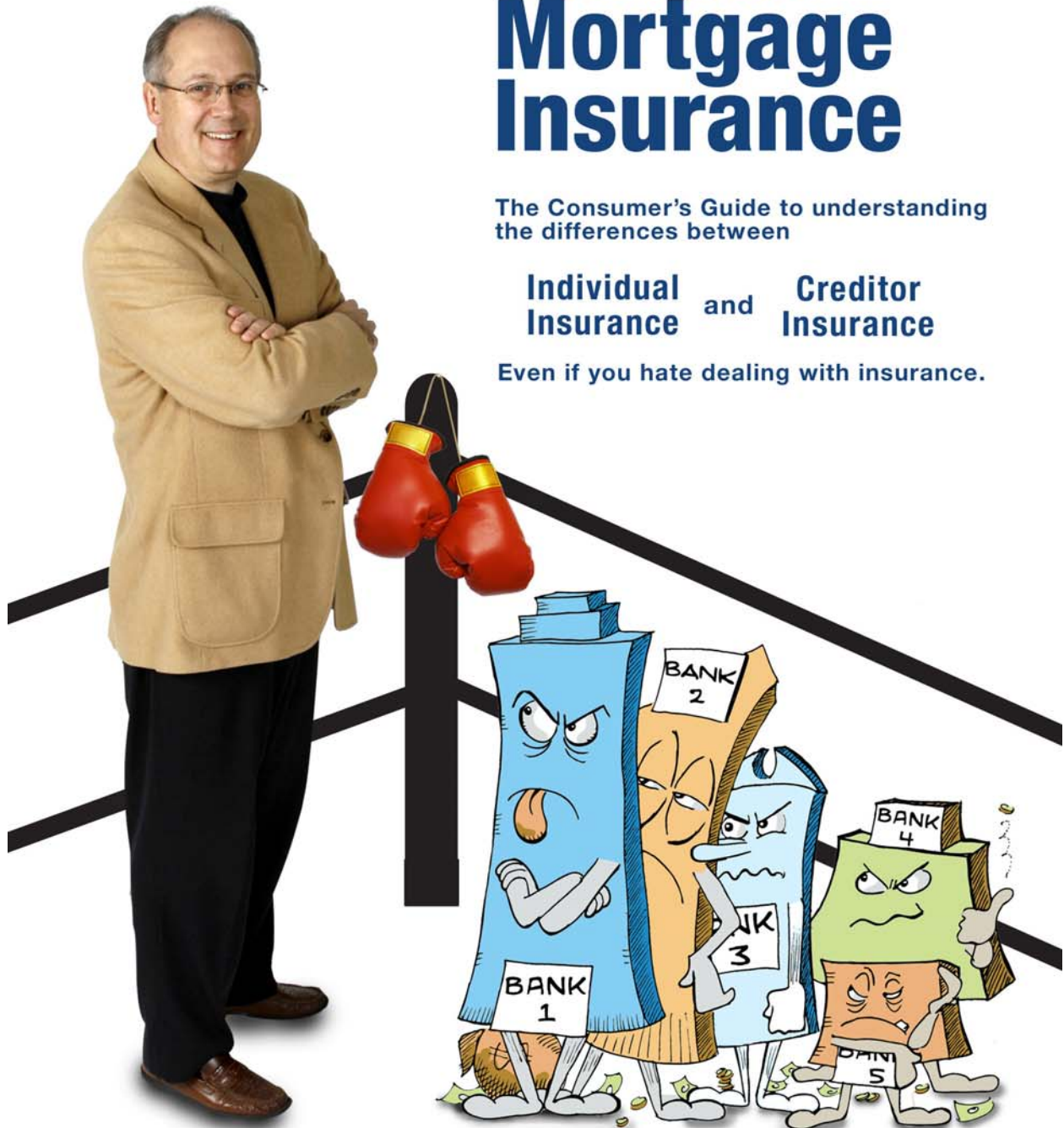


# Canadian Mortgage Insurance

The Consumer's Guide to understanding  
the differences between

**Individual Insurance** and **Creditor Insurance**

Even if you hate dealing with insurance.



**Richard Lepinsky - Insurance & Investment - Advisor & Broker**  
[www.CanadianMortgageInsurance.ca](http://www.CanadianMortgageInsurance.ca)

# Canadian Mortgage Insurance

A Consumer's Guide to understanding the differences between

Individual Insurance & Creditor Insurance Plans

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## Disclaimer

This material is for educational purposes only. It describes the most common Individual and Creditor Insurance Policies, in the Canadian market place at the time of writing.

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# The Canadian Mortgage Insurance Landscape

## In Your Neighbourhood

Bill-44 & Mary-42, have a \$250,000 Mortgage.  
They purchased Creditor Life Insurance from Bank 1, for a premium of \$102. per month, because they have dealt with the bank for 12 years, and feel a loyalty to them, but they could be paying **26% less**, a saving of \$7956. over the life of their mortgage, with Individual Mortgage Insurance.



Paul-52 & Joan-52, have a \$100,000 Mortgage, for the next 10 years. They purchased Creditor Life Insurance from Bank 2, with a premium of \$128 per month, because they felt it was too much trouble to shop around, but they could be paying **47.6% less**, a saving of \$7311. over the next 10 years, with Individual Mortgage Insurance.

Nancy-33 & Irene-31, have a \$350,000 Mortgage. They were offered Creditor Life Insurance at Bank 3, but they have had a good relationship with their independent life insurance broker, who is able to secure a plan at \$51.35 per month, a **saving of 43.5%**, with Individual Mortgage Insurance.

Chris-48 & Melanie-46, have a \$250,000 Mortgage. They are self employed & have purchased Creditor Life & Critical Illness Insurance at Bank 4, after refinancing their home to finance their businesses. They were too busy to shop around. Total Creditor Insurance premiums for both coverages is - \$540. per month. Had they took the time to shop with an Independent Life Insurance Broker, they could have **saved 25%**, and had much broader coverage, for a total lifetime saving of \$40,800, with Individual Mortgage Insurance.

John-32 & Michelle-30, have a \$260,000 Mortgage. They purchased Creditor Life Insurance from Bank 5, because John was self employed and did not have any an employee benefits. Premium for the Creditor Life Insurance is \$87. per month. Then they talked to an Independent Life Insurance Broker, who **saved them 30%**, on their Individual Mortgage Life Insurance for a total of \$7800. over the life of their mortgage. In addition, the broker structured a complete Insurance Program customized to their situation.

The average savings from having Individual Insurance versus Creditor Insurance, in these five real life premium examples is 34%. Your savings could be more !

And this is what is happening on just one small street in Canada. What about your street ? Are you too, paying more than you should for your Mortgage Insurance ?

While price is important, it is not the most important reason, to have Individual Mortgage Insurance. Policy features that allow for a lifetime of quality coverage and the ability to adjust to your changing lifestyle, are the most important.

# Life Insurance Feature Summary

	<b>Feature</b>	<b>Individual Insurance</b>	<b>Creditor Insurance</b>
<b>Bonus #1</b>	<b>Own &amp; Control Your Life Insurance Policy</b>	<b>Yes</b>	<b>No</b>
<b>Bonus #2</b>	<b>Level Life Insurance Coverage</b>	<b>Yes</b>	<b>No</b>
<b>Bonus #3</b>	<b>Choose Your Beneficiary</b>	<b>Yes</b>	<b>No</b>
<b>Bonus #4</b>	<b>Two Death Benefits</b>	<b>Yes</b>	<b>No</b>
<b>Bonus #5</b>	<b>A Portable Life Insurance Policy</b>	<b>Yes</b>	<b>Maybe</b>
<b>Bonus #6</b>	<b>Underwriting at Time of Application</b>	<b>Yes</b>	<b>No</b>
<b>Bonus #7</b>	<b>Preferred Rates for Good Health</b>	<b>Yes</b>	<b>No</b>
<b>Bonus #8</b>	<b>Life Insurance Premium is PST Exempt</b>	<b>Yes</b>	<b>No</b>
<b>Bonus #9</b>	<b>Continue Life Policy after Mortgage is Paid</b>	<b>Yes</b>	<b>No</b>
<b>Bonus #10</b>	<b>Additional Riders to Customize Policy</b>	<b>Yes</b>	<b>No</b>
<b>Bonus #11</b>	<b>Guaranteed Life Insurance Premium Rates</b>	<b>Yes</b>	<b>No</b>
<b>Bonus #12</b>	<b>Ongoing Service from Broker</b>	<b>Yes</b>	<b>No</b>
<b>Bonus #13</b>	<b>Life Insurance Price Comparison</b>	<b>Yes</b>	<b>No</b>
<b>Bonus #14</b>	<b>The Right to Shop</b>	<b>Yes</b>	<b>Yes</b>
<b>Bonus #15</b>	<b>Conversion to a Permanent Life Insurance Plan</b>	<b>Yes</b>	<b>No</b>
<b>Bonus #16</b>	<b>Insure all Your Life Insurance Needs with One Policy</b>	<b>Yes</b>	<b>No</b>

# Disability Insurance Feature Summary

	<b>Feature</b>	<b>Individual Insurance</b>	<b>Creditor Insurance</b>
<b>Bonus #1</b>	<b>Own &amp; Control Your Disability Policy</b>	<b>Yes</b>	<b>No</b>
<b>Bonus #2</b>	<b>Quality Definition of Disability</b>	<b>Probably</b>	<b>Maybe</b>
<b>Bonus #3</b>	<b>Fewer Exclusions</b>	<b>Probably</b>	<b>Maybe</b>
<b>Bonus #4</b>	<b>Quality Disability Policy Features</b>	<b>Yes</b>	<b>No</b>
<b>Bonus #5</b>	<b>Choice of Start Dates &amp; Benefit Periods</b>	<b>Yes</b>	<b>No</b>
<b>Bonus #6</b>	<b>Choice of Disability Plans</b>	<b>Yes</b>	<b>No</b>
<b>Bonus #7</b>	<b>Two Claims Paid</b>	<b>Yes</b>	<b>No</b>
<b>Bonus #8</b>	<b>Portable Disability Policy</b>	<b>Yes</b>	<b>Maybe</b>
<b>Bonus #9</b>	<b>Disability Premium is PST Exempt</b>	<b>Yes</b>	<b>No</b>
<b>Bonus #10</b>	<b>Guaranteed Premium Rates</b>	<b>Yes</b>	<b>No</b>
<b>Bonus #11</b>	<b>Underwriting at Time of Application</b>	<b>Yes</b>	<b>No</b>
<b>Bonus #12</b>	<b>Riders to Customize Your Policy</b>	<b>Yes</b>	<b>No</b>
<b>Bonus #13</b>	<b>Ongoing Service from a Broker</b>	<b>Yes</b>	<b>No</b>
<b>Bonus #14</b>	<b>Disability Price Comparison</b>	<b>Yes</b>	<b>No</b>
<b>Bonus #15</b>	<b>Right to Shop</b>	<b>Yes</b>	<b>Yes</b>
<b>Bonus #16</b>	<b>Insure all Disability Needs with 1 Policy</b>	<b>Yes</b>	<b>No</b>



# Critical Illness Insurance Features Summary

	<b>Feature</b> ( CI = Critical Illness Insurance )	<b>Individual Insurance</b>	<b>Creditor Insurance</b>
<b>Bonus #1</b>	<b>Own &amp; Control Your CI Policy</b>	<b>Yes</b>	<b>No</b>
<b>Bonus #2</b>	<b>Obtain Broader CI Coverage</b>	<b>Yes</b>	<b>No</b>
<b>Bonus #3</b>	<b>Two Benefits</b>	<b>Yes</b>	<b>No</b>
<b>Bonus #4</b>	<b>Portable CI Policy</b>	<b>Yes</b>	<b>Maybe</b>
<b>Bonus #5</b>	<b>Underwriting at Time of Application</b>	<b>Yes</b>	<b>No</b>
<b>Bonus #6</b>	<b>Quality CI Policy Features</b>	<b>Yes</b>	<b>No</b>
<b>Bonus #7</b>	<b>CI Premium is PST Exempt</b>	<b>Yes</b>	<b>No</b>
<b>Bonus #8</b>	<b>Carry CI Policy after Mortgage is Paid</b>	<b>Yes</b>	<b>No</b>
<b>Bonus #9</b>	<b>Additional CI Riders Available</b>	<b>Yes</b>	<b>No</b>
<b>Bonus #10</b>	<b>Guaranteed CI Premium Rates</b>	<b>Probably</b>	<b>No</b>
<b>Bonus #11</b>	<b>Ongoing Service from Broker</b>	<b>Yes</b>	<b>No</b>
<b>Bonus #12</b>	<b>CI Price Comparison</b>	<b>Yes</b>	<b>No</b>
<b>Bonus #13</b>	<b>The Right to Shop</b>	<b>Yes</b>	<b>Yes</b>
<b>Bonus #14</b>	<b>Insure all CI Needs with 1 Policy</b>	<b>Yes</b>	<b>No</b>

# Section 1 - Life Insuring Your Mortgage

Life Insurance guarantees us and our families the knowledge that if we, the breadwinner(s), do not have enough time to complete our responsibilities, like paying off our mortgage, then life insurance will replace the money, that we did not have the time to earn.

Life Insurance premiums have 3 major components

- Mortality
- Expenses
- Interest Rates

Mortality - is the rate at which people die. Actuaries use a Mortality Table as part of their calculation of life insurance rates. We know that more people die at age 70 than at age 60, etc.

Every once in a long while, mortality calculations are thrown out of balance, like during the Black Plague in Europe.

More recently our modern society has had a mortality scare in the form of Aids. If some form of epidemic were to happen, then the companies could end up paying out, many more claims than they thought they would.

A mortality table tells how many people aged 25, per 1000, will die each year, and the statistics for each age from age 0 to age 100. Naturally each year we live, is one more year closer to our death. So the older the age, the more death's per 1000, will occur. The mortality curve starts to bend dramatically in the 50's, as this is the time, when serious health problems start to occur, such as heart attacks and strokes.

Expenses – are the operating expenses the company has, and these can be projected with a good degree of accuracy.

Interest Rates – are the rates of return that the life insurance company can invest your premiums, to build the pool of money that is needed to pay the claims. In the early 1980's when interest rates were as high as 20%, the premiums for life insurance dropped, because the companies were offsetting the premium cost with the higher interest rates they would receive.



# Bonus #1 – Life Insurance

## Own & Control Your Mortgage Life Insurance Policy

Many Canadians own a Creditor Life Insurance Policy that was purchased from the bank or financial institution, when they applied for their mortgage. They probably purchased it for themselves and their spouse, probably without shopping around, or asking how many policies or plans, the Financial Institution could offer.

How does buying a Mortgage Life Insurance, differ from buying the first house, car, fridge or stove that you see? I don't know any consumer expert who advocates NOT checking out the market of the product you are interested in.

The inevitable result of not shopping around, or not having a big window on the market is - paying too much, and / or not getting good value. And it is no different with your Mortgage Life Insurance.

### What is Creditor Insurance ?



Creditor Insurance is a group insurance policy issued through the financial institution. You may not even know which life insurance company actually provides the life insurance. You do not **own** it, you **rent** it, for the length of your loan with the financial institution and you to pay for it.

Creditor Insurance can only be sold to you because you owe the bank or financial institution money. The creditor insurance can insure **ONLY** what you owe to them, and not a dollar more.

The Creditor Group Insurance is issued with a master policy, with complete

wordings that include all terms, conditions, exclusions, etc. Are you aware of the exclusions in the policy? What are the features and benefits of the policy?

Creditor Insurance is like renting a house. The landlord has the right to change the rent and conditions of the rental agreement, over time.

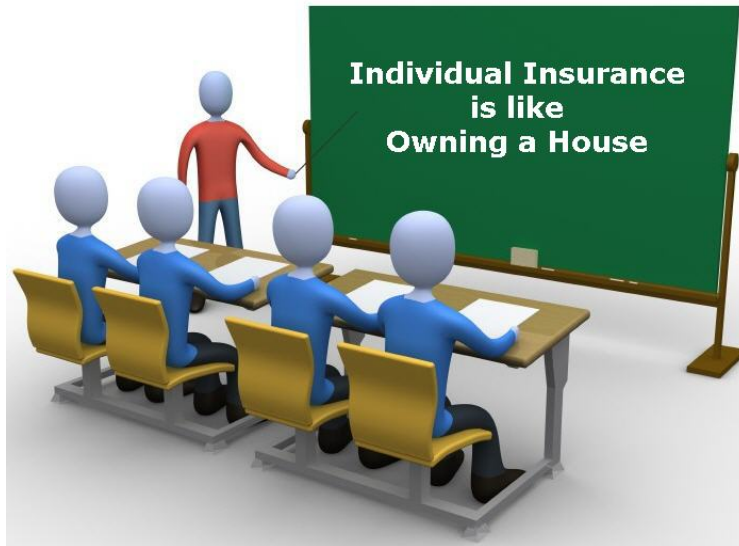
### Individual Life Insurance

By purchasing an Individual Life Insurance policy to cover your mortgage, you **OWN** it, and **CONTROL** it. You then have a policy that you can retain, not only for the time frame of your mortgage loan, but for as long as the policy states, which can be for life, to age 100, or most policies cover to at least age 75.

