# Insuring for a financially secure future

The BMO Wealth Institute provides insights and strategies around wealth planning and financial decisions to better prepare you for a confident financial future.

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Life has a way of throwing curveballs. Unforeseen events often place a tremendous amount of financial stress on affected individuals, and on their families, too. But are Canadians well prepared for the unexpected? This report delves into appropriate types of insurance coverage for every stage of life. It also dispels some of the common misconceptions preventing Canadians, young and old, from purchasing adequate insurance and offers advice on how to ensure peace of mind throughout life's precarious journey.

## Life happens
## — do you have a cushion when things go wrong?

John Campbell, 44, thought he had it all: good health, a nice home (albeit with a mid-sized mortgage) and a beautiful family. He was self-employed and earned enough to allow Ellen to stay at home with their three school-aged children. Life was good, and the Campbells were a happy bunch.

John and Ellen had discussed the importance of protecting the life they and their children enjoyed. Buying appropriate insurance to protect themselves financially in case something unexpected happened seemed the right thing to do, and was one more item they added to their to-do list. Unfortunately, it should have been prioritized at the top of the list. One day, tragedy struck as John was taking his usual early morning stroll with the dog. He was fatally injured in an automobile accident, leaving behind a grieving and dependent young family.

As the bills started to roll in, Ellen soon discovered how insurance could have helped. How was she to manage the day-to-day finances, and what did the future look like for her family now? The funeral had been so expensive, the mortgage payments (which weren't covered by insurance) were past due, and their savings were diminishing. Even if she managed to find a job, it would still be difficult to maintain the family's standard of living.

Like Ellen, many Canadians would have trouble paying for basic essentials if the primary wage earner of the family died or was unable to work due to illness or disability. In fact, almost two-thirds admit they would be hard-pressed to meet everyday living expenses immediately, or within a few months, if that income was cut off.[1]

Then why is life insurance ownership at its lowest level in 30 years?[1] To try to find answers to this question, the BMO Wealth Institute conducted a survey to record and analyze the views of over 1,000 Canadians on various aspects of insurance.[2] The survey results revealed that almost half (43%) of Canadians have insurance, either through coverage they bought themselves or through coverage offered by their employer. But furthermore, 51% are concerned about the financial well-being of their family if they were to suddenly pass away. Another BMO study showed that single Canadians think that if they lost their income they would need on average $186,000 in life insurance to ensure that funeral expenses and debts were covered, climbing to $291,000 for married/common law couples without children and to $321,000 for married/common law couples with children who also want to ensure their dependents are supported financially.[3]

**51%**
are concerned about the financial well-being of their family if they were to suddenly pass away

How much insurance Canadians need differs by age and stage of life. Just as every person is unique, so too, is their lifestyle – and, by extension, their financial comfort zone. When asked how they would rate their level of understanding of insurance products most appropriate to their life stage, less than half of survey respondents felt they had some level of understanding (49%), with only 16% feeling they have a very good understanding.

Given what Canadians have endured financially over the past few years, it is no surprise that insurance has been given a low priority. The economic recession hit everyone hard, followed by massive layoffs and pay cuts that affected the average pocketbook. Those who lost their jobs, and those new to the job market, found it difficult to find employment. Since then, everyone has been so busy trying to stabilize their finances and make ends meet that insurance hasn't been top of mind. According to another BMO study, 38% of Canadians perceive insurance to be too expensive, 27% think they're too healthy to need it, and 26% think they have enough coverage through work.[3] Some six million Canadians believe they are underinsured, yet only 35% of those who think they need more life insurance intend to buy it soon. While two-thirds without life insurance say they need coverage, only one in four plan to buy it in the next year.[4]

> In addition, many confess they simply don't know enough about insurance, or find the process too daunting.[4] A significant number of Canadians (88%) are not very familiar with the options available for life insurance.[5] This lack of knowledge could explain why many Canadians are not sure their life insurance coverage is adequate.

