, life insurance for one person would cost 86 cents a day, and accident and health insurance (effectively disability coverage) would be 92 cents. That adds up to $2,200 for life insurance and $2,350 for disability over the life of the loan, hiking your monthly payment -- when taxes are all factored in -- to $617 from $545.

To get an idea of what term life insurance will cost, check out www.getterm.cc, a website run by Compulife Software Inc. that life insurance brokers often use. Premiums would vary considerably depending on your individual circumstance. But say you are in excellent health, 37 years old, and wanted to be insured for $50,000 for 10 years. Monthly premiums would be as low as $8.46. That would add up to $710 just for the seven-year period your car loan is in effect, and you'll be covered for the full $50,000 over the life of your policy.

Arranging disability insurance on your own, though, can be considerably more expensive. Michael Price, business manager for Gauthier Chrysler Dodge Jeep on Regent Avenue, notes that if you are self-employed, disability coverage purchased separately could cost you hundreds of dollars a month on just $3,000 in monthly income. That's far higher than disability insurance premiums offered on an auto loan contract.

"As far as auto disability insurance goes, you can't beat it. But life insurance has gotten to be a commodity these days."

Whatever you choose, make sure you find out what the definition of disability is, advises Price. In some cases, disability insurance will cover you only if you can't do any job at all, not just in your chosen profession.