Do You Have What it Takes - to Buy an Individual Mortgage Life Insurance Policy ?

You can't buy fire insurance when your house is burning down.  
You can only buy it when your house is NOT burning down, ( when you don't need It ) !

It is the same with life insurance. You can only buy life insurance when you are healthy, and don't need it. Once your health has been compromised your application will be either rated or declined, and you become what is called uninsurable.



Health is only ours on a day by day basis. Today thousands of people in Canada will be diagnosed with diabetes, high blood pressure, MS, and many other chronic diseases, in addition to injuries, which will affect their insurability, putting them in a rated or Un-Insurable category. You too, may contract a health condition that can make you uninsurable or rated when applying for a new Individual Life Insurance Policy. The day of your Un-insurability may come at your next Doctor's appointment.

Knowing that there is a possibility that you could be uninsurable at some point in your life, ( maybe tomorrow ) owning your own Individual Life Insurance policy makes even more sense.

When you own your own Individual Life Insurance Policy, the company can't change it after it is issued, even if your health changes. If your health does become compromised, then your current Individual policy(s) become even more valuable to you. They become irreplaceable.

Being that your health may be taken away from you tomorrow, ask yourself this question -

**If today was the last day you could buy Life Insurance, how much would you buy ?**

We often only realize how fragile life and our health is, when we have suffered a loss. While losing your insurability, many seem small compared to many other severe losses, it could spell the difference between having an Individual Mortgage Life Insurance policy, that can guarantee the continuation of your family choosing to own their home or not.

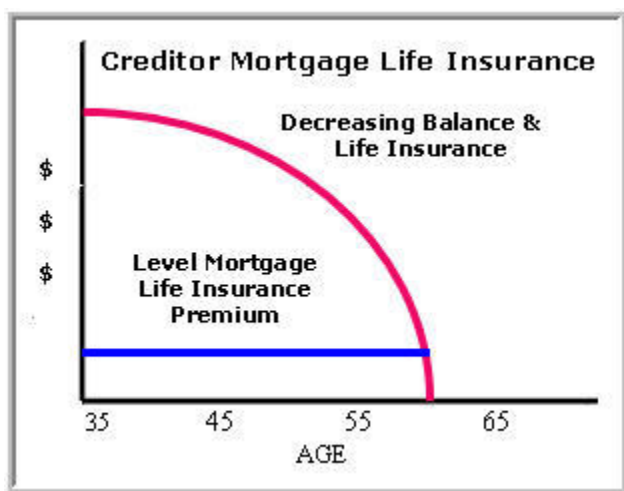
There is probably no urgency for you to look at it today, but the time to buy it, is when you don't need it, because that is the only time when you can buy it.

## Bonus #2 – Life Insurance

### Level Coverage , not Decreasing

**Creditor Life Insurance** purchased through your bank or financial institution can only provide coverage up to the amount of the outstanding loan that you carry with them.

By paying down your loan each month, the coverage amount will decrease each month, as you make monthly payments on your mortgage or loan.



If you started out with a \$250,000 mortgage, each month, you would have less insurance, because your mortgage will be paid down to say \$175,000. Over time, the mortgage and insurance is reduced to \$0.

#### Individual Life Insurance Coverage

When you purchase an Individual Life Insurance Policy, the coverage you select at the start of the policy, will remain level ( on all but a decreasing term plan ), unless you choose to reduce it.

While you may have purchased life insurance coverage specifically to cover your mortgage, the amount of mortgage and the amount of insurance do not have to remain equal to each other, and the insurance is not tied to the mortgage need.

#### Other Life Insurance Needs

Because health is only ours on a day by day basis, the possibility of losing our insurability on any day of our life, is next big reason, next to the death benefit itself, to have an Individual Mortgage Life Insurance Policy.

Let's suppose that you have 50% of your original mortgage remaining, - but you now realize that life has given you new life insurance needs.

Maybe you are -

- financially assisting your adult child who is purchasing their first home
- maybe you have an elderly parent, who requires Long Term Care that you are paying the cost for.
- maybe you have started a new business, and invested heavily in equipment.
- maybe your spouse has taken retirement 10 years early, due to health problems, and you are now the only bread winner.

All these situations, of taking on new financial responsibility, may mean that you should retain or increase your life insurance.

By having an Individual Mortgage Life Insurance Policy, your policy is not tied to a specific home or insurance need, and it can be used for any other insurance need that may arise, now or in the future.

### **Have More Options in Life**

Having an Individual Mortgage Life Insurance Policy, gives you more options in life. Your policy will follow you and protect your life, in directions you want to take it. It will also follow you through the tough times that life deals you. Either way, you have more options.

## Bonus #3 – Life Insurance

### Choose the Beneficiary, Get the Cash

#### **Creditor Life Insurance**

When you purchase a creditor insurance through your financial institution, you have no choice, as to who the beneficiary will be !

The Beneficiary on Creditor Insurance Policies is - The Financial Institution !!

What does that mean ? Well, it means that the bank will be getting the insurance proceeds that will repay the mortgage in full.

You will get a notice saying the loan or mortgage is paid, if they don't dispute your claim.

At least your mortgage or a portion of your mortgage is cleared off. But, what if it was not in your best interest to pay the mortgage off, at that time ?

What if your beneficiary wanted a Cash Payment from the proceeds ? With a Creditor Life Insurance Policy, your beneficiary can't obtain a cash settlement.

#### **Individual Mortgage Life Insurance - A Better Way**

If you purchase an Individual Mortgage Life Insurance Policy, the policy will be structured the way you want it.

One of the major features of an Individual Policy is that you choose a Beneficiary(s).

What will naming a Beneficiary do for you ?

It will pay to the Beneficiary(s) the face amount of the policy, paid to them in the form of a cheque. That is a lot different than the bank saying, your mortgage is paid off.

## Meet Shawn and Cathy

Shawn and Cathy, aged 41 and 39, have been married for 15 years. They have average jobs, a house, 2 cars, 2 kids, a house, and a lawnmower.

They shopped around for their Mortgage Life Insurance at the renewal of the mortgage in the tenth year. They too found and obtained a quality Individual Mortgage Life Insurance Policy for each of them, for less than the Creditor Insurance Policy they were sold at the bank. The policy has been in force for almost 6 years.

Last week, Shawn was killed on the job, a week before their 16th anniversary.

Being that they were a working couple, ( roughly equal breadwinners ), Cathy is now faced with the question of what to do with the Mortgage Life Insurance proceeds.

Shawn's income like hers, paid many household expenses, over and above the mortgage. Cathy also realizes that she must carry on with roughly half the income, without Shawn's income.

The great thing about their Individual Mortgage Life Insurance Policies, is that Cathy receives a cheque, with which she can do as she wishes. Her 2 basic options are

- pay off the mortgage or
- keep the money in reserve and continue making mortgage payments.

Thirdly, she could do a combination of the first two options above.

There is no right answer, but life is better with more options, which an Individual Mortgage Life Insurance Policy gives you.

After careful consideration, Cathy decides it would be more prudent to put the money in reserve and continue making the mortgage payments.

This way, she can use the proceeds to -

- relieve her of financial stress, due to loss of income
- provide extra income to replace Shawn's income
- give her time, to settle into her new situation
- decide if she wants to stay in the home over the long term
- work out a new budget

The last thing anyone needs during a time of grieving, is Financial Stress. Many people, in Cathy's situation, would have financial stress of meeting their monthly expenses, even if the mortgage was paid off with Creditor Insurance, without having to sell the home.

If Shawn and Cathy had a Creditor Mortgage Life Insurance Plan, then the only outcome is that the mortgage will be paid, and Cathy will get no cash. Even in that case, I suspect

Cathy would still have Financial Stress, because even with the mortgage paid she would still be short of monthly cash flow, due to the loss of Shawn's missing income.

**An Individual Mortgage Life Insurance Policy gives you or your spouse options, at a time when they are needed most.**

This discussion points to the fact that Mortgage Life Insurance is only Part of your overall financial situation, which needs to ultimately be looked at "in the whole", of your other life insurance needs.

## Bonus #4 – Life Insurance

### Two Death Benefits vs One

#### Meet Paul and Joan Smith -

Paul and Joan, each aged 52, have just moved into their new home. They are taken a week off and driving long distance to visit their grandkids. They are involved in a serious car accident, which was not their fault. Mary is killed, and Bill while seriously injured, survives.

Let's look at a couple of outcomes regarding insurance possibilities.

#### Outcome #1 with Creditor Insurance

Bill and Mary were sold Creditor Life Insurance for their mortgage at their financial institution, in the amount of \$100,000. Coverage has been purchased for both of them. However, this policy represents the totality of their life insurance portfolio.

They know that their Creditor Insurance, insures them both because they are paying a premium for both of them. But they don't know or were not told, it only pays one Death Benefit Amount of \$100,000.

After a lengthy hospital stay, Bill is able to return home. In settling the Creditor Insurance, the mortgage on their home, is shown as paid, due to Mary's death.

Bill now finds out that the creditor policy is now terminated, because it has paid a death benefit. Worse yet, Bill finds that he is now uninsurable, due to his injuries suffered in the accident.

Bill's injuries, now leave him in a wheelchair, and he is unable to continue working due to suffering degenerative nerve damage from the accident. As a result, he lives on a small disability income, from his company.

Bill requires extensive daily health care, and he sells his home and moves into a care facility that costs \$2000 per month, which continue, for the rest of his life.

Bill funds this care from his small disability income, but mostly from the equity from his home. Bill survives another 10 years, and depletes his entire house value by the time he dies.

His children end up having to pay his funeral costs out of their own pocket.



## Outcome #2 with Individual Mortgage Life Insurance

Bill and Mary shopped for their mortgage life insurance, when they took out their mortgage. They found a policy with a competitive premium and great features described in these pages.

They purchased an Individual Mortgage Life Insurance Policy for each of them. After Mary's death, Mary's policy delivered a claim cheque to Bill, and he decided it was not in his interest to pay off the mortgage. He was able to stay in his home for a few more years, still making the mortgage payments from the insurance proceeds, in addition to his health care expenses.

Eventually, Bill did sell his home, and go into care facility, and used proceeds from his house to pay for his care facility costs, until he died.

### The Big Difference

The Difference was he still had his own Individual Mortgage Life Insurance Policy of \$100,000. The home had been sold years before, and he knew he could not qualify for new insurance, so that policy was worth it's weight in gold.

So now, instead of his kids receiving a bill for his funeral expenses, the policy paid \$100,000, and was able to restore at least a part of his and Mary's estate, at the time of his death.

What financial burdens are eased by an inheritance being passed on to your children ?

Having a quality Mortgage Life Insurance Program, can have positive affects on your lifestyle, in your lifetime, and create positive financial shadows on your family's future generations. How much is that worth to your family's future ?

You need to consider your mortgage life insurance as part of your overall financial plan, for both you and your spouse.

## Bonus #5 – Life Insurance

### A Portable Policy



The need of moving to a new home, would be a common reason to have an Individual Mortgage Life Insurance Policy.

#### Meet Norm and Janet Newman

They are a young couple, aged 30, and 32, with kids aged 1 and 4. They purchased their first house, after they were married 6 years ago. It was a starter



home, and it has served them well.

When they bought their first house, they took out a mortgage of \$150,000.

## **Moving Up**

Fast forward 6 years, Norm and Janet, have both progressed in their career positions which gave them pay increases. They also made additional payments on the mortgage, over the last 6 years, to pay it off faster. The outstanding mortgage is now down to \$100,000, and of course the house has increased in value too.

They are now ready to build a new home. They sell their first home, and move into an apartment for 6 months, while they build the home. After it is completed they find themselves with a \$200,000 mortgage.

The problem is that Norm's health has changed. Four years ago, Norm was diagnosed with diabetes and started medication. Last year, he started to take insulin in addition to the medication. Diabetes is a life long condition, a chronic disease, and Norm will probably be uninsurable for the remainder of his life.

### **Outcome #1 - Norm purchased Creditor Mortgage Life Insurance at his bank**

Due to his health issues, Norm is no longer able to buy life insurance, so trying to buy a new policy will be next to impossible.

Norm and Janet had the creditor life insurance on their old home. But, the creditor life insurance is tied to the house, so now that the home is sold, the coverage is cancelled, with the sale of their first home.

They are signing the mortgage papers and getting ready to move into their new home, when they find out the creditor insurance will not be provided to Norm, due to Norm's diabetes.

Knowing that Norm probably will never be able to purchase life insurance again, and now has no life insurance, this leaves the newly built family home, unprotected in the event of Norm's death. It leaves their financial plan with a big hole, that can't be filled, with life insurance.

### **Outcome #2 - Norm purchased an Individual Mortgage Life Insurance through his Independent Broker**

When Norm and Janet took out the mortgage on their first home, Norm shopped around for Mortgage Life Insurance and found a better policy at a better premium, purchased from a Licensed Independent Life Insurance Broker.

His broker provided a number of quotes from major Canadian Life Insurance Companies, which gave Norm a solid view of the life insurance marketplace. From this comparison, he knew he had a competitive rate, and a feature laden individual policy. He purchased a \$150,000 policy for both him and Janet, and has carried the policies ever since.

The policy remained in force after the sale of their first home. Because the Individual Policy has level coverage, it still has \$150,000 of coverage, after 8 years.

Norm's diabetes will not allow him to buy new life insurance, and his current plan is now very valuable to him.

So the Newman's can move into their new home, knowing that their new mortgage of \$200,000 is partly covered, because of Level Coverage found on Norm's Individual Mortgage Life Insurance Policy.

The portable feature of the Individual Policy, has proved valuable. In this case, they use it to protect their new mortgage on their new home.

## Bonus #6 – Life Insurance

### Underwriting is done at the time of Application

Underwriting is the process of selecting the Risks or people that the Life Insurance Company will insure. Underwriting can be done at the time the application is submitted, or at the time of a claim.

#### **Underwritten at Time of Claim**

The Creditor Insurance application consists of health questions on the application. Once the application is sent in, the policy is issued, without Underwriting being done at that time.

You now start to pay premiums, but the problem is you truly don't know if you have Life Insurance in place, because the policy is Underwritten at time of claim.

In January 2008, CBC Marketplace aired a show on Creditor Mortgage Life Insurance, sold by Financial Institutions, including the Canadian banks to cover mortgages they have issued.

The program sited a handful of applicants who purchased Creditor Mortgage Life Insurance coverage, paid their premiums, and expected that the policy would pay off the mortgage in the event the insured(s) died. These policyholders subsequently died, while the policy was in force, but their families were declined the claim proceeds.

Why - because before the policy proceeds could be paid, the Underwriting needed to be done. The Insurance company pulled up the application form that the insured signed and dug into health history of these individuals, with reports from their doctors. They then found discrepancies between what the insured said on the application form and what was written in their Doctor's file. They could then decline coverage under the policy because of this discrepancy, and / or other reasons such as, having an excluded condition.

The surviving family members, not only had the insurance declined, but had to continue to pay the mortgage, after the loss of a spouse, which was the exact risk for which they purchased the policy, and were lead to believe it would pay for.

The Marketplace program continued to make 2 comments about Creditor Insurance Program

- that the application form of some of these creditor mortgage life insurance policies, are intentionally designed to allow a higher percentage of claims to be declined at claim time.
- that by purchasing this creditor coverage, the only right you are getting, is the right to Pay Premiums, but not necessarily the right to collect the death benefit of the policy.

In March 2008, the advisors national discussion board reported that one state in the US had just passed a law, refusing to allow policies that do Underwriting at Claim Time, meaning that it then must be done at Time of Application. I would hope that this may be the start of a new trend, and continue to be law throughout Canada and the US.



How could you feel you are purchasing financial security for your family and future family generations, with Creditor Mortgage Insurance, when you know that there is an increasing trend to declining claims, after the insured has died.

It is bad enough having a parent and spouse die, and having to deal with the emotional aspects, plus the financial impact of the loss of income. Could you continue to pay for your home, without your spouse's income ?

In my early years of insurance studies, one of the first insurance concepts that I was taught was – Insurance is based on a **Meeting of the Minds**, between the insured and the insurer or an agent of the insurer.

In many Provincial Insurance Acts today, it is not a requirement to have an insurance contract written on paper. While it is something that is done by most all insurance companies today, the more important concept is the “Meeting of the Minds” .

I believe that a “Meeting of the Minds” normally does not take place with the sale of creditor insurance, because it is a quick add on sale, at the end of the mortgage sale.

It is important to understand that banks and Financial Institutions are selling Mortgage Insurance, for an additional revenue stream. It is not their main line of business, and certainly not their main line of expertise. So assuming you are still healthy, purchase a quality Individual Life Insurance policy.

### **Underwriting at Time of Application**

When applying for an Individual Life Insurance Policy, the underwriting becomes more extensive, the older we are, and the more insurance is being applied for. You need to be healthy to qualify for an Individual Mortgage Life Insurance policy.

**You can't buy fire insurance, when your house is burning down, and so it is with life insurance, you HAVE to buy it when you don't need it, when you are healthy.**

With the physical health of the nation deteriorating, and with advances in medical technology providing more information to the Insurance Companies, Underwriting is the biggest and most necessary hurdle to acquiring an Individual Life Insurance policy.