All of this is disconcerting given the unpredictability of life. A wealth plan is crucial for managing financial needs and helping to attain financial goals, but it is not a guarantee. Insurance fills the gap by providing income in the event of a health emergency, helping to maintain survivors' standard of living. As the word implies, insurance is all about safeguarding for those just-in-case moments. Its purpose is not to get rich quick, but to protect livelihood, dependents and wealth. It can not only ensure that there will be enough income to take care of financial commitments, but can also make sure that plans for the future are still achievable. The BMO Wealth Institute survey revealed that almost a third (31%) of Canadians feel confident that their wealth plan has addressed their insurance needs to mitigate risks. In addition, the financial and investment planning aspects of their wealth plan significantly helped to ensure peace of mind.

Only **16%** of Canadians feel they have a very good understanding of insurance products appropriate to their life stage.

### Life insurance comes in two forms:

#### Term life insurance

- Coverage for a set time period.
- A tax-free death benefit is paid if the insured dies during that time.
- Ideal for short-term and personal planning objectives.
- Usually offered for periods of 10, 20 or 30 years.
- Can be renewed at the end of the term period (usually at a higher cost).

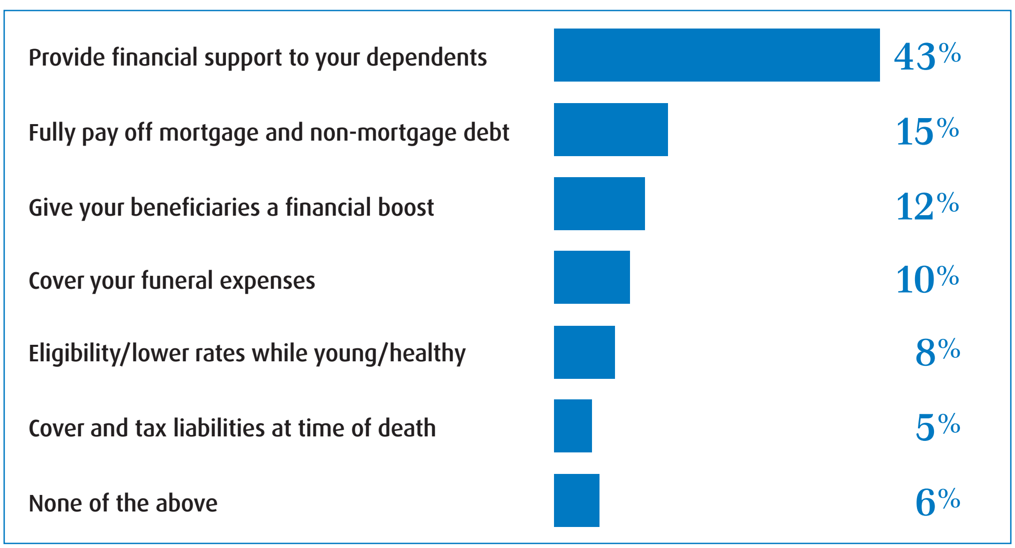
#### Permanent life insurance

- Provides permanent life insurance coverage until one's death.
- Also known as **universal life** or **whole life** insurance.


### Percentage of Canadians who are confident that components of wealth plan have been addressed

Source: BMO Wealth Institute survey by ValidateIt, June 2015

Not having enough insurance — or not having any insurance at all — can set up someone for a double shock: a dreaded life event such as disability or death plus the subsequent drain on savings which in turn will likely erode confidence in the highly rated financial and investment planning addressed in the wealth plans. Those without an insurance cushion may face great financial hardships. Having an insurance policy in place can protect finances, and provide peace of mind knowing that uncertainties in the future can be overcome. The reasons why survey respondents purchased life insurance are shown in the next chart; the top reason given was to provide financial support for dependents.

