Life insurance

From: Financial Consumer Agency of Canada

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Decide if you need life insurance

Life insurance can help your loved ones deal with the financial impact of your death.

The death benefit paid from a life insurance policy is a tax-free, lump-sum amount that can be used to:

- replace your income so your family can maintain their standard of living
- provide for your children or dependents
- pay for funeral expenses
- pay off your debts
- make a gift to charity

You may also choose to leave the money to your estate or to a trust.

Term life insurance

Term life insurance pays a death benefit if the person insured dies within a specific period of time or before you reach a certain age.

The length of your coverage can be either for:

- a fixed period of time, such as a term of 10 or 20 years
- until you reach a set age, such as 65 years old

If you die within the duration of the policy, your beneficiaries will be paid the death benefit. Once the term ends, the coverage ends and your beneficiaries don’t receive any payment.

Term insurance policies don’t include cash value. This means you can’t borrow against your policy and you won’t get any cash value back if you cancel your policy. Some term policies can be renewed.

Generally, your insurance company will establish your premiums, or the fees you pay, for the length of the term. Your premiums may increase when you renew the policy. For example, premiums would increase every five years on a five-year renewable policy.

If you don’t pay your premiums, your insurance company may cancel your policy.

Term life insurance premiums are generally less expensive than permanent life insurance premiums when you first buy the policy.

Term life insurance options for couples

When considering buying life insurance as a couple, look at what coverage you may already have through your employer or that you may have bought when you were on your own.

If you decide to purchase insurance, make sure you consider all the options available to you as a couple. Make sure to consider the pros and cons of each.

Joint first-to-die term insurance

- Insures two people under one joint policy
- Pays the death benefit when the first partner dies
- Gives each partner the same coverage
- Is usually less expensive than two identical single policies
- Is sometimes less flexible than single policies if the couple separates or gets divorced
- Usually can't be divided
- Usually pays only one death benefit, so if one partner dies, the other needs to apply for a new policy to continue coverage

Single term insurance

- Provides each partner with their own policy
- Gives each partner their own coverage amount
- Is usually more expensive in total than a joint first-to-die policy
- Makes it relatively easy to change the beneficiary, if you separate or divorce

Permanent life insurance

Permanent life insurance gives you coverage throughout your lifetime. Your survivors will get payment if you die at any time while your insurance policy is in effect.

Permanent life insurance policies build up a cash value. This means you'd get a cash value back (less than the amount you paid in premiums for the insurance costs) if you cancel your policy.

You may be able to take out a policy loan or use your life insurance policy as collateral for a loan. If you borrow using your cash value and don't repay the loan, it may reduce the amount of money your beneficiary will receive or that you may get back if you cancel.

Whole life insurance

Whole life insurance is a type of permanent life insurance that provides you coverage for your life time.

Your premiums won't change as you get older. Your policy will often have a guaranteed minimum cash value.

Universal life insurance

Universal life insurance is a type of permanent life insurance that combines life insurance with an investment account. The investment account has a cash value. Withdrawals, as well as loans, may be permitted.

The death benefit and cash value of your investment account may increase or decrease depending on the:

- types of investments you choose to hold in your account
- returns on those investments

You can also select how your premiums are invested. You can increase or decrease your premiums within the limits specified in your insurance policy. However, your premiums could increase if returns on your chosen investments fall.

Naming a beneficiary

A beneficiary is the person you name to receive payment from your insurance policy when you die. You can name your spouse, another family member, friend or charitable organization as beneficiary.

You can name more than one beneficiary for your life insurance policy. If you do this, your insurance company will divide the death benefit among them. You may assign different proportions of your life insurance benefits to each beneficiary.

If the **beneficiary is revocable**, you can change the beneficiary at any time without telling them.

If the **beneficiary is irrevocable**, you must have the irrevocable beneficiary's written permission before making beneficiary changes.

If you live in Quebec and name your spouse as your beneficiary, the designation is automatically irrevocable. You must specifically make it revocable when you first designate your spouse in Quebec.

Naming a beneficiary who is under legal age

If the beneficiary you name is under the legal age when you die, you may want to set up a trust and designate a trustee or administrator. This person can hold the proceeds of the death benefit in trust on behalf of the minor.

If you don't name a trustee or administrator, the death benefit, plus any interest it earns, will be held in trust by the province or territory. It will be paid out when your beneficiary reaches legal age. Consult with a lawyer or financial advisor for more details.

Naming your estate as the beneficiary

If you name your estate as the beneficiary. The estate will distribute the death benefits according to the terms of your will. The proceeds of the death benefit will become part of your estate and will be subject to estate taxes. If the death benefit is part of your estate, creditors may claim the death benefit to pay for your outstanding debts.

If you name your estate as your beneficiary:

- the death benefit will become part of your estate
- the death benefit will be distributed according to the terms of your will
- the money will be subject to taxes when your estate is settled

How to name a beneficiary

It's important to name a beneficiary for each policy form when you purchase life insurance. If you don’t, your insurer will assume by default the beneficiary is your estate.

You may want to consider naming an alternate or contingent beneficiary. This is the person or persons who will receive the proceeds of the death benefit if your named beneficiary dies either before you or at the same time as you.

It's a good idea to review your beneficiary designations from time to time and update them if necessary.

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- Health insurance
- Living as a couple
- Getting an insurance policy

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