The percentage of rated and declined applications, has risen in the last handful of years.

The Insurance Company needs to keep their book of business "clean" or "of a certain standard of health". If they didn't, and accepted all applicants, healthy or not, the number and amount of claims would increase significantly, based on insuring these sub-standard applicants. This would then require that every insured person pay a higher premium, and be a windfall for those sub-standard applicants.

Statistics on applications for Individual Life Insurance for the industry are roughly as follows.

- 80% of applications will be issued standard
- 15% of applications will be rated or charged more, due to health or occupational conditions
- 5% of applications will be declined, at least for the time being. Some applicants may be successful at a later time, due to their condition(s) improving in the future.

### **So why is Underwriting at Time of Application better ?**

The major reason is, you know up front whether the policy will be issued or not. If it is issued, the policy provides a large financial security to your family, to know that they have a policy that will pay out when the insured dies.

It is not uncommon for me, to receive news on an application that is either - declined or rated. Declined means no insurance policy is issued. Rated means the policy is issued at a higher premium, due to a high risk health condition or occupation. It is like the Insurance Company saying you are not really your age, you are a few years older than your really are.

A rating can be from a few cents more per month to about 2.5 times the original premium. So, a standard \$50. per month premium, could be as high as about \$125. per month, before the company would decline the application.

If you have been declined, you and your family know NOW, and can try to make an alternate financial plan to help secure your family home.

The older you get, the more valuable an Individual Life Insurance Policy becomes. Why – because the policy is getting closer to the time that it will pay off. If you have a level premium plan, it is even more valuable because the premium on your policy, issued at your age many years ago, can never be obtained again at that rate again.

## Bonus #7 – Life Insurance

### Preferred Rates for Good Health

In Bonus #6, I talked about the application declines and ratings that can happen, if your health is less than normal.

On the upside, if you are healthier than normal, you will receive a discount on your premiums. It only makes sense, that the healthier you are, then the less it should cost you for life insurance, and the less healthy you are, the more it will cost.

#### Other Insurance Discounts

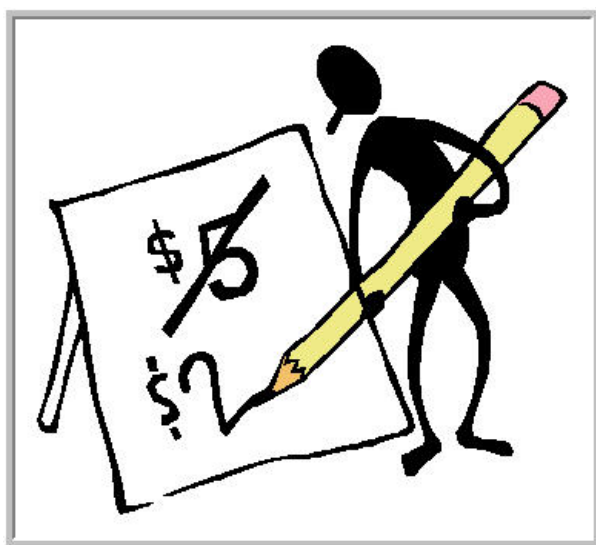
In BC, there is Provincial Auto Insurance called AutoPlan. Manitoba also has a Government Auto Insurance plan, called MPI. In BC, if you are an accident free driver, you get a 5% discount each year, to a maximum of 40% after 8 years. Other provinces would have similar discounts. A large percentage of drivers qualify for these maximum discounts.

The good news is that these types of discounts are also available with Individual Mortgage Life Insurance.

If you are a driver on the opposite end of the driving scale, a really bad driver, the opposite can happen. A few years ago in BC, Autoplan, refused Own Vehicle Damage on the worst few thousand drivers in the province.

The bad news is that Creditor Mortgage Life Insurance, does not offer these discounts.

**So the healthy people are paying more for their insurance than they need to, because they are subsidizing the premiums of those people who are less healthy.**



How would you, as an accident free driver, like to pay the same premiums as new drivers, who are known statistically to have many more accidents ?

A substantial number of people, would have a better policy, with more features, at a better price, if they purchased an Individual Life Insurance Policy from an Independent Life Insurance Broker.

#### Rate Class History

When I started in the life insurance business in 1977, we had separate life insurance rates for males and females. Females live about 5 years longer than males, so their

premiums were a little less than their male counterparts, for the same age.

## **Non Smoker Rate Class**

In the 80's, most life insurance companies created new rating categories of smokers and non-smokers. If the old "Blended" rate, was \$3.00 per thousand per year, then the new smoker rate was say \$3.30, and the non-smoker rate become say \$2.70. This rate category was created for both males and females.

**Creditor Life Insurance Plans often do not provide a non-smoker discount, even though the last statistic I had, was that about 70% of the population does not smoke. Lots of extra premium for the Creditor Insurance Plans, that non smokers could be saving.**

## **New Rate Classes**

In the 90's, the life insurance rating categories have become split again. Companies have started to recognize those who are healthier than normal. It makes sense that those who are healthier, should have premiums that are less than those who are of average health.

Most life insurance companies have now created -

Standard, Preferred and Preferred Plus rate categories, within the non-smoker category.

These discount categories are not available under Creditor Insurance, only with an Individual Life Insurance Policy.

My advice is to apply for an Individual Life Insurance Policy, especially if you are a non-smoker and your health is above average. This will allow you to qualify for additional discounts.

## **Preferred Plus Rating, requires you to answer Yes to Questions such as**

- no smoking, tobacco or nicotine usage in the last 4 years
- no DUI's in the last 5 years, and no more than 2 moving violations in the previous 3 years
- no hazardous occupation or hobbies
- be a Canadian Citizen, or a landed immigrant for a minimum of 1 year
- no hereditary family history from parents or siblings, of cancer, stroke, coronary artery disease, or other life threatening hereditary disease prior to the age of 60
- no history of mental or nervous disorder
- no major health problems
- no blood pressure medication, and pressure less than 140 / 90
- no cholesterol medication and less than 220 AND and a cholesterol/HDL reading under 5.0
- height and weight within normal limits

## **Bonus #8 – Life Insurance**

### **Premium is PST Exempt**

Individual Insurance purchased from Life Insurance Companies and the Independent Broker Network, is currently exempt from GST.



Auto Insurance is exempt from provincial sales tax

House Insurance is exempt from provincial sales tax

Business Insurance is exempt from provincial sales tax

Individual Life Insurance purchased from an Independent Life Insurance Broker, is also exempt from Provincial Sales Tax.

However, if you purchase Creditor Mortgage Life Insurance from the bank, it is subject to Provincial Sales Tax ( PST ). The tax will depend on which province you live in, but it is a cost that you will not have if you purchase an - Individual Mortgage Life Insurance Plan.

## Bonus #9 – Life Insurance

### Continue Policy after Mortgage is Paid

I remember reading, that life is more enjoyable, based on how many options you have. I will concur that life is better when you have options to deal with a problem(s).

Maybe you have paid off your mortgage. What new ventures are you putting your energies into ?

If you had purchased Creditor Life Insurance and paid off your mortgage, then you will have no more life insurance.

## Bonus #10 – Life Insurance

### Additional Riders to Customize your Policy

Purchasing a one size fits all, Creditor Mortgage Life Insurance Policy, is like having a pair of shoes, that are slightly too big, or too small. Or like having pants that are too short or too long.

Life is not comfortable when things don't fit right. Your Insurance is really the same, the problem is you may not know that a more comfortable solution exists.

An Individual Mortgage Life Insurance policy, can be a more comfortable fit.

#### **Optional Additional Riders**



The Life Insurance Companies have been quite creative in coming up with additional riders and benefits for their policies, born out of what is needed to make the policy better for the individual.

### **Optional - Total Disability Waiver of Premium**

This benefit pays the premiums on the policy, if the insured is totally disabled, for longer than 6 months. It will refund the first 6 months of premium, and will continue to pay the premium for as long as the insured is totally disabled.

If someone is disabled, income is usually reduced, even with a disability plan. This would be a time when they may not be able to afford the policy, and allow the policy to lapse. With the waiver benefit, it will keep the policy in force, maybe at a time, when it will be needed most.

### **Optional - Accidental Death and Dismemberment - AD&D**

Death claims happen by accident or sickness. Accidental deaths arise most often totally unexpectedly, and can be the most traumatic. The AD&D benefit, will double the face amount of the policy, if death happens by accident. So a \$100,000 policy, with the AD&D benefit would pay \$200,000 in the event of a death by accident.

Do you have a more hazardous than normal job, or love to parachute or bungy jump, that may increase your risk at having a serious accident, then this benefit may be of value to you.

### **Optional - Guaranteed Insurability Benefit - GIB**

For those purchasing life insurance, that are under age 35, you should consider the GIB benefit. The benefit allows the insured to purchase more insurance, every 3 years between the ages of 25 and 40, with No Medical Evidence Required.

This benefit addresses the issue of becoming uninsurable in the early years of life, when additional insurance may be needed for a growing family.

Assume a policy of \$150,000 with a \$50,000 GIB benefit rider attached. This benefit would allow the insured to purchase an additional \$50,000 policy every 3 years between ages of 25 and 40, regardless of their insurability.

So, even if the insured had a severe health problem like cancer, the insured would be able to purchase up to an additional 6 - \$50,000 policies, with No Medical Evidence required.

### **Optional - Term Coverage Riders**

You may have purchased a Term 20 policy, but have a shorter term life insurance need to pay off a renovation loan and decide to add a Term 10 Rider, onto the Term 20 policy.

You may add a term insurance rider for a spouse.

### **Optional - Child's Term Rider**

You can also purchase a term insurance rider for your children. For those who have a handful of children, the children's rider can be a good buy, as many life insurance

companies, will offer coverage in units of about \$5000 coverage, for each child, for a flat monthly rate, say \$5.00 per month. So, the more children you have, the cheaper the cost per child, because the rate is a flat amount, up to a maximum of six children.

A life insurance policy can be for your entire life. It can be changed as your life changes, adding or decreasing coverage, for all members of your family, as you decide.

Just remember, if you are adding coverage, you will be required to provide new medical evidence, to prove that you are still healthy.

## Bonus #11 – Life Insurance

### Guaranteed Premium Rates

#### **Creditor Insurance Premiums not Guaranteed**

Creditor Insurance premiums are not guaranteed. By not guaranteeing the premium, your premiums can be changed at any time, for what ever reason - lower interest rates, higher claims due to AIDS, etc.

Your Insurance policy should be willing to accept the Risk ? Why should you allow the premium to be adjusted higher, when you can obtain a policy with guaranteed premium options, that does accept the risk.

#### **Individual Life Insurance Policy**

With an Individual Life Insurance Policy, most policies will have guaranteed premiums for the life of the policy.

Most people are not aware, or have ever been told, that Creditor Life Insurance is a group insurance policy, that has the right to change the premiums, if the company experiences adverse claims, or higher than expected operating costs, or lower than expected interest rates.

**With an Individual Life Insurance policy, most all policies will provide you with GUARANTEED RATES, for the life of the policy.**

## Bonus #12 – Life Insurance

### Ongoing Service from an Independent Broker

Most people will only purchase life insurance a few times in their lifetime. Within the life insurance industry, the concept of after sale service is part of the purchase. While broker and customer may get disconnected due to moving, my experience with those who have worked with an agent or broker for a few years, report having developed a loyalty and respect for their broker and relationship. In other words, it is more than just a purchase, it turns into a relationship.

Business people, including us in the Life Insurance Industry, have learned that it is far easier to do new business with an existing customer, than to try to gain a new customer. From that standpoint, providing annual service to existing customers, will develop additional business over the years.



Just as you would see your doctor or dentist, a number of times in your lifetime, for a number of different requirements, so too will a good life insurance broker, be there for additional discussions and concerns that will happen over your life time.

Even if you feel that you will not require this service, advice and discussion can often be only a phone call away.

**See Canada's Best Term Life Insurance Rates -**

<http://www.CanadianMortgageInsurance.ca/lifeinsurance.htm>

## Bonus #13 – Life Insurance

### Price Comparison

In order to show price differences, without naming specific creditor suppliers or life insurance company rates, I am showing an average of 3 company rates, both on the Creditor Life Insurance side and the Individual Life Insurance side.

Because the majority of homes are purchased by couples, and because some Creditor Insurance provides a discount for a joint purchase, I have elected to compare 2 Individual Life Insurance policies against these Joint Creditor rates.

The table is broken into 2 different rate groups – Non-smoker rates , and Smoker rates. This assumes that a couple are either non-smokers or smokers.

### **Individual Life Insurance Coverage – 2 Policies**

\$250,000 Mortgage, amortized 25 years

The popular Term 10 plan shows that the coverage is issued, to be level at \$250,000 for the full term of the policy, or however long the insured decides to carry it.

This makes an apples & oranges comparison – Decreasing Coverage vs Level Coverage.

In order to make it closer to an apples to apples comparison, I am illustrating that you would reduce the coverage every 5 years, as the mortgage is paid down, making it comparable to the Creditor Decreasing plan.

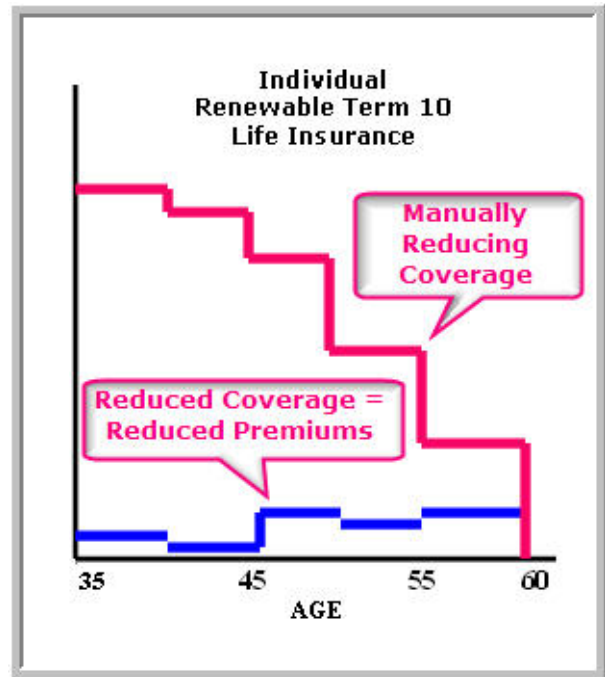
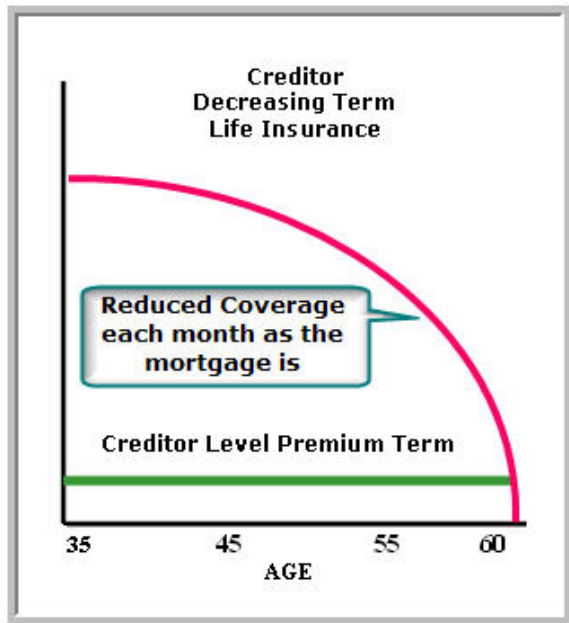
See the comparison on the next page.

I also am showing couples who start a mortgage at age 35, and at age 45, showing the total premiums over the life of the mortgage and the policy.

For this \$250,000 mortgage, based on 6%, the balances are calculated as follows –

Year 20 - \$225,000  
Year 15 - \$190,000  
Year 10 - \$145,000  
Year 5 - \$83,000

The same comparison is done for the Term 20 plan.



**Joint Creditor Life Insurance Coverage**

\$250,000 Mortgage, amortized 25 years.  
 Rates Averaged with 3 Creditor Companies  
 Rates are the same for Smokers or Non-Smokers  
 Total Premiums over 25 years, including PST.  
 Couple starting at age 35 - \$17,950.  
 Couple starting at age 45 - \$39,002.