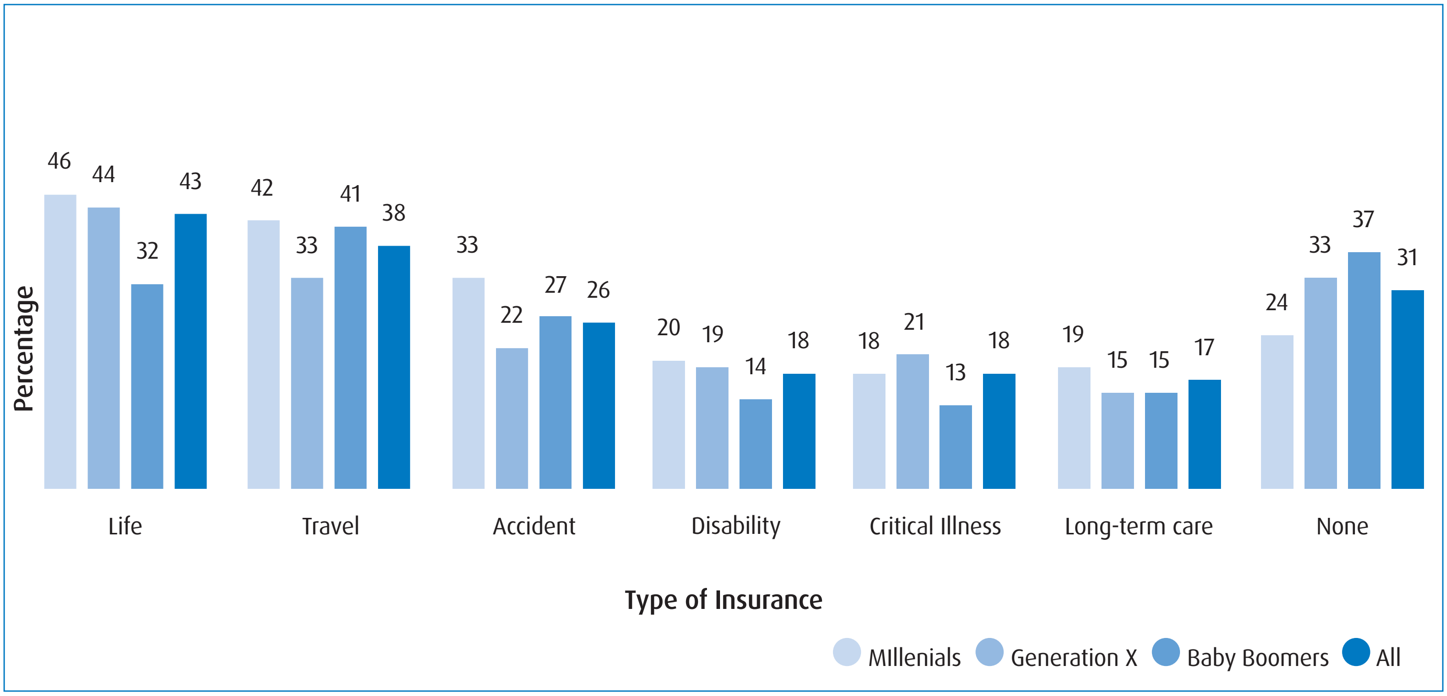



### Percentage of Canadians top reasons for purchasing life insurance

Source: BMO Wealth Institute survey by ValidateIt, June 2015

# Insurance for every life stage

Regardless of a person's age or stage in life, insurance should be part of any discussion about planning for the future. However, the type of insurance a person buys is most often influenced by their age, income and dependents — because as life changes, insurance needs change, too. Survey results suggest that millennials and generation Xers are most concerned with life insurance. While boomers also see the importance in having life insurance, they also feel the need to have travel insurance in place, perhaps due to future aspirations to travel in their retirement years.




**Percentage of Canadians who own or will purchase in the next 12 months.**

Source: BMO Wealth Institute survey by ValidateIt, June 2015

# Starting out

Most young people graduating from post-secondary education or starting their first real job are optimistic about the future and, as such, may think they are invincible. But the unexpected can strike at any time. Taking insurance seriously is an important step that young Canadians can take to prove their independence, protecting those who would have to pick up the pieces if the worst was to happen. When contemplating the possibility of suddenly passing away, nearly three out of five millennials (58%) acknowledged that they would be concerned about the well-being of their loved ones.

The best time to buy insurance is as soon as one can afford it, because youth and good health are the main drivers for the options available and their costs. This is when being young, unattached and without children is advantageous. In fact according to the BMO survey, knowing that premiums are less expensive if life insurance is bought earlier in life motivates three in five young Canadians (62%) to purchase it in the near future.

Surprisingly, when approached with the idea that a monthly life insurance premium could be less than half the amount of their average cell phone bill. Only half (49%) of millennials felt compelled  to consider purchasing life insurance. Almost one in four (24%) of those aged 18–34 admit they do not own or are unlikely to buy insurance of any kind. Being young, healthy, unattached, and busy building their careers, many millennials feel invincible and insurance may not be top of mind.

