

BRAMPTON BOARD of TRADE

Trade Talks

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Managing Risk with Insurance

We can never totally remove risk from our lives, but we can reduce or eliminate the risk of financial loss we may suffer through accident, sickness, or death. By carefully preparing a risk management plan, we can reduce the impact on our financial well being and on those we love.

There are several kinds of risk you should be aware of. They include:

Risk of Death

The risk of financial loss through death is essentially the risk of the loss of the income of the "bread winner(s)" of the family. Life Insurance provides a way of managing this risk.

Risk of Disability

Although the probability of suffering a disability of 90 days or more before the age of 65 is considerably greater than the probability of death before that age, disability insurance (DI) is often overlooked in the financial planning process. For many families, the loss of income and the increase in expenses caused by disability represent a significant financial loss that could lead to bankruptcy.

Risk of Failing Health, and Long Term Care

The financial obligations of caring for the elderly over a long term can wipe out an individual's life savings, impoverish the patient's spouse, and impose hardships on one's family. Long-term care insurance (LTC) is a recent innovation, prompted by the enormous costs that can be associated with the health needs of the aged.

Risk of a Critical Illness

According to recent statistics, Canadians are 10 times more likely to be unable to work due to a critical illness than die before the age of 65. Although many people survive physically, financially the outcome may reach beyond their available resources. A number of insurance companies have begun to offer separate coverage for Critical Illness (CI).

The remainder of this article will focus briefly on covering the risk of death using life insurance. Future articles will deal with the other aspects of risk management.

The two most common types of life insurance are: temporary (more commonly known as term) and permanent.

A term policy has a fixed termination date. It has no cash value or paid-up benefits, just a death benefit. The premiums for this type of insurance are lower than for any other form because only pure insurance is purchased.

Permanent Life Insurance provides for an individual's entire life, and typically has level premiums throughout the contract. A very common form of permanent insurance today is a universal life policy. This product has become a popular vehicle for combining life insurance with savings or investments.

Life insurance is a method of creating cash at the very time needed... at one's death. Here's a quick way to establish your capital needs. Add up the following:

- Cash to pay immediate obligations, funeral costs, credit card debts, and loans.
- Money to pay off the mortgage or make the payments.
- Money for your children's educations or day care provision.
- Cash to cover monthly living expenses. Consider if your surviving spouse will be earning income or will need to stay home and care for children or dependants.
- Capital to pay off estate taxes or fund shareholder's agreements.

Now subtract non-registered assets which you can conveniently convert to cash without upsetting your current lifestyle. This will give you a rough idea as to how much life insurance is needed.

Capital Needed To Provide Before – Tax Monthly Income

Annual Income Provided From Capital	Monthly Income Provided From Capital	Provides for: 10 Years Income Capital earning 8% Inflation 4%	Provides for: 20 Years Income Capital earning 8% Inflation 4%	Provides for: 30 Years Income Capital earning 8% Inflation 4%
\$18,000	\$1,500	\$153,000	\$257,000	\$328,000
\$30,000	\$2,500	\$255,000	\$429,000	\$549,000
\$42,000	\$3,500	\$356,000	\$601,000	\$768,000
\$60,000	\$5,000	\$509,000	\$858,000	\$1,097,000

*Calculated on an annualized basis. Rounded to the nearest thousand.

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