**Individual Term 10 Mortgage Life Insurance – 2 Policies**

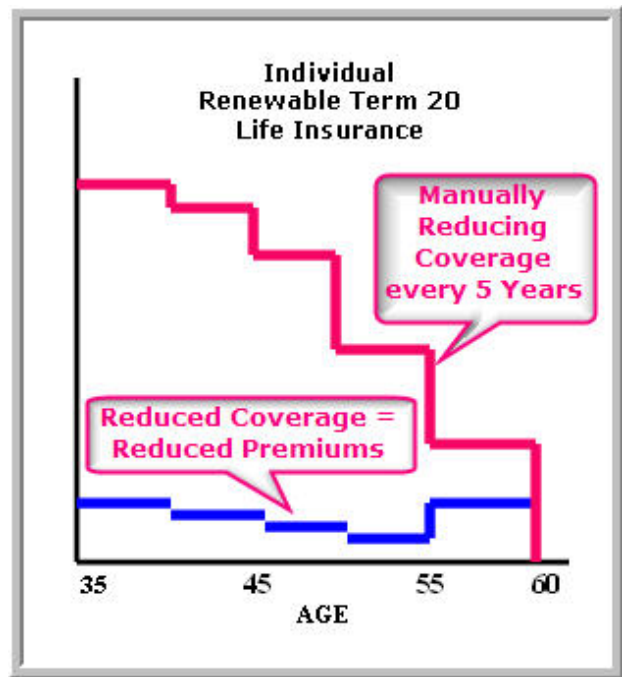
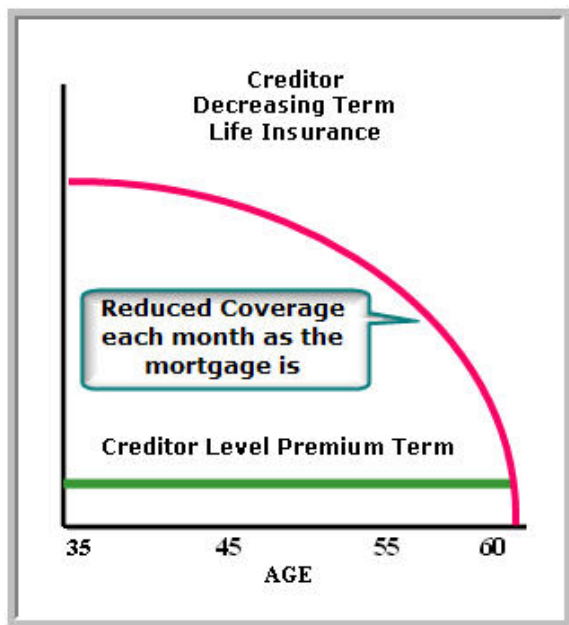
\$250,000 Mortgage, amortized 25 years  
 Rates Averaged with 3 Life Companies rates  
 Total Premiums over 25 years

**Non-Smokers**

Couple starting at age 35 – **\$ 10,374.**  
 Couple starting at age 45 - **\$ 24,762.**

**Smokers**

Couple starting at age 35 – \$ 21,974.  
 Couple starting at age 45 - \$ 43,633.



### Joint Creditor Life Insurance Coverage

\$250,000 Mortgage, amortized 25 years.

Rates Averaged with 3 Creditor Companies

Rates are the same for Smokers or Non-Smokers

Total Premiums over 25 years, including PST.

Couple starting at age 35 - \$17,950.

Couple starting at age 45 - \$39,002.

### Individual Term 20 Mortgage Life Insurance – 2 Policies

\$250,000 Mortgage, amortized 25 years

Rates Averaged with 3 Life Companies rates

Total Premiums over 25 years

#### Non-Smokers

Couple starting at age 35 – **\$10,117.**

Couple starting at age 45 - **\$20,021.**

#### Smokers

Couple starting at age 35 – \$18,526.

Couple starting at age 45 - \$42,561.

## And the Winner Is !!

As you can see, the Non-Smoker Individual Life Insurance rates, are the biggest winners, showing the largest savings over the Creditor Insurance, in both the Term 10 & Term 20 plans.

A Canadian Government statistic states that about 70% of the population are non-smokers. That would suggest that about 70% of Creditor Insurance buyers would be non-smokers, and could therefore save a bundle over the life of their mortgage insurance policy.

Non-Smokers Can Save Big ! If you consider that most people can obtain a better price ( or a far better price ) with an Individual Mortgage Life Insurance, in addition to the 12 Bonuses described earlier in the book, I hope you see the value too.

Even if both you and your spouse are smokers, and the rate is a little higher than the creditor insurance, when you factor in the Bonuses features of having an Individual Life Insurance Policy, I feel that you still have great value.

### **\$18,000 Savings in an Hour**

So let's assume you and your wife are aged 45, have a \$250,000 mortgage, and bought Creditor Life Insurance to cover your mortgage, ( and are in good health ). Take an hour to obtain an Online Quote, and you could find that you could save up to \$18,000, over the life of your mortgage.

See how much you can save by spending an hour Online ?

**See Canada's Best Term Life Insurance Rates -**

<http://www.CanadianMortgageInsurance.ca/lifeinsurance.htm>

## Bonus #14 – Life Insurance

### The Right to Shop - from the Feds

#### **Tied Selling**

A recent Google search of "tied selling" brought up the following explanation from Investopedia.

The illegal practice of a company providing a product or service on condition the customer purchases a product from the same or related company. It is mainly used in reference to banks and referred to as coercive tied selling.

For example, your bank's mortgage specialist tells you that you qualify for a home mortgage. Then you're told that the bank will approve it only if you transfer your investments to the bank or its affiliates. You want the mortgage, but you don't want to move your investments.



The third ranking on the Google search is from the Financial Consumer Agency of Canada, which provided the following info from the front page of it's website.

### **"Your Rights and Responsibilities: Tied selling**

Banks (and their affiliates) are allowed to offer consumers, in conjunction with one of their products, another product or service on more favorable terms than they normally would provide. This is similar to a company's offering a deal or discount to its customers if they purchase more than one item from the company. For example, if you obtain a loan from a bank to purchase a Registered Retirement Savings Plan (RRSP), the bank might offer you a better rate on your loan if you also purchase your RRSP from them.

However, banks in Canada are **not** allowed to engage in "coercive tied selling" or "forced purchases". This means that banks are not allowed to unduly pressure or coerce you into obtaining a product or service from them or from their affiliates, as a condition for obtaining another product or service from them. This practice, called coercive tied selling, is illegal in Canada.

For example, if you apply for a mortgage at a bank, the institution cannot make you buy another product or service as a condition for obtaining a mortgage. ( such as Mortgage Insurance )

Banks are also required to display, and make available in their branches, a statement that advises customers about the prohibition on coercive tied selling.  
(end of quote )

In other words, you have the right to shop around for your mortgage or loan insurance, and are not obligated to purchase it from the financial institution where you obtaining your mortgage or loan.

In the practical everyday world, many consumers are not aware of this right, and the fact the mortgage employees also make a "commission" on selling additional products to customers, so there is incentive for the mortgage person to sell you as much mortgage insurance as they can.

While most people abide by the governments rules, there are also some who will cross the line, when it comes to tied selling. Here is an internet posting from an upset Scotia Bank customer.

#### *ScotiaBank Fraud*

*I am frustrated beyond belief with the Scotiabank!!*

*4 years ago I bought a house and got a mortgage thru Scotiabank because they offered the best rates. I signed all the papers, then the mortgage officer said I had to get mortgage insurance. I told him I didn't need it as I had plenty of life insurance. He said I had to have it or they wouldn't give me the mortgage. I signed under duress.*

*Two months ago I told the bank manager this, complaining still that I did not want that insurance. She said "Oh no ... he wouldn't have done that! We can't do that! It is illegal!" I immediately wrote a letter demanding all of the premiums back (over \$2000).*

*They refused, so I refused to pay my mortgage and told them to take it out of the money they stole from me. Well, they won't repay*

*it, and the current manager sent my file in for foreclosure on my house.*

*The president's office investigated, the bank employees lied, the ombudsman says "You have no evidence".*

*There is nothing you can do to help, but I just wanted to let off steam and warn people about Scotiabank's fraudulent practices.*

**SCOTIABANK SUCKS!!**

*ps ... When they come for me, I am chaining myself to the furnace! I am not Nelly McClung's distant descendant for nothing!! 🇩🇪*

*May 11, 2007*

[http://www.rabble.ca/babble/ultimatebb.php?ubb=get\\_topic&f=20&t=001834](http://www.rabble.ca/babble/ultimatebb.php?ubb=get_topic&f=20&t=001834)

So I urge you to use your rights, and shop around for the best featured and priced policy that you can find. There is a big Canadian life insurance industry, with products offering great features and benefits, just waiting to compete for your business.

What is the most important Question to ask the person selling you Mortgage Insurance ? There is more than one, but probably the first question to ask is

Do you hold a life insurance license ? If they say no, then you know that you are being sold Creditor Insurance.

You may want to ask – How many Companies to you represent ? An Independent Life Insurance Broker, will be able to provide information from a number of major life insurance suppliers in Canada, giving you a big window on the marketplace. From this information, you will be able to see the value you are getting in return for your premium dollars.

# Life Insurance Exclusions and Limitations

All life insurance policies both creditor and individual, have exclusions and limitations.

## **Creditor Life Insurance**

Exclusions - The creditor life insurance plans I checked showed the following -

- suicide within the first 2 years of the policy.
- if you omit information or give false information on your application, your policy will not be valid.

Limitations - The creditor life insurance plans I checked showed the following -

- a maximum coverage of \$500,000
- at time of application, you must be under age 65
- if you want to increase your creditor mortgage insurance, you need to re-qualify based on health.
- Coverage will terminate at age 70.
- A grace period of 60 days is allowed for missed premiums, before the policy will lapse.
- The Lender or the Life Insurance Company providing the insurance, can terminate the coverage, if they decide to terminate the group policy.

## **Individual Life Insurance**

Individual Life Insurance Policies have the following exclusions

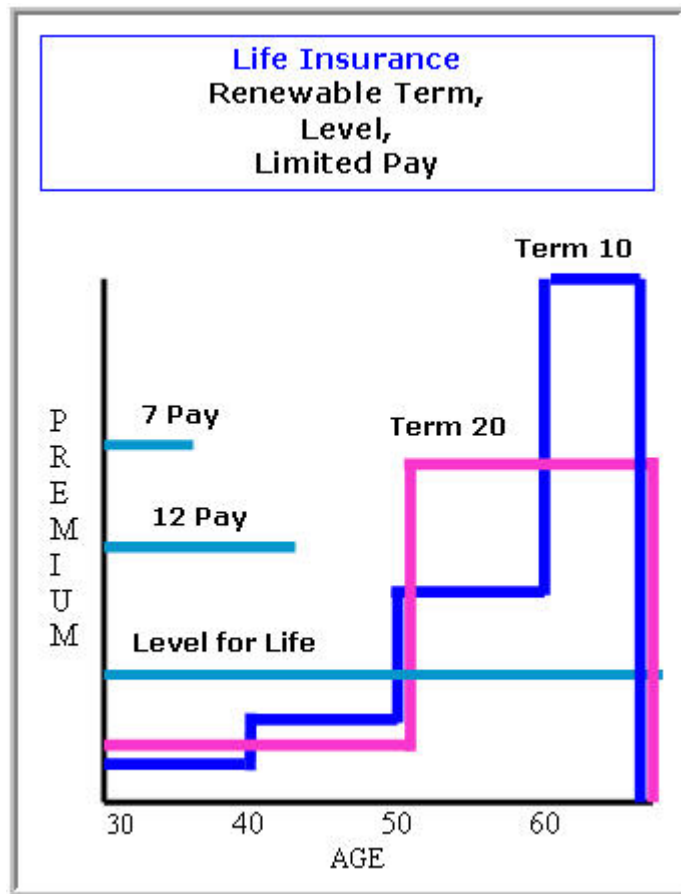
- suicide within the first 2 years of the policy

Individual Life Insurance Policies have the following limitations

- incontestability in the first 2 years of the policy
- the limitation of a policy amount is in the millions
- any increase in policy amount, requires you to qualify for the increase based on health.
- Individual Term insurance plans will have a termination age around age 80. Permanent Insurance plans do not have a termination date, and will provide coverage to age 100.
- A grace period of at least 30 to 60 days is allowed for missed premiums, before the policy will lapse.
- The life insurance company cannot terminate the policy, except as allowed in the policy, at time of issue.

# An Alternative Strategy

## A Case for Permanent Insurance



The graph shows the common life insurance premiums in graphical form.

The most common Term 10 and Term 20 policies have increasing premiums over the life of the policy.

The Level for Life and Limited Payment Plans showed above, are plans that attractive to certain consumers.

The best kind of car to have is, one that is paid for.

The best kind of house to have is, one that is paid for.

The best kind of Life Insurance Policy to have is, one that is paid for.

### Insuring a Period Of Time

If you don't find Term Insurance very attractive, consider insuring a period of time, with a Level Premium Plan, rather than the balance of the mortgage.

Example – assume that your mortgage is \$250,000 with a mortgage payment of \$1500. per month. How about creating a plan that would provide say 5 years of mortgage payments in the event of the death of your spouse.

This money would be earmarked strictly for mortgage payments. The amount needed would be ( \$1500. per month x 2 months x 5 years = ) \$90,000, not including interest earned over the 5 years.

This strategy would be used, where you feel that after a readjustment period of 5 years, you would be ready to start a new chapter in your life, possibly with a new partner, as a majority of people do.

Being that coverage of only \$90,000 is now needed, it is possible to look at the Level for Life or a Limited Pay premium, as shown on the graph. You are buying a smaller amount of a more expensive policy.

A Male aged 40, Non-smoker, can purchase a \$90,000 Level Premium Plan that will be paid up in 20 years for \$75 per month, assuming a 6% return on the investment portion of the plan.

This means that at age 60, no more premiums are required, and the \$90,000 policy is paid up for life, assuming a 6% return.



## Cash Needs

In the Cash Needs Section of the Analysis, we start with

#1 – Funeral Expenses. Unless you have been involved in a family funeral, you may not know how expensive a funeral can be. Costs can be substantially higher than average, but the average funeral in Canada, as reported by the Funeral Industry from a few years ago, was \$6,000. John and Michelle will use this average funeral amount in their calculations.

How many of you could take \$6,000 out of your savings to pay for a loved ones funeral ? Funerals are paid for with real money !

However you can, reduce the funeral cost, if done in advance, and also pay for the funeral with insurance dollars, not hard earned savings or estate dollars.

You accomplish a reduction in the funeral cost, by joining the Memorial Society of Canada, in your province of residence. The Memorial Society partners with specific funeral homes in Canada, that will provide a low cost funeral for around \$1000, last time I checked. It will cost you a one time fee of \$20. per person, which must be purchased while the person is alive. You can't do better than that. Sign up your family today, even your kids.

A life insurance dollar is the cheapest form of money at death. A young family person, can purchase a life insurance dollar for less than 1 cent per \$1.00 of protection, per year.

#2 – Debts, Taxes, and Emergency – John's business uses a line of credit, which he usually has an amount of the line of credit in use, so they have chosen to include this debt in their needs calculation.

In addition to the credit line debt, John also pays his income tax quarterly, and while he does not know how much he will pay each quarter, he will include an average quarterly amount that will probably have to be paid at his death.

Emergency fund is a term, that each family will view slightly differently. Good planning will include a certain amount in Cash Needs for Emergency Capital, at the time of death.

<b>Life Insurance Needs Worksheet</b>			
<u>John</u>		For	<u>Michelle</u>
<b>Cash Needs</b>			
<u>\$6,000</u>	Item 1	Funeral - average cost	<u>\$6,000</u>
<u>\$25,000</u>	2	Debts, Taxes, Emergency	
<u>\$260,000</u>	3	Mortgage	<u>\$260,000</u>
<u>\$40,000</u>	4	Children's Education	<u>\$40,000</u>
<u>\$331,000</u>	5	<b>Total Cash Needs</b>	<u>\$306,000</u>
<b>Income Needs</b>			
<u>\$1,200</u>	6	Monthly Income Required	<u>\$0</u>
<u>\$14,400</u>	7	Annual Income	<u>\$0</u>
<u>5%</u>	8	\$14,400 divide by 5%	<u>5%</u>
<u>\$288,000</u>	9	<b>Capital for Income Required</b>	<u>\$0</u>
<u>\$619,000</u>	10	<b>Total Capital Required</b>	<u>\$306,000</u>
<u>\$50,000</u>	11	Capital Available	<u>50 + 70 = \$120,000</u>
<u>\$569,000</u>	12	<b>Deficit</b>	<u>\$186,000</u>



#3 – Outstanding Mortgage – this is where we started our discussion, and while it is an important part of your insurance planning, you can see, that it is only a small part of the overall planning equation. Select the amount of outstanding mortgage for both you and your spouse.

#4 – Education Funds – John and Michelle desire that their children, John Jr. and Chelsea, will go to University, or have the opportunity to go to University, where they are living or not. They have included an amount of \$20,000 per child, which is only \$5,000 per year, per child. Placing this amount in the Cash Needs Section, would allow a surviving spouse, to earmark this amount of money from the life insurance proceeds, to be put into an Education Fund Account. This amount is included again for both John and Michelle's Cash Need section

#5 – Total Cash Needs – calculates the total of the cash needs listed

### **Income Needs**

#6 - Monthly Income – most people would not realize that providing Income for your family, following your death, can be one of the largest single needs for your life insurance program. It is also one of the most important needs in the calculation.

Michelle earns \$35,000 annual gross income, and John earns \$50,000 per year gross income. Their mortgage payment is \$1650. per month.

After discussing their budget in the event of each other's death, Michelle feels that if the mortgage is paid ( or enough proceeds in the bank earmarked to pay the mortgage ) upon John's death, and with her working income continuing, she could maintain the family lifestyle with an addition of \$1200 per month, of taxable income.