Although one might not have dependents at this stage, a spouse and/or children might figure in the future. Many people delay thinking about insurance until later in life, especially when they begin to experience health problems. Unfortunately, at that time insurance is either unavailable or too expensive. Sound advice suggests purchasing insurance while young and healthy, and then increasing the coverage as necessary.

**Millennials own or will purchase in the next 12 months:**

Life insurance 46%

Critical illness insurance 18%

Accident insurance 33%

Travel insurance 42%

**The most important types of insurance to consider when starting out are:**

**Life insurance** Protects what a young person is working hard to build in terms of their personal and financial goals, by laying down the foundation for the protection of future loved ones, such as a partner and children. From the outset, it will provide a tax-free cash lump sum to named beneficiaries (parents, siblings, other relatives, or even friends) to use however they choose, such as to pay for funeral costs or to pay off any remaining debts like a student loan or mortgage. The insured can also leave a monetary gift to a friend, relative or a charity of their choice.

**Critical illness insurance** Pays a lump sum upon diagnosis of a serious illness such as cancer, heart disease requiring surgery, heart attack or stroke. The insured decides how to spend the cash benefit, be it for medical bills, caregivers, living expenses or other needs. This type of insurance can be purchased on its own or can be added to a life insurance policy or group plan.

**Accident insurance** Accidents do happen. An accident is a sudden, unexpected, unforeseeable, unavoidable external event. If the insured is hospitalized and faced with out-of-pocket expenses, this insurance can cover medical bills or related expenses not covered by provincial health plans. Accident insurance allows a person to focus on getting better. It also helps them meet their financial responsibilities, so they can maintain their lifestyle.

**Travel insurance** Provides coverage in case a trip is interrupted by a medical emergency resulting from illness or accident, lost baggage, or flight delays. While most people look forward to travel or vacations, travel insurance provides peace of mind for the unfortunate traveller. For instance, treatment for a broken leg in Florida could cost up to US$20,000, while decompression sickness in Thailand could cost up to US$40,000 to treat.[6]

**Top 3 reasons why millennials purchase life insurance:**

Provide financial support to dependents 40%

Eligibility/lower rates while young/healthy 14%

Give beneficiaries a financial boost 13%

# Settling down

With post-secondary education complete and a new career underway, the time may be right to settle down with a partner, purchase a first home, and continue along the path to achieving financial and life goals. For a single individual, insurance that protects from a disability or serious illness becomes paramount. For those with dependents, the amount of coverage needed to ensure that loved ones can manage financially during a difficult period increases dramatically between the ages of 35 and 54.[5]

### At this stage, the following types of insurance should be considered:

**Life insurance** Beneficiaries (usually a partner, child or other relative) can use the insurance proceeds for funeral costs, to settle outstanding debt, and to replace the income of the deceased to cover living expenses. For a widowed parent, life insurance can help to cover the costs of raising children, pay university/college tuition fees, or even provide enough funds to be a stay-at-home parent.

**Critical illness and disability insurance** Becomes very important for individuals, and even more so for those with families, who are dependent on their own ability to earn an income. Most employed individuals have disability insurance through their employer's group plan. However, it is very important to understand the group policy's terms (such as the elimination period) and the type (such as own vs any occupation) and then consider an individual disability policy to cover any gaps in coverage.

**Creditor insurance** Pays off an outstanding credit balance or makes/postpones payments in case of death, disability, illness, or job loss. It ensures that loans remain in good standing, credit ratings are protected and, in the event of death, debt is paid off. With creditor insurance, Canadians can get the protection they need with accessibility, affordability and convenience from their trusted financial institution.[7]

**Generation X owns or will purchase in the next 12 months:**

Life insurance 44%

Critical illness insurance 21%

Disability insurance 19%

**Top 3 reasons why Generation X purchases life insurance:**

Provide financial support to dependents 46%

Fully pay off mortgage and other debts 20%

Give beneficiaries a financial boost 10%

# Midlife

The years between 55 and 64 can be filled with exciting new employment opportunities. Unfortunately, it can also be a time of unwelcome change — think layoffs, separation, divorce and death of a partner. For those relying on employer group insurance for life and disability, these coverages would be lost if employment is terminated. Further, Statistics Canada reveals that there is about a 10% chance that a person will need long-term care by age 55, increasing to 30% by age 65 and about 50% by age 75.[8] With these challenges, it is clear that insurance needs should be reassessed at this stage of life.

