Term life comes cheaper at a cost; If you don't die early, policy does Permanent covers you into old age

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If you're considering buying life insurance, you need to ask yourself, what do I want it to do for me?

Am I a 30-something newlywed with a mortgage, looking for financial security in the event of a death? Or a retired parent who doesn't want to burden their children with capital gains taxes on the cottage they'll inherit?

Either of the two major types of insurance - term and permanent - could be the right choice depending on your stage of life.

But before deciding anything, the best place to start is with an independent broker, who has no financial interest in the type of plan you choose.

"People who sell the product will give you a host of reasons why you want it - or as the insurance industry has purported for 150 years, why you need it," said Mark O'Farrell, a broker with Strategic Edge. In some cases you may, but for many, insurance is a want-based purchased.

"I always separate the market into needs and wants. If somebody needs insurance today but can't afford a lot, there are plans for them ... perhaps a term plan."

Term insurance, O'Farrell explains, is a low-cost policy for the short-term, while permanent - although more expensive per month - will pay out when you die, not just if you die prematurely. For this reason, even though the permanent monthly fees are more, in the long run it may work out to be a better deal.

For example, he said, newlyweds looking at $500,000 in term coverage, payable when the first person dies, might pay $24 a month for the next 10 years - which seems perfect for a young couple with lots of debt but not a lot of spare cash.

Except that after 10 years if they want that same coverage, the cost could increase to more than $60 a month, and eventually more than $100 as the risk increases. At age 75 the deal would expire, leaving them without coverage after decades of contributing to a policy that never paid out.

That's why many individuals look toward permanent insurance, said Steve Carter, senior vice-president of marketing at AIG Life Canada.

"A lot of people in their 30s, they've got a young family and they just want the cheapest policy possible, just to get them through the work years," Carter said. "Once you're into your 50s and you're into your wealth accumulation stage, the pre-retirement stage, your priorities change."

Having enough to retire on and support a surviving spouse are major objectives, he said. If this is the case, choosing a plan such as AIG's universal life - which O'Farrell rates as the best of its kind in Canada - is a good option because it offers a savings component.

Universal insurance puts you in charge of your funds - unlike permanent whole life insurance - and offers a level cost, meaning you put a certain amount of money into the plan each year for life. Or you have the option of paying it off quickly. On top of your monthly payments, which accumulate like a tax-sheltered savings account, there is a built-in policy. So if you die, your spouse would get the $500,000 coverage, plus a $50,000 benefit, plus the cash value of what's in the account, Carter said.

And better yet, you're able to withdraw part of that money should you need it.

If you decide to opt for a term plan, O'Farrell said, "ask for a Lifeguide quote, which lists all companies in Canada providing the product you're interested in, in order, based on price. Note that this is based on price, not value (so maybe) choose a company somewhere in the top 10."

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