#7 – The annual amount of income needed equals \$14,400.

#8 – This field asks how much % return can be obtained on the life insurance money ? Looking to be conservative in this department, Michelle feels that she can obtain 5% on her life insurance proceeds.

#9 – The amount needed to provide an annual income of \$14,400 for Michelle is calculated at \$14,400 divide by .05 = \$288,000. This calculation now says that if Michelle has \$288,000 invested at 5% per year, she can have \$1200. per month gross income from this investment forever, without having to spend the capital, which could be passed onto the children, when Michelle dies.

The number used as a return on investment, greatly affects how much the total life insurance will be. If a smaller number is used, a higher amount of life insurance will be needed. If a higher interest rate number is used, then a smaller amount of life insurance will be needed.

Note – changing the interest rate by only 1%, will significantly change the insurance amount required.

\$14,400 divided by 4% = \$360,000

\$14,400 divided by 5% = \$288,000

\$14,400 divided by 6% = \$240,000

Be careful to not overestimate how much return can be obtained safely, which will jeopardize the income needed.

In discussing income for John, in the event of Michelle's death, in items 6 through 9, John decides that because he has a higher income, and Michelle has life insurance proceeds enough to pay the mortgage, that he could continue his lifestyle without replacing any more of Michelle's income, hence he has left the income fields blank.

#10 – Total Capital Required – this field totals the 2 areas of Needs, Cash Needs and Income Needs, to arrive at a total dollar value of life insurance needs. John needs to provide a total dollar value of \$619,000 to Michelle, and Michelle needs to provide a total of \$306,000 to John.

#11 – Capital Available – this section accounts for any current life insurance funding and other income producing assets ( that can be used in the event of death ) that they may already have in place.

When they got married, they each purchased a \$50,000 Universal Life Insurance policy, which they carry to this day. That accounts for the \$50,000 in John's column.

In addition to her \$50,000 Universal Life policy, Michelle also has a group insurance policy equal to 2 times her annual salary of \$35,000 which equals coverage of \$70,000. So Michelle has a total of \$120,000 of coverage in place already, which gets subtracted from the Total Capital Required, to arrive at the Deficit amount.

#12 – Deficit – John needs to provide a total of \$569,000 new life insurance protection to Michelle, and Michelle needs to provide a total of \$186,000 of new life insurance protection to John.

John and Michelle now have a calculation of their life insurance needs, as they see it today. Life changes a little everyday, or maybe a lot on some days. For this reason it is a good idea to review these calculations every few years, or when a major financial change is about to take place.

By obtaining an Individual Life Insurance Policy containing the bonuses discussed earlier, John and Michelle know that their life insurance plan is on solid ground.

### **A Life Insurance Plan for John & Michelle**

They consider both Term and Permanent Insurance plans. While they like the permanent plans, they have decided on the following policy -

Plan - Term 20

Amount - \$600,000 for John

Amount - \$200,000 for Michelle

Amount - \$10,000 Child's Term Rider for the children

Premium - \$74. per month

## Bonus #15 – Life Insurance Conversion to a Permanent Policy

The next bonus of an Individual Life Insurance Policy I want to point to you, is the option of Term Conversion. Most all Individual Term Life Insurance Policies are Convertible. ( There are a few Term policies that are Non-Convertible. )

Convertible means that the insured has the right to change the policy from a Term Insurance Plan to a Permanent Plan, much like the one described above in, an Alternative Strategy, at any time up to around age 60.

Most young couples purchasing their first home, have the need for mortgage insurance, but their incomes are often stretched, and they will often purchase Term Insurance to cover their immediate needs.

After a few years in the home, with the mortgage paid down a bit, and their incomes have probably increased, they may now have the ability and desire to change their Term Life Insurance, into a Permanent Life Insurance plan. About 40% of life insurance sold in Canada is permanent insurance.

Permanent Life Insurance differs from Term Life Insurance in the following ways, for most plans –

- the premium is level, not increasing, for the life of the policy.
- there will be cash values and dividends that grow in the policy, year by year.
- The policy becomes more valuable as the years go by, because the insured cannot buy a plan, based on the age he was, when he purchased the permanent plan.

The discussion of Permanent Life Insurance requires much more space than I have dedicated here, but for anyone who is considering the purchase of life insurance, the discussion is not complete, without the discussion of Permanent Life Insurance.

## Bonus #16 – Life Insurance Insure All Your Needs With One Policy

As you can see from the worksheet a few pages above, there are more life insurance needs, than just Insuring your mortgage.

By accident and not by design, we sometimes end up with a number of insurance policies through various suppliers.

Administratively, this costs you money. Every policy has a Policy Fee built into the premium, which for Individual Policies range between \$50. - \$75. per policy, per year. This fee pays for the policy administration.

Based on that cost, it makes more sense to have one larger policy, than 3 smaller ones.

So maybe it is time for you, to take a insurance review, ( of all your coverages ) to see what kind of improvements can be made, either in coverage, or premiums, or both.

## Individual Life Insurance Summary

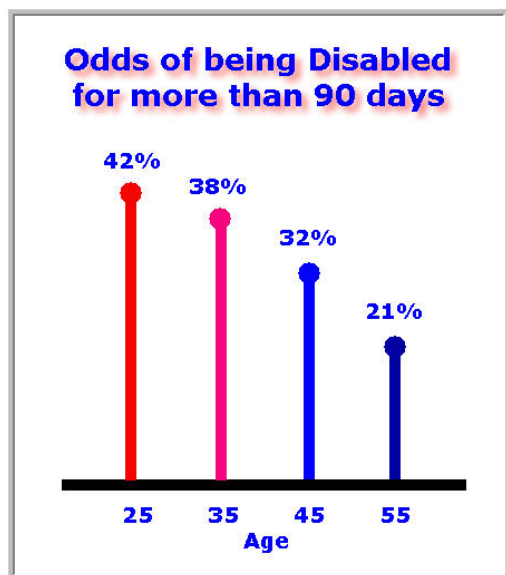
	<b>Feature</b>	<b>Individual Insurance</b>	<b>Creditor Insurance</b>
<b>Bonus #1</b>	<b>Own &amp; Control Your Life Insurance Policy</b>	<b>Yes</b>	<b>No</b>
<b>Bonus #2</b>	<b>Level Life Insurance Coverage</b>	<b>Yes</b>	<b>No</b>
<b>Bonus #3</b>	<b>Choose Your Beneficiary</b>	<b>Yes</b>	<b>No</b>
<b>Bonus #4</b>	<b>Two Death Benefits</b>	<b>Yes</b>	<b>No</b>
<b>Bonus #5</b>	<b>A Portable Life Insurance Policy</b>	<b>Yes</b>	<b>Maybe</b>
<b>Bonus #6</b>	<b>Underwriting at Time of Application</b>	<b>Yes</b>	<b>No</b>
<b>Bonus #7</b>	<b>Preferred Rates for Good Health</b>	<b>Yes</b>	<b>No</b>
<b>Bonus #8</b>	<b>Life Insurance Premium is PST Exempt</b>	<b>Yes</b>	<b>No</b>
<b>Bonus #9</b>	<b>Continue Life Policy after Mortgage is Paid</b>	<b>Yes</b>	<b>No</b>
<b>Bonus #10</b>	<b>Additional Riders to Customize Policy</b>	<b>Yes</b>	<b>No</b>
<b>Bonus #11</b>	<b>Guaranteed Life Insurance Premium Rates</b>	<b>Yes</b>	<b>No</b>
<b>Bonus #12</b>	<b>Ongoing Service from Broker</b>	<b>Yes</b>	<b>No</b>
<b>Bonus #13</b>	<b>Life Insurance Price Comparison</b>	<b>Yes</b>	<b>No</b>
<b>Bonus #14</b>	<b>The Right to Shop</b>	<b>Yes</b>	<b>Yes</b>
<b>Bonus #15</b>	<b>Conversion to a Permanent Life Insurance Plan</b>	<b>Yes</b>	<b>No</b>
<b>Bonus #16</b>	<b>Insure all Your Life Insurance Needs with One Policy</b>	<b>Yes</b>	<b>No</b>

# Section 2 - Disability Insurance

## Disability Insurance in Canada

Insuring your mortgage with life insurance, is only 1 area that you need to consider. There are additional risks that you may need to insure for.

If you are one of the roughly 50% of the Canadian work force, that does not have benefits at work, then you probably do not have disability insurance.

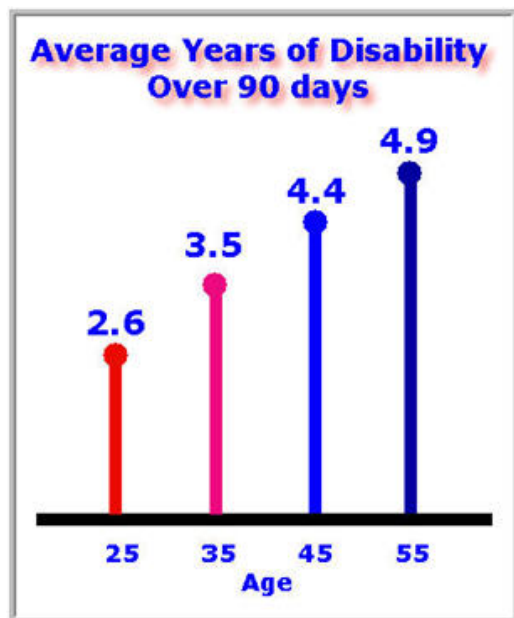


Disability Insurance provides a monthly income, replacing as much as 66% of your gross monthly income, in the event that you are sick or hurt, and cannot work.

Statistics on repossessions of homes, tell an interesting story. The majority of these repossessions are due to injury or sickness. If these owners had had disability coverage, they may have been able to have weather the storm, and still owned their home today.

Statistically, disability over dying for a middle aged person, is about 3 to 1. This means that there are 3 chances of being disabled for every chance of dying. And yet, many more people have life insurance, but not disability insurance. There are a few reasons why this situation exists in Canada today.

Firstly, the disability insurance market is very skinny, meaning that only a few companies offer a disability product in Canada. This is in part to the fact that underwriting disability insurance is more difficult.



Life insurance statistics are quite simple. When you die, it only happens once. But for disability, you can become disabled more than once, or many times in your lifetime, from the same cause, or from many different causes.

Another reason for less sales of disability insurance is that fewer agents and brokers are trained to sell it. Disability Insurance has more options than life insurance, so fewer agents tend to specialize in marketing it, even though the need for it, is substantial.

### Disability Needs and Statistics

What are the chances of being disabled in your lifetime, interfering with your ability to earn a living and support your lifestyle ?

Consider the disability statistics, based on your age, in the graphs above.

# Bonus #1 – Disability Insurance

## Own and Control Your Policy

All financial planners agree that Disability Insurance is a must have insurance product. The reason is simple, none of the working population, can maintain their lifestyle without ongoing income. And when an illness or injury prevents you from working, then the disability policy helps to replace your income.

This discussion starts much like the Life Insurance Section, discussing the differences between Creditor Mortgage Disability and Individual Mortgage Disability Insurance.

### **What is Creditor Disability Insurance ?**

Similar to the Creditor Life Insurance, Creditor Disability Insurance I feel is not a good value, unless you are uninsurable for an individual policy, or already have another disability insurance policy, possibly an individual one or one through a group insurance plan.

Most mortgages will allow a maximum mortgage payment of about 30% of your gross monthly income, but it is not possible to insure your income up to the industry standard of about 66%, which you can do with an Individual Disability Policy.

If you google "Creditor Disability Insurance + Canada", you will be able to find some of the wordings, that are used by the major banks and financial institutions.

There is only a couple of major financial institutions that offer Disability Insurance for their mortgages. I believe this is because it is a more complex product than life insurance.

### **Creditor Disability Insurance is –**

- a group insurance policy issued through the financial institution.
- covered through a Master Policy, from an Life Insurance Company
- a plan you rent, not own, for the length of your mortgage.
- an amount equal to the amount of the monthly mortgage or loan payment.
- It does not pay off the mortgage, only makes your mortgage payment while you are disabled.
- usually only cover up to age 65.
- is tied to your current home.

You must complete a Health Form to obtain the Creditor Disability Mortgage policy, and the payment benefit may be reduced, if you have had income less than at the time of application, just prior to the disability.

### **Individual Disability Insurance**

By purchasing an Individual Mortgage Disability policy to cover your mortgage, you OWN it, and CONTROL it. You then have a policy that you can retain, beyond the time frame of your mortgage loan, for as long as the policy states, usually up to age 65.

Disability Insurance Premiums are calculated like life insurance, getting higher each year you don't have the coverage. Once you purchase disability insurance, most plans have a level premium, ( a few will have a step rate premium scale ) for the life of the policy.

A quality Disability Insurance plan will cover for both sickness and accident, both on and off the job, covering you 24/7.

# Bonus #2 – Disability Insurance

## Definition of Disability

The Definition of Disability is one of the most important parts of a Disability Policy. It is the key feature that says under what conditions the Company will pay the Monthly Benefit. This main feature of a Disability Policy, will determine it's quality.

### Creditor Disability Insurance Definition

Below is a Creditor Disability Insurance definition, from a major Financial Institution, found on the internet.

*“ Until disability benefit payments have been made for 12 months during any one continuous period of disability, Disability will be defined as your complete inability due to sickness, injury, mental illness, or nervous disorder to perform the essential duties of the full time occupation in which you were engaged immediately prior to the date of disability or, if you are a seasonal employee who is not working because you are between seasons, to perform the essential duties of your principal occupation. Thereafter Disability will be defined as your complete inability due to sickness, injury, mental illness, or nervous disorder to perform ANY occupation for which you are reasonably suited by education, training, or experience. However, a Disability will no longer qualify as a Disability under Group Policy #XXXXX when you become engaged in any business, occupation, or undertaking for wages or expectation of profit. ”*

So in this example, the definition provides a REGULAR occupation definition for the first 12 months of disability, thereafter the definition changes to ANY occupation.

With this definition, you can tell that the policy will pay a number of claims for the first year. Thereafter, many of the claims will be declined, because of the change of definition, to ANY occupation.

Most purchasers of this Creditor Disability Mortgage Policy, would not know how the definition works.

### Individual Disability Policies

There are 3 main Definitions of Disability, with Individual Disability Policies.

The Best Definition is called **Own Occupation**. It defines disability as a condition when you cannot perform the important duties of Your Own Occupation, and are under the regular care of a doctor. This is the industry's best definition of Disability.

A next best definition of Disability is **Regular Occupation**. It defines disability as a condition when you cannot perform the important duties of your Regular Occupation, you are not working in any other job, and you are under the regular care of a doctor.

The least desirable definition of Disability, is **Any Occupation**. It defines disability as a condition when you cannot perform ANY occupation, for which you are reasonably qualified based on your education, training, and experience, and you are under the regular care of a doctor.



## How Long does the Definition apply

Another factor that is tied to the Definition, is – How Long does that Definition apply ? It is quite common for Insurance Companies to limit the time that the better definition will apply. An example is, a policy has an Own Occupation Definition will apply for the first 2 years of disability, after which the definition changes to the Regular Occupation Definition. You can usually purchase a Definition Extension rider to extend the better definition, for say 5 years of benefits period.

## Bonus #3 – Disability Insurance Exclusions and Pre-Existing Conditions

### Creditor Disability Insurance

The following exclusions are shown in one Creditor Disability Insurance policy

- intentionally self-inflicted injury while sane or insane
- war, insurrection, or similar types of hostilities, whether or not you were participating
- participating in any riot or civil commotion
- pregnancy, other than physical complications of pregnancy
- alcoholism or drug addiction unless you maintain satisfactory participation in a rehabilitation program approved by the company. You must start the program during the waiting period.

Pre-existing conditions on some Creditor Disability Insurance plans are excluded, if you have been treated for the condition in the 12 months preceding the application.

### Individual Disability Insurance Plan

Exclusions on Individual Disability Insurance Plan

In general, the fewer the exclusions, the better the plan. Common exclusions in a better quality plan are –

- war, whether declared or undeclared
- incarceration
- normal pregnancy, but complications from pregnancy is covered
- intentional self inflicted injury

## Bonus #4 – Disability Insurance Quality Disability Features

As happens with certain types of insurance, the industry creates a number of new definitions, and maybe even some new words. That being the case, you will probably need to read these definitions to have a full understanding of Individual Disability Insurance.

Note that none of the following features are available with Creditor Disability Insurance.

## Non-Cancelable Disability Policies

The better Individual Disability Policies on the market will offer Non-Cancelable Provisions, which means that the Company has agreed to –

- not canceling the policy, even if the insured changes his occupation, and can continue to renew the policy, to the end of the policy term
- make no changes to the policy features and benefits during the policy term
- maintain the same premium for the life of the policy

## Guaranteed Renewable Disability Policies

Is part of the better disability policies. It contains the first two features of the Non-Cancelable Disability policies, but they maintain the right to change the premium of the policy.

## Presumptive Disability

A better policy will also include the following feature. The insured will be considered to be totally disabled, and the policy will pay, if they have irrecoverable loss of – speech, hearing in both ears, sight of both eyes, use of both hands or both feet, or the use of one hand and one foot.

## Residual Disability

Residual Disability pays a residual reduced monthly benefit, if the insured suffers a permanent disability of certain important duties, for which he does not recover.

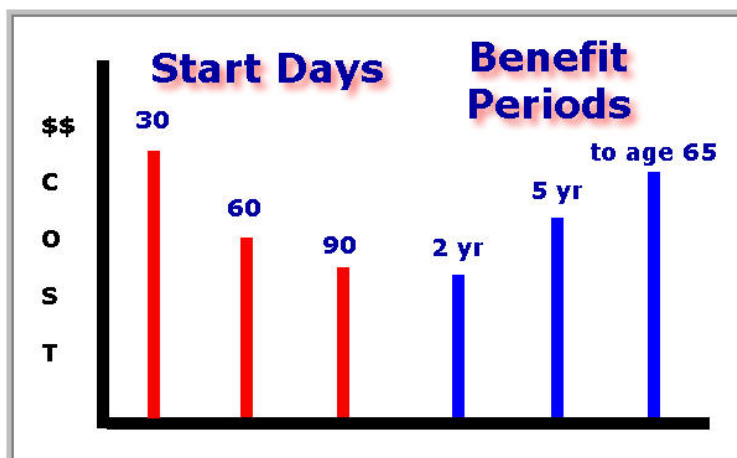
# Bonus #5 – Disability Insurance

## Choice of Start Dates & Benefit Periods

**Creditor Disability Mortgage Coverage** has virtually no options for start dates and benefit periods, partly because of the constraints of the mortgage loan itself.

Most Creditor Disability Coverage starts after 30 days of disability. The Benefit Period can last as long as the mortgage, but remember the definition will cut many claims short, after say 1 year, as shown from the wording above.

**Individual Disability Mortgage Insurance Plan**, will provide a variety of Start Dates and a few Benefit Periods.



### Start Days and Benefit Periods

One of the options in selecting disability coverage, is to answer the questions of

- how soon do you want the benefit to start paying
- how long do you want the benefit to pay for

The chart shows how Start Days work. The sooner the plan starts paying, the higher the premium. The common start days are 30 days, or 60 days, or 90 days, or 120 days or 180 days. So a plan

with a 30 day start will cost more than one that has a 120 day start, as shown in the graph.

For Benefits Periods, ( the time that the policy will pay when on claim ) the most common time frames for individual policies are plans that pay for 2 years, or 5 years, or to Age 65. The longer the Benefit Period, the higher the premium, as shown in the graph.

You can mix and match these 2 options, to come up with the plan that suits you the best.

To get the best value on Start Days, have a plan that is a minimum of a 60 or 90 day start, unless you can afford to have it even start further out.

Many professionals, due to their long learning period, will take the longest Benefit Period available, which is the To Age 65 Benefit Period. This will be the most expensive plan, due to the longest period that the plan will pay for.

Example – a \$3000 per month policy, covering to age 65, for a young professional, aged 30. If he has a lifetime disability from age 30, the plan could pay out a total of \$1,260,000. based on \$3000. per month.

The statistics are that 90% of disability claims, are completed within 5 years, and based on that many people will select a 5 year benefit period.

The potential total payout on a 5 year plan at \$3000. per month, is \$180,000, if the payout happens only once. A disability can pay out more than once in a lifetime. Example – you may have a 4 year disability caused from an injury, from which you recovered. A few years later, you may have another claim, this time due to a sickness, which you are on claim for the full 5 years. In the case, the disability plan has paid out 9 years of monthly benefit.

## Bonus #6 – Disability Insurance

### Choice of Plans

**Creditor Disability Insurance** coverage is basically one plan, with few or no options, like a one size fits all.

With **Individual Disability Insurance**, most companies offering quality Disability Insurance, will usually have a few different plans to choose from.

It starts with the companies dividing the various occupations into classes, Called Occupational Classes, which are usually – ( from least expensive to most expensive )

- Professionals & Executives
- Office Workers
- Light Labor & Supervising
- Skilled Trades
- Heavy & Unskilled Labor

The effect of these classifications is that for a \$1000. per month of coverage, the cost for a professional will be the least expensive, and more expensive in each lower category, with heavy labor category being the most expensive.

From these classifications, Disability Plans are developed, and the different Definitions of Disability, added to the plans. Not all classifications will offer a choice of all the Definitions.

The upper categories will usually offer the OWN Occupation Definition, and the middle categories, will have the REGULAR occupation Definition available.

For heavy and unskilled labor, most companies will only offer the ANY occupation definition.

## Bonus #7 – Disability Insurance

### Two Claims Paid instead of One

#### **Creditor Disability Insurance**

It is common for a couple to purchase Creditor Disability Insurance together when they obtain their mortgage.

In this instance, they have been sold a creditor disability policy for each of them, to cover the same mortgage payment. Assume that they are both disabled in a car accident, how much will the Creditor Disability Insurance Pay ? In this case, the Creditor Disability Policy will only pay out 1 claim, that will pay the mortgage payment.

They bought a joint policy but can only collect on 1.

Assuming that this couple has no other Disability Coverage, they now have serious financial problems, because they have lost 2 incomes, ( their total income ) and they only have their mortgage paid for.

How do they pay for all the other monthly expenses – food, utilities, car payments, gas, house insurance, and property taxes ?

And on top of that, there is a good chance that, following the accident, they may not be able to purchase an Individual Disability Policy, because their health may have been permanently compromised.

#### **Individual Disability Insurance**

If this couple purchased 2 Individual Disability Policies, they probably would have purchased it, not only to cover their mortgage payment, but to cover their total income, which is an industry standard of about 66% of their gross monthly income, about double their mortgage payment.

So now, if they were both disabled in a car accident, they would have not only enough claim money to pay the mortgage payment, but 66% of their Total Monthly Income, that would pay the other monthly household expenses. And you can't do better than that, for Individual Disability Insurance !

## Bonus #8 – Disability Insurance

### A Portable Disability Policy

**Creditor Disability Mortgage Coverage** is tied to your mortgage. Once your mortgage is paid, your insurance is also terminated. Paying off your mortgage is a great achievement, but there is life and other monthly expenses after you are mortgage free.

An **Individual Disability Insurance Policy**, it is not tied to your mortgage. If you purchased it, in part, for that purpose, and have paid off your mortgage, you are free to carry the policy on, usually up to age 65.

If you have owned a level premium Individual Disability Insurance Policy for a number of years, then it gets more valuable as each year goes by.

The reason is that as you get older each year, the cost to replace the policy that year, would be increasing, but because you have a level premium plan, that premium is level for the life of the policy.

I recently was asked to review Individual Disability Insurance Policy for a friend. His intention was to give me the business, but he had owned the policy for about 15 years, and was paying about \$40 per month for it. I calculated the rate for a new disability policy today, and it would have cost him \$240. per month. My friend was astounded, at the difference that age made.

He did not realize how valuable this policy has become, due to the level premium he had over the last 15 years. In addition to that, he is able to keep this policy for another 12 years, at the same premium. What a deal !

## Bonus #9 – Disability Insurance

### Premium is PST Exempt

**Creditor Disability Insurance** must charge PST.

Any **Individual Disability Insurance** purchased directly from a life insurance company is PST exempt. Why pay more tax than you have to ?

## Bonus #10 – Disability Insurance

### Guaranteed Premium Rates

#### **Creditor Insurance Premiums not Guaranteed**

Creditor Insurance premiums are not guaranteed. By not guaranteeing the premium, your premiums can be changed at any time, for what ever reason - lower interest rates, higher claims, or other economic conditions.

It is the Insurance Company's job to accept Risk ? Why should you allow your premiums to be adjusted higher, when you can obtain a policy with a guaranteed premium ?

## **Individual Disability Insurance**

With an Individual Disability Insurance Policy, most policies will have guaranteed premiums for the life of the policy.

# Bonus #11– Disability Insurance

## Underwriting at Time of Application

### **Creditor Disability Insurance**

As with other Creditor Insurance, Disability Creditor Insurance does its underwriting at time of claim, which puts the Insured at risk of having his claim declined, and probably having no other option to obtain coverage, after the fact.

### **Individual Disability Insurance**

Individual Disability Insurance does the underwriting at time of application ( for all companies I know of, except one ).

### **Do You Have What it Takes - to Buy an Individual Mortgage Disability Insurance Policy ?**

Health is only ours on a day by day basis. Today thousands of people in Canada will be diagnosed with diabetes, high blood pressure, MS, and many other chronic diseases, in addition to injuries, which will affect their insurability, putting them in a rated or Un-Insurable category.

You too, may contract a health condition that can make you uninsurable or rated when applying for a new Individual Disability Mortgage Policy. The day of your Un-insurability may come at your next Doctor's appointment.

**You can't buy fire insurance when your house is burning down. You can only buy it when your house is NOT burning down, ( when you don't need It ) !**

It is the same with disability insurance. You can only buy it when you are healthy, and don't need it. Once your health has been compromised your application will be either rated or declined, or you become uninsurable.

Knowing that there is a possibility that you could be uninsurable at some point in your life, ( maybe tomorrow ) owning your own Individual Disability Insurance policy makes even more sense.

Being that your health may be taken away from you tomorrow, ask yourself this question -

**If today was the last day you could buy Disability Insurance, how much would you buy ?**

We often only realize how fragile life and our health is, when we have suffered a loss. While losing your insurability, many seem small compared to many other severe losses, it could

spell the difference between having an Individual Mortgage Disability Insurance policy, that could guarantee the continuation of your family choosing to own their home or not.

There is probably no urgency for you to look at it today, but the time to buy it is when - you don't need it, because that is the only time when you can buy it.

### **Underwriting of Disability Insurance**

Applying for the coverage, is much the same, as applying for life insurance. As the amount of benefit, and age of the applicant increases, the more checking the company will do.

In addition to completing the medical information with the application, you may have to have a paramedical exam with a nurse.

Once a policy is issued, the company usually cannot take it back, or change its features. They only have one chance to check your health, at application time. They are taking a snapshot of your health as of today.

### **Potential Underwriting Outcomes**

As with life insurance, the company may offer the policy,

- as applied for,
- as rated - meaning being charged more premium because of some condition
- as declined – they will not issue the policy
- with exclusions

It is common for disability insurance to include exclusions. This will usually occur because of previous injuries to certain parts of the body.

If the applicant has had lower back problems, knee problems, or shoulder problems, it is quite probable that disabilities from these problems will be excluded, when the policy is issued.

Other policy changes can be changes to the Start Date, or the Benefit Period. Example, the applicant applied for a policy with a 30 Day Start and a Benefit Period to Age 65. The Company may be willing to accept the application, with a 120 Day Start, and/or with a 2 year Benefit Period. The effect of these changes are that they limit the company's liability under the policy.

Without the ability to adapt the policy to certain underwriting situations, most of these applications would probably be declined, and the applicant would have no choice of coverage at all.

### **Women and Disability Insurance**

Women are experiencing a lot of stress today, due to their busy lifestyle of working outside the home, and handling the details at home. The result of this lifestyle, is that the biggest category of women's disability claims, is the area of what the industry calls mental / nervous. These are claims such as stress, burnout, and chronic fatigue syndrome. So the image of a disability claim as having a broken body part, is no longer accurate.

### **Financial Underwriting**

Financial Underwriting is the process of verifying the income that you want to replace. If you are starting up your business, you will not be able to purchase a Quality Disability Policy, until you have been in business for at least 6 months or a year.



The reason is that for all quality disability policies, you must provide proof of income, with financial statements and income tax returns. This can only be done after you have proof of your income.

What the Insurance Company does not allow, is for an applicant to obtain a policy that over insures their income. The industry standard is to allow about 66% of gross monthly income to be insured. For business owners, a small additional amount can be insured because of the larger expense factor and tax deductions that business owners have.

## Bonus #12 – Disability Insurance

### Optional Riders to Customize Your Disability Policy

**Creditor Disability Insurance**, has few or no optional riders. It is kind of a one size fits all type of coverage.

**Individual Disability Insurance** is one of the most customizable insurance policies available, and a number of additional riders will usually be available, for an additional premium, such as the following –

**Partial Disability** – the base policy covers when you are Totally Disabled. People do not go from being totally disabled yesterday, back to full time work today. They will have a period where they will work part time, such as only 4 hours per day, until their health has recovered.

**Future Insurability Option** – this benefit allows you to increase your coverage, in future years, as your income has also increased. Example, your income has increased \$500. per month, since you bought your Disability Insurance Policy 5 years ago. As long as you as healthy, you can purchase additional coverage any time, but suppose that in the last 5 years, you have become diabetic. Now you would not be able to qualify for additional coverage. This rider allows you to purchase the additional coverage, even though you normally would not qualify without the rider.

**Cost of Living** – this rider provides an increase, up to the Cost of Living Index, in your monthly benefit amount when you are on claim. If you have a Benefit Period that covers to age 65, meaning that you could be on claim for many years, it would make sense to have this rider, that would keep your benefit in line with inflation.

**First Day Accident** – this rider pays from the first day, if you are in the hospital for a 24 hour period. Example – you may have a policy with a 30 day start, but has a First Day Accident Rider. You have an accident that puts you in the hospital for 7 days. The rider would pay 1/30 of the monthly benefit, for each day you remain in the hospital.

**Return of Premium** – not all companies offer this rider. It provides a return of premiums paid, usually between 50% and 70%, if a claim has not been made, after a 7 to 10 year, timeframe. The cycle will continue for each period, during the life of the policy. The Return of Premium Rider creates a win-win situation. The insured will collect money either through a claim, or from a return of premium.

These riders are the most common, and some companies may offer others.

As you can tell from the preceding disability information, this product requires a detailed explanation, in order to understand – the product, what is available, and what will work best for you.

The best disability product available on the market today, is an Individual Disability Contract.

## Bonus #13 – Disability Insurance Ongoing Service from an Independent Broker

While most people don't purchase life, or disability insurance every year, having an in tune Risk Management Program, does require that it be reviewed every few years.

Your banker will probably always offer you Creditor Insurance ( of all types ) as often as they can, because it is part of their job.

Maybe you are in the enviable position, of no longer having a mortgage or loan. Creditor Insurance can't help you now.

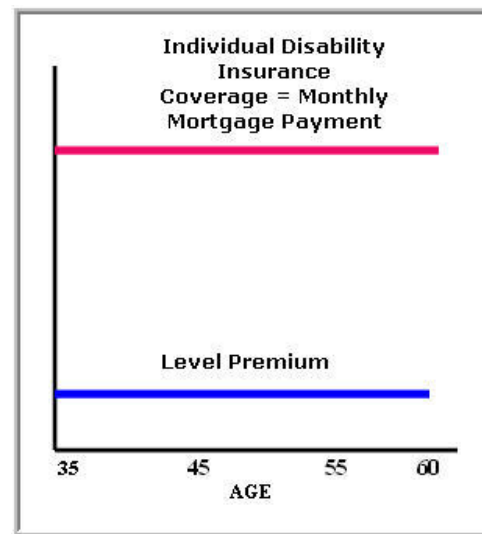
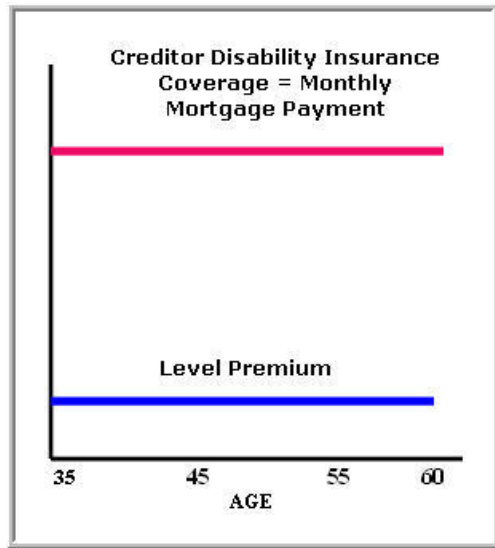
But there is life after a mortgage, and it is probably more sweet because of your non-mortgage status.

You now have other goals to accomplish, and other valuables to protect, and probably the biggest income of your life, so far.

Depending on how many changes you have in your life, your policies could require changes to keep pace with your life, and protect what is important to you. A common need, would be to increase the policy Benefit Amount, as your income increases.

Your Independent Broker is your eyes and ears of the market, who is available to you to discuss your concerns at important times of your life.

# Bonus #14 – Disability Insurance Price Comparison



## Joint Creditor Disability Insurance

\$1600. per month Mortgage Payment

Rates Averaged with 2 Creditor Companies. Rates are the same for Smokers or Non-Smokers. Total Premiums over 25 years, including PST.

Coverage – 30 day Start, on a 1 year coverage based on your regular occupation definition.

( The possibility of having a claim paid beyond 1 year, based on this definition of disability, is quite low. )

Couple starting at age 35 - \$17,693.00

Couple starting at age 45 - \$27,349.00

( While the plans function the same way, as shown in the graphs above, the comparison of these 2 policies, is at best, an apples and oranges one )

## Individual Disability Insurance – 2 Policies

\$1600. per month Mortgage Payment

Rates Averaged with 3 Life Companies rates. Total Premiums over 25 years.

Coverage – 60 day Start, on a 2 year plan with a Regular Occupation definition. The premium is based on the middle of the road rate group. Depending on your occupations the rates could be higher or lower.

( Note this is a 2 year Benefit Period, twice as long as the Creditor Insurance, but depending on the rate class, premiums could be much higher or lower)

Riders included – Future Purchase Option, & Partial Disability.

### Non-Smokers

Couple starting at age 35 - \$ 27,124.

Couple starting at age 45 - \$ 38,702.

### Smokers

Couple starting at age 35 - \$ 31,833.

Couple starting at age 45 - \$ 45,121.

# Bonus #15 – Disability Insurance

## The Right to Shop - from the Feds

Dido the comments on the Right to Shop in the life insurance section.

## Disability Case Study with John and Michelle

In discussing Disability Mortgage Insurance with their broker, he tells Michelle that she has a disability insurance plan through her group insurance plan at her workplace. Most disability plans will provide the maximum industry coverage of about 66% of non taxable monthly income coverage, or about 75% if taxable.

### Michelle

Based on Michelle's annual income of \$35,000, her plan will provide the industry maximum of 66% or about \$1925 per month of tax free income. The coverage only provides the Benefit Amount for 2 years, when disabled, but at least she has full coverage for this term.

Being that Michelle helps contribute to the Mortgage Payment of \$1650. her group disability plan will pay her portion of the mortgage, but she will also have another \$1000. per month of coverage, that will be able to pay for other household essentials that are required on a monthly basis.

Even with Michelle's group plan coverage, the financial institution offered the Creditor Disability Insurance to her. Their broker suggests that Creditor Disability Coverage, not be purchased for Michelle, as this premium could be used for John's situation.

### John

Looking at John's disability situation, he currently has no coverage at all. He also was offered Creditor Disability Coverage from the bank, but knew that he needed more monthly income that just to cover the mortgage payment, so has declined it.

So that leaves the possibility of an Individual Disability Policy for John. As the broker discusses these various options that John has, he points out the quality features and benefits of the Individual Disability Policy, that are not available with Creditor Disability Insurance.

After much discussion, understanding the basic policy features, and the various options available, John settles on the following policy –

### **A Disability Insurance Policy** which covers

Benefit Amount - \$2700. per month, roughly 66% of income, the industry maximum allowed

Start Date – 60 days – chosen because the pricing for the 60 day start, shows good Value

Benefit Period – 2 years – longer periods are available for a higher premiums

Level Premium – \$ 70. per month

## **Additional Benefits**

Partial and Future Purchase Option

## **Other Quality Features include –**

Non-Cancelable – the company can't cancel this policy on the insured

Level Premium – guaranteed up to age 65

Definition of Disability – your regular occupation

Waiver of Premium – once on claim, no further premiums are required, until the Insured goes off claim.

Recurrent Disability – if the insured is on claim, then returns to work for less than 6 Months, and is disabled again, the 2<sup>nd</sup> disability will be considered an extension of the first disability, and no waiting period will need to be satisfied.

Presumptive Disability – the insured will be considered to be totally disabled if he suffers a irrecoverable loss of his hearing, sight, both feet, or both hands.

In order to complete the Underwriting requirements for this policy, John has to complete

- a health underwriting – a snapshot of his health today
- a financial underwriting – submitting his Income Tax and Income and Expense Statements as proof of his income and the stability of that income.

## **Summary of Disability Coverage for John and Michelle**

Michelle – \$1925. per month from group insurance coverage through work

John - \$2700 / month from Individual Disability Coverage – premium - \$ 70. / month

## **Disability Insurance Quotes**

To obtain a disability quote, from a few quality disability suppliers, go to this link - [www.CanadianMortgageInsurance.ca/disabilityinsurance.htm](http://www.CanadianMortgageInsurance.ca/disabilityinsurance.htm)

# **Bonus #16 – Disability Insurance Insure All Your Needs With One Policy**

As you can see from the worksheet above, there are more disability insurance needs, than just Insuring your mortgage. You still need to pay the utilities, buy food, make the loan payment. Dido comments found in the Life Insurance section. Buy one quality disability policy.

# Individual Disability Insurance Summary

	<b>Feature</b>	<b>Individual Insurance</b>	<b>Creditor Insurance</b>
<b>Bonus #1</b>	<b>Own &amp; Control Your Disability Policy</b>	<b>Yes</b>	<b>No</b>
<b>Bonus #2</b>	<b>Quality Definition of Disability</b>	<b>Probably</b>	<b>Maybe</b>
<b>Bonus #3</b>	<b>Fewer Exclusions</b>	<b>Probably</b>	<b>Maybe</b>
<b>Bonus #4</b>	<b>Quality Disability Policy Features</b>	<b>Yes</b>	<b>No</b>
<b>Bonus #5</b>	<b>Choice of Start Dates &amp; Benefit Periods</b>	<b>Yes</b>	<b>No</b>
<b>Bonus #6</b>	<b>Choice of Disability Plans</b>	<b>Yes</b>	<b>No</b>
<b>Bonus #7</b>	<b>Two Claims Paid</b>	<b>Yes</b>	<b>No</b>
<b>Bonus #8</b>	<b>Portable Disability Policy</b>	<b>Yes</b>	<b>Maybe</b>
<b>Bonus #9</b>	<b>Disability Premium is PST Exempt</b>	<b>Yes</b>	<b>No</b>
<b>Bonus #10</b>	<b>Guaranteed Premium Rates</b>	<b>Yes</b>	<b>No</b>
<b>Bonus #11</b>	<b>Underwriting at Time of Application</b>	<b>Yes</b>	<b>No</b>
<b>Bonus #12</b>	<b>Riders to Customize Your Policy</b>	<b>Yes</b>	<b>No</b>
<b>Bonus #13</b>	<b>Ongoing Service from a Broker</b>	<b>Yes</b>	<b>No</b>
<b>Bonus #14</b>	<b>Disability Price Comparison</b>	<b>Yes</b>	<b>No</b>
<b>Bonus #15</b>	<b>Right to Shop</b>	<b>Yes</b>	<b>Yes</b>
<b>Bonus #16</b>	<b>Insure all Disability Needs with 1 Policy</b>	<b>Yes</b>	<b>No</b>

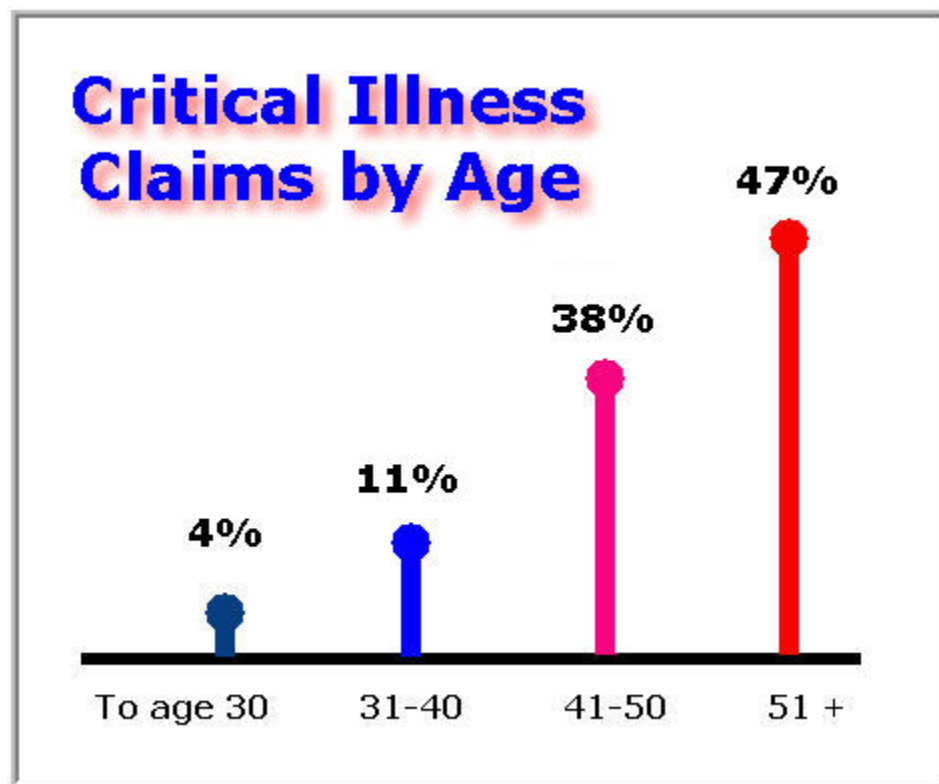
# Section 3 - Critical Illness Insurance

## The History of Critical Illness Insurance

Back in the 1960's there was the worldwide headline story of the first heart transplants that were done by the brothers Dr. Marius Bernard & Dr. Christian Bernard in South Africa.

While this was ground breaking medicine, in extending someone's life, the financial result was far from appealing. They recount how they saved a business person's life with a heart transplant, only to watch him lose his business and home, because he was not able to work following the operation. This person became financially destitute, which was not the result they had intended.

The Bernard brothers approached life insurance companies to start a plan that would pay a lump sum in the event, of suffering a catastrophic illness such as heart attack, stroke, or cancer. The first policies in the world were issued in South Africa, later spreading to England, where the coverage has really gained acceptance. England currently has the largest number of critical illness policies in force, in the world. The coverage has since spread to other countries including Canada.



## Critical Illness Insurance Needs

Each person can use the proceeds from a Critical Illness Insurance Plan for whatever purpose they wish. Common uses of insurance proceeds are -

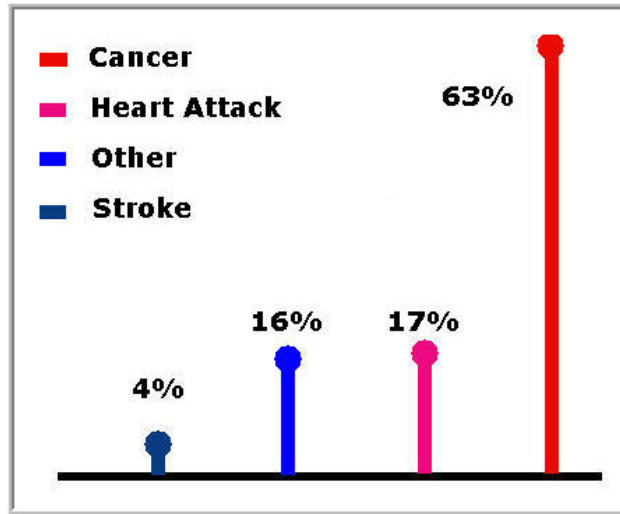
Seek timely medical treatment out of country. Buy time to heal, by replacing lost income. Pay off a mortgage and other debts. Enable a spouse to take leave of absence

For small business owners they may have concerns of  
Ensuring continuity of business operations  
Replacing key employees  
Maintaining quality service to clients

About 50% of mortgage foreclosures are due to a disability, 90% which are from an illness, not an accident. This is a telling statistic, stating that injuries are not as devastating as illnesses, when it comes to mortgage foreclosures.



Would you rather suffer a heart attack and lose your home, or  
 Would you rather suffer a heart attack and lose your mortgage ?  
 This is what Critical Illness Insurance can do for you.



If you knew you would be diagnosed with cancer in 6 months, would you buy critical illness insurance ?

How do you know you won't be ?

As mentioned previously, you can't buy fire insurance when your house is burning down, and you certainly can't buy critical illness insurance when you are ill (sometimes even just a little bit ill).

### Critical Illness Coverage

Critical Illness Insurance is a sister policy to Disability. It is one of the newest of coverages available in Canada. This plan provides a lump sum, like life insurance in the event that the insured suffers and survives a Critical Illness.

Critical Illness Insurance is a sister policy to

Critical Illness Insurance is purchased like life insurance, with a face amount to be paid, if the insured suffers a defined critical illness and survives the illness.

Many companies will issue policies from as small as \$10,000, and an average policy size being about a year of annual income.

On a cost per thousand basis, this coverage is more expensive than life insurance, due to the higher probability of a claim being paid out.

### Individual Critical Illness Plans

Most plans will provide coverage up to age 65, or age 75. There are guaranteed and non-guaranteed premiums.

Premiums can be level for the life of the policy, or renewable, like renewable life insurance.

### Underwriting Critical Illness Insurance

Much like Disability Insurance, Critical Illness Insurance underwriting, is more difficult than life insurance.

If you have had any of the insured conditions or any of the following then your application will probably be declined –

- |                         |                              |
|-------------------------|------------------------------|
| AIDS                    | Alcohol abuse within 2 years |
| ALS                     | Angina                       |
| Cystic fibrosis         | Diabetes – insulin dependent |
| Drug use within 3 years | Hemophilia                   |
| Hepatitis – chronic     | Huntington's chorea          |
| Muscular dystrophy      | Permanent paralysis          |
| Pulmonary fibrosis      | Systemic lupus erythematosus |

In addition to your health, there is a greater weighting placed hereditary factors from your family history, based on the nature of the coverage. One company suggests that a family history of the following diseases, will predispose other family members to these diseases –

Breast Cancer	Colon Cancer	Prostate Cancer
Diabetes	Heart Disease	Multiple Sclerosis

## Bonus #1 – Critical Illness Insurance Own & Control Your Own Policy

Well, you have read this before ( twice ), and for Critical Illness Insurance, it applies the same as with life insurance and disability insurance.

You should Own and Control Your Own Policy, by having an Individual Critical Illness Policy.

## Bonus #2 – Critical Illness Insurance Get Broader Coverage

### Covered Conditions with Creditor Critical Illness

Of the Creditor Critical Illness plans studied, the number of covered conditions varied significantly. Some only covered 3 conditions, and some covered 8 conditions, shown below-

Heart attack	Stroke	Coronary artery bypass surgery
Cancer	Blindness	Paralysis
Deafness	Coma	

### Covered Conditions with an Individual Critical Illness Policy

If you purchase an Individual Critical Illness Policy, the covered conditions will vary slightly from company to company, but most will have 20 to 25 covered conditions.

The following are some of the many conditions covered by most Individual Critical Illness Suppliers -

Alzheimer's disease	Aortic surgery
Aplastic anemia	Bacterial Meningitis
Beign brain tumor	Blindness
Coma	Coronary artery bypass
Deafness	Heart Attack
Heart Valve Replacement	Kidney Failure
Life threatening cancer	
Loss of Independent Existence	Loss of Limbs
Loss of Speech	Major Organ Transplant
Motor Neuron Disease	Multiple sclerosis
Occupational HIV	Paralysis
Parkinson's disease	Stroke

Each policy will contain a definition for each covered illness. In order for a claim to be paid, the illness must satisfy the definition contained in the policy.

## Bonus #3 – Critical Illness Insurance Two Benefits instead of One

### **Creditor Critical Illness Insurance**

Again a repeat of what has been said before, with Creditor Critical Illness, if you purchase a joint policy for you and your wife, you will only be able to collect one claim.

### **Individual Critical Illness Insurance**

If you purchase two Individual Critical Illness Policies for you and your wife, and one of you becomes critically ill, then that policy will pay out, and the healthy spouse will still have their policy intact, for any possible claims in the future.

## Bonus #4 – Critical Illness Insurance Policy Portable to a Future Home

### **Creditor Critical Illness Insurance**

Another repeat. With a Creditor Critical Illness Insurance Plan, your coverage is tied to the home that you purchase with it. If you move and take a new mortgage from a new financial institution, then your coverage will terminate when your old mortgage terminates.

Some creditor critical illness coverage will allow you to keep the current coverage, if you refinance with the same institution.

### **Individual Critical Illness Insurance**

With an Individual Critical Illness insurance, your policy is not tied to your home. You can take it to a new home at any point in the future.

## Bonus #5 – Critical Illness Insurance Underwriting Done at Time of Application

### **Creditor Critical Illness Insurance**

Some Creditor Critical Illness Insurance plans are starting to be underwritten at time of application, if the amounts of coverage are higher than normal.

### **Individual Critical Illness Insurance**

With an Individual Critical Illness Insurance Policy, every application is underwritten at the time of the application, so you know up front, if you and your spouse have been accepted.

Why would you have it any other way ?

# Bonus #6 – Critical Illness Insurance

## Other Quality Policy Features

### **Creditor Critical Illness Insurance**

As with other Creditor Insurance plans, there are few quality features in the plan.

### **Individual Critical Illness Insurance**

The following are additional quality features that many companies will include in their Critical Illness Policies.

#### **Loss of Independent Existence**

Loss of Independent Existence is something that is becoming more common. As doctors increase our life, sometimes the quality of life suffers.

If you find yourself in a situation where you have not had a critical illness based on the definitions above, but you are so weak that you require care, you can still obtain coverage under Physical or Cognitive Impairments.

Physical Impairment is defined as when the insured cannot do two or more of six basic daily living functions – eating, bathing, dressing, toileting, transferring from bed to chair, and bladder and bowel continence. In this case, the policy would pay out a monthly benefit ( usually 1/60<sup>th</sup> per month over 5 years ) based on the original face amount.

Cognitive Impairment is defined as loss of intellectual ability to the point where you require a minimum of 8 hours per day of supervision, and be substantiated by an organ cause.

A number of companies will include this benefit as part of the basic policy.

#### **Illness Assistance Benefit**

Pays an advance benefit for the early diagnoses of some types of cancer.

#### **Surgery Advance Benefit**

Pays a portion of the total benefit, for surgery on a covered condition, immediately upon diagnosis.

#### **Best Doctors**

Most Individual Critical Illness Insurance policies include this Best Doctor Feature. It is an independent owned and operated, database resource of the best Doctors, who treat certain critical illness conditions, such as certain types of cancer.

This benefit allows an insured who has been diagnosed with a covered condition, to access the database, to find the Best Doctors who can treat their condition. In addition, the service may provide Consultation with these specialists, and a list of the best Facilities for care. This service costs about \$2000. if purchased outside of the policy.

## **Counseling and Support Services**

Most Individual Critical Illness Insurance policies include this feature. It provides the family with independent counseling and support services, to address the personal and family issues, for often a period of one year.

The thought behind these bonus policy features, is to provide the insured, now suffering a critical illness, to find helpful resources to assist them in their recovery.

Without them, the Insurance Company writes the claim cheque, and may leave the feeling with the insured, that he has been left on his own.

## **Bonus #7 – Critical Illness Insurance Premium is PST Exempt**

### **Creditor Critical Illness Insurance**

Again, all Creditor Insurance adds PST to the premium, including Creditor Critical Illness Insurance.

**Individual Critical Illness Policies do** not have a tax on the premium. Why would you want to pay more taxes, than you already are ?

## **Bonus #8 – Critical Illness Insurance Continue Policy after Mortgage is Paid**

**Creditor Critical Illness Insurance** expires when your mortgage does.

**Individual Critical Illness Insurance** is not tied to your mortgage, so you can maintain the coverage up to the end of the policy term, as stated in the policy.

## **Bonus #9 – Critical Illness Insurance Additional Riders to Customize Your Policy**

### **Creditor Critical Illness Insurance**

None of the CI Creditor plans I studied, had any additional riders that can customize your policy.

### **Individual Critical Illness Insurance**

Most companies will have optional riders that can added to a policy, such as

Enhanced Coverage

Return of Premium at Expiry

Increasing Benefit

Return of Premium at Death

Second Event Rider

# Bonus #10 – Critical Illness Insurance Guaranteed Premium Rates

## **Creditor Critical Illness Insurance**

Creditor Critical Illness Insurance, like all other creditor insurance, does not guarantee the premiums for the life of the policy. The group insurance contract premiums can be changed at their discretion.

## **Individual Critical Illness Insurance**

Many Individual Critical Illness Policies carry guaranteed premiums.

A few years ago there was industry talk that Guaranteed Rates may disappear from the market, because the re-insurance companies, ( of which there are only a couple ), were feeling that they may not be able to guarantee rates for decades into the future. And that may still come to pass.

While you can, you should apply for an Individual Critical Illness Policy with Guaranteed Rates, while there are still available.

# Bonus #11 – Critical Illness Insurance Ongoing Service from an Independent Broker

## **Creditor Critical Illness Insurance**

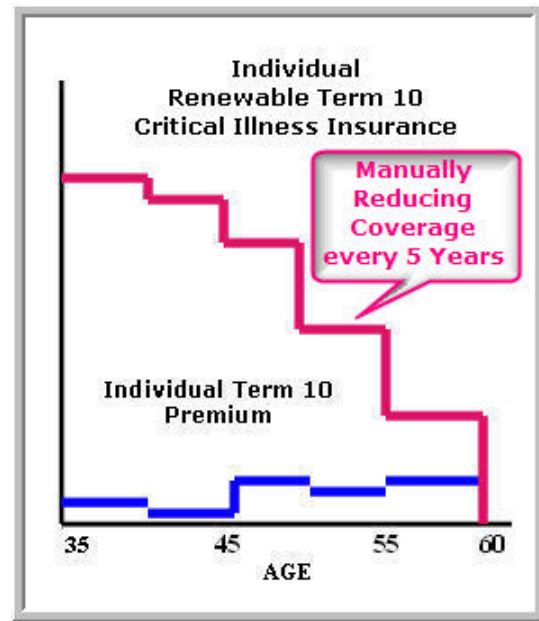
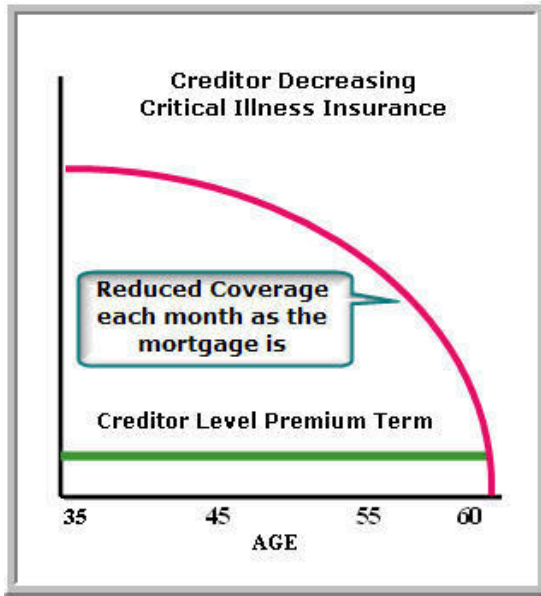
Creditor Insurance of all types, is an add on sale for the institution. They operate on a transaction basis. Once a transaction is finished, it is put to bed, and from what I have seen and experienced, there is little or no service on the policy, until the next potential sales situation arises. I have had clients say, "every time I walk into the bank, they are trying to sell me something."

How do you think they have been able to produce such huge profits for shareholders ?

## **Individual Critical Illness Insurance**

Your needs will probably change during your lifetime, and you will have access to discuss your concerns with an independent broker, who will have knowledge of a number of Insurance Suppliers in the marketplace.

# Bonus #12 – Critical Illness Insurance Compare Premiums



## Joint Creditor Critical Illness Insurance

\$250,000 Mortgage, amortized 25 years.

Rates Averaged with 3 Creditor Companies

Rates are the same for Smokers or Non-Smokers and Male & Female. Some are Joint Rates, some were 2 Single rates added together.

Total Premiums over 25 years, including PST.

Conditions Covered – 3 and 8

Couple starting at age 35 - \$ 9,271.28

Couple starting at age 45 - \$12,380.30

## Individual Critical Illness Insurance – 2 Policies

\$250,000 Mortgage, amortized 25 years

Rates Averaged with 3 Life Companies rates

Separate rates for Smokers or Non-Smokers and Males & Females.

Total Premiums over 25 years, with no tax

**Conditions Covered – averaged 23 !**

### Non-Smokers – Critical Illness

Couple starting at age 35 – **\$ 5,348.45**

Couple starting at age 45 - \$14,296.11

### Smokers – Critical Illness

Couple starting at age 35 – \$11,597.45

Couple starting at age 45 - \$29,055.78



This too is an apples to oranges comparison, because the two products have such major differences, that you need to evaluate for yourself.

The most major difference between the Creditor and Individual plans, is the number of conditions that are covered. Note that the Creditor Critical Illness plans that I have used above, only cover 3 conditions, and another covers 8 conditions. For Individual Critical Illness Insurance, most companies are now covering around 23 conditions. You need to consider this difference.

Secondly, the Creditor Insurance plans, across all the coverages, use Blended Rates, meaning that you will pay the same rate, whether you are a male or female, and whether you are a smoker or non-smoker.

As you can see from the rates above, the Individual Critical Illness Coverage is only cheaper for the couple who is age 35, and are non-smokers. But, you need to consider the contract differences noted above, and the other Bonuses discussed.

## Bonus #13 – Critical Illness Insurance The Right To Shop - from the Feds

Did the info in the Life and Disability Section on the right to shop.

## Exclusions and Limitations for Critical Illness Insurance

### Creditor Critical Illness Exclusions

One Creditor CI Plan posted on the internet, has the following exclusions in their Critical Illness Claims

Caused directly or indirectly by –

- attempting to commit suicide or harm your health
- use any drug, poisonous substance, intoxicant or narcotic, not taken under the direction of a doctor.
- committing a criminal act, or an assault
- driving drunk
- war or hostilities whether involved or not
- if you die in less than 30 days from a diagnosis of a covered condition
- other covered condition exclusions such as “minor versions” of covered conditions.

### Individual Critical Illness Exclusions

Common exclusions with many companies are –

- self inflicted injury
- driving under the influence
- committing an criminal offense
- war or hazards arising from war
- use of unprescribed drugs or narcotics
- attempting suicide

# Critical Illness Case Study for John and Michelle

## Michelle

In reviewing Michelle's group insurance plan, it is shown that her group plan also includes Critical Illness Coverage, in the amount of \$35,000, or one year's annual income for Michelle.

In discussing the possibility of Michelle suffering a critical illness, they feel that 1 year of income replacement is a reasonable amount.

## John

John has no Critical Illness Coverage.

In discussing Critical Illness Coverage with his broker, he realizes that in the event of suffering a Critical Illness, his major financial needs are to –

- maintain family income for family expenses
- maintain his business as best as possible

John feels that he should give himself \$50,000 for family expenses for 1 year, and another \$50,000 to use, to hire someone to replacement himself for 1 year. This would be a total of \$100,000 of Critical Illness.

## John's Individual Critical Illness Policy

Coverage Amount - \$100,000

Plan – Coverage to Age 75

Premium – level at \$ 65. per month

Other Individual Critical Illness Features Included

Covered Conditions – 23

Loss of Independence

Best Doctors

Counseling and Support Services

Surgery Advance Benefit

## Critical Illness Insurance Quotes

To obtain a critical illness insurance quote, from a few quality suppliers, go to this link - [www.CanadianMortgageInsurance.ca/criticalillness.htm](http://www.CanadianMortgageInsurance.ca/criticalillness.htm)

# Critical Illness Insurance Summary

	<b>Feature</b> ( CI = Critical Illness Insurance )	<b>Individual Insurance</b>	<b>Creditor Insurance</b>
<b>Bonus #1</b>	<b>Own &amp; Control Your CI Policy</b>	<b>Yes</b>	<b>No</b>
<b>Bonus #2</b>	<b>Obtain Broader CI Coverage</b>	<b>Yes</b>	<b>No</b>
<b>Bonus #3</b>	<b>Two CI Benefits Paid</b>	<b>Yes</b>	<b>No</b>
<b>Bonus #4</b>	<b>Portable CI Policy</b>	<b>Yes</b>	<b>Maybe</b>
<b>Bonus #5</b>	<b>Underwriting at Time of Application</b>	<b>Yes</b>	<b>No</b>
<b>Bonus #6</b>	<b>Additional Quality CI Policy Features</b>	<b>Yes</b>	<b>No</b>
<b>Bonus #7</b>	<b>CI Premium is PST Exempt</b>	<b>Yes</b>	<b>No</b>
<b>Bonus #8</b>	<b>Carry CI Policy after Mortgage is Paid</b>	<b>Yes</b>	<b>No</b>
<b>Bonus #9</b>	<b>Additional CI Riders Available</b>	<b>Yes</b>	<b>No</b>
<b>Bonus #10</b>	<b>Guaranteed CI Premium Rates</b>	<b>Probably</b>	<b>No</b>
<b>Bonus #11</b>	<b>Ongoing Service from Broker</b>	<b>Yes</b>	<b>No</b>
<b>Bonus #12</b>	<b>CI Price Comparison</b>	<b>Yes</b>	<b>No</b>
<b>Bonus #13</b>	<b>The Right to Shop</b>	<b>Yes</b>	<b>Yes</b>
<b>Bonus #14</b>	<b>Insure all CI Needs with 1 Policy</b>	<b>Yes</b>	<b>No</b>

# Summary of 3 Insurance Coverages for John & Michelle

## **Life Insurance** – for John & Michelle, & children

Plan - Term 20  
Amount - \$600,000 for John  
Amount - \$200,000 for Michelle  
Amount - \$10,000 Child's Term Rider for the children  
Premium - \$74. per month

## **Disability Insurance** – for John

Plan – Quality 2 Year Plan  
Benefit Amount - \$2700. per month  
Start Date – 60 days  
Benefit Period – 2 years  
Level Premium – \$ 70. per month

## **Critical Illness Insurance** - for John

Coverage Amount - \$100,000  
Plan – Coverage to Age 75  
Premium – level to age 65  
Premium Amount – \$ 65. per month

**Total Monthly Premium - \$ 209. per month**



## Overall Advantages of an Individual Insurance Program

What John and Michelle have accomplished with a holistic approach to their Risk Management Program is to –

- assess their insurance risks and needs in each risk category
- understand insurance plans and options in each coverage category
- obtain quality insurance in each of the categories they purchased
- integrate all their coverage with current group and existing personal insurance
- obtain the best value and features for their insurance priorities
- establish a relationship with a broker
- have a long term view of their financial planning, and know they have a number of policy options in the future

They are confident owning quality insurance plans, that can be changed as their lives change, providing a lifetime of quality protection.

# Risk Management Comparison

For John & Michelle

## Creditor Insurance

## Individual Insurance

### Life Insurance

\$260,000 – Joint Coverage

- decreasing coverage

Premium - \$ 62.22 /mo.

Cost/\$1000/month - .24

### Life Insurance

\$600,000 Term 20 for John

\$200,000 Term 20 for Michelle

- level coverage

Premium - \$74/month

Cost/\$1000/month - .09

### Disability Insurance

\$1600./mo Joint coverage

- 1 year of Regular Occ. Definition

Premium - \$58.97 /mo.

Cost/\$100/month – \$ 3.69

### Disability Insurance

\$2700./mo coverage for John

- 2 year Regular Occ. Definition plan

Premium - \$ 70. /mo.

Cost/\$100/month - \$ 4.38

### Critical Illness Insurance

\$250,000 - Joint Coverage

- covered conditions – 3

Premium - \$ 30.90 /mo.

Cost/\$1000/month - .12

### Critical Illness Insurance

\$100,000 – for John

- covered conditions – 23

Premium - \$ 65. /mo.

Cost/\$1000/month - .65

Total Premium - \$ 152.09 /mo.

Total Premium - \$ 209. /mo.

## Summary

Having Individual Insurance Policies to cover your mortgage and other needs, provides a longer term financial planning view, because the policies may continue for decades, and can adapt to your changing needs over the decades as well.

If your health is still intact, then I urge you to apply for Individual Life, Disability and Critical Illness Insurance, through an Independent Broker, who will provide you with quality policy(s) with features and benefits, that can't be obtained elsewhere.

The General Insurance Industry ( House and Auto Insurance Industry) has a TV commercial that says "The Best Insurance, is an Insurance Broker" .

I believe that is half of it, dealing with an Independent Life Insurance Broker. The other half is obtaining a competitive, quality insurance product, which only a broker can provide.

## 4 Step Action Plan

If you have taken to heart, what you have read, and have not had the benefit of working with an Independent Life Insurance Broker, I suggest to do complete the following 4 Step Action Plan, to put your risk management program in order, or re-confirm that it already is.

Step 1- you have just completed, by reading this book.

Step 2 – set up a meeting with an insurance advisor or broker of your choice. If you don't know anyone, ask a friend or an associate who they use, and ask to be referred to their advisor or broker. Be prepared to bring, all your current insurance policies, creditor, individual and group insurance, and to discuss your insurance needs.

Step 3 – Allow the advisor or broker to prepare a risk management plan to meet your needs, in your priority areas.

Step 4 – implement the risk management plans of your choice, and do a review with your advisor or broker every couple of years, or when a major change has taken place in your life.

Step 5 – cultivate your relationship with your advisor or broker, and you will probably find that it is a valuable relationship to you over time.

# Additional Resources

## Life Insurance Quotes

Obtain your own Online Life Insurance Quotes.  
Customize your quotes to your age, smoker or non-smoker, type of plan.  
Register at the following link -  
[www.CanadianMortgageInsurance.ca/lifeinsurance.htm](http://www.CanadianMortgageInsurance.ca/lifeinsurance.htm)

For assistance with your life insurance quotes, make at request at the following link – [www.CanadianMortgageInsurance.ca/lifequotes.htm](http://www.CanadianMortgageInsurance.ca/lifequotes.htm)

## Disability Insurance Quotes

To obtain a disability quote, from a few quality disability suppliers, complete the form at the link below, and one will be completed for you, and emailed to you -  
[www.CanadianMortgageInsurance.ca/disabilityinsurancequotes.htm](http://www.CanadianMortgageInsurance.ca/disabilityinsurancequotes.htm)

## Critical Illness Quotes

To obtain a critical illness quote, from a few quality suppliers, complete the form at the link below, and one will be completed for you, and emailed to you -  
[www.CanadianMortgageInsurance.ca/criticalillness.htm](http://www.CanadianMortgageInsurance.ca/criticalillness.htm)

## Monthly Newsletters

Sign up for the monthly newsletters, The Insurance Minute and The Nestegg Minute at the following link  
[www.CanadianMortgageInsurance.ca/newsletter.htm](http://www.CanadianMortgageInsurance.ca/newsletter.htm)

For any other questions or information, please email me - [Contact](#)

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