### As the family matures, these types of insurance become important:

**Life insurance** The children may be out of the house or no longer legally dependent, but there may be a dependent partner to consider and ongoing bills that need to be paid after the death of the family's financial provider. Some plans offer both insurance and investment benefits, giving more affluent Canadians the opportunity to tax-efficiently accumulate and transfer wealth to the next generation. Alternatively, establishing a permanent insurance plan before retirement can provide certain tax advantages, and the funds accumulated in the policy may be accessed in a tax-advantaged way in order to supplement retirement income.

**Critical illness insurance** While disability insurance replaces lost income, a lump sum critical illness payment will provide funds for other expenses that may arise such as home renovations, out-of-country medical care, home care and physiotherapy. This insurance coverage is particularly beneficial to those who have left the workforce due to layoffs or corporate downsizing as they cannot benefit from disability insurance if they are no longer earning an income.

**Long-term care insurance** Provides monthly lump sum payments to be used by the insured should they lose the ability to perform two of the five normal daily living activities: feeding, dressing, bathing, grooming and continence. Long-term care insurance provides funds to allow people to stay in their own homes as long as possible, to afford in-home care services or, alternatively, to pay for caregiving services provided by retirement homes or assisted living facilities. It is at this stage, prior to retirement, that long-term care insurance should be considered, while the premiums are more affordable and health status is still good.

**Boomers own or will purchase in the next 12 months:**

Life insurance 32%

Critical illness insurance 13%

Long-term care insurance 15%

**Top 3 reasons why boomers purchase life insurance:**

Provide financial support to dependents 41%

Cover funeral expenses 17%

Give beneficiaries a financial boost 3%

# Retirement

Whether retirement plans call for working part-time, volunteering or travelling the globe, re-evaluating insurance needs during this life phase is a crucial step to achieving financial security in the retirement years. Industry research shows that Canadians of all ages worry about having enough retirement income when they leave work, with almost one-quarter (24%) of employed Canadians between 50 and 65 lacking confidence that they will be able to live comfortably in retirement.[1]

## At retirement, these types of insurance should be considered:

**Life insurance** Can cover debt obligations, or provide a sufficient amount for a surviving partner to maintain their standard of living. It can also cover any estate tax liabilities at the time of death. This is especially important if assets like a cottage or business have significantly appreciated in value and the goal is to pass on these assets to beneficiaries, and not be forced to liquidate them to pay the tax liability. Life insurance can also provide increased liquidity for an estate. For instance, if there are two children and one of them is more interested in inheriting a vacation property or family business but will not be able to afford to buy out the other sibling, life insurance may provide the estate with sufficient funds to pay out the other sibling and thus equalize the estate.

**Medical insurance** Even with provincial health care coverage, it is important to assess medical insurance coverage offered by an employer to their pensioners and, more importantly, the availability of coverage to a surviving spouse. Purchasing private medical insurance can provide funds for out-of-pocket expenses such as prescription medications, vision, dental, and even travel emergencies.

**Retirement income options** During retirement, employment income may diminish or cease and government benefits, retirement savings, and maybe an employer pension become extremely important at this stage. There are several types of solutions to help protect and ensure a sustainable and steady source of retirement income. Insurance companies offer unique retirement options not available elsewhere. For example, life annuities offer guaranteed income for life to allay people's fear of outliving their retirement savings. Segregated funds, while similar in many ways to mutual funds, offer unique capital and death benefit guarantees that offset the investment risk.

**Travel insurance** Helps snowbirds pay costs of emergency medical treatment while away from home. That's helpful, since the average cost per hospital stay in the U.S. for adults ages 45–84 was more than US$12,000 in 2010.[9]

# Getting insured
## It's easier than it appears

Pondering potential illness or eventual death is not pleasant, but it is necessary to save heartache and financial difficulties down the road. However, many Canadians avoid it because they do not know where to turn.

Yet seeking insurance information is not as difficult as it seems, especially in the technology age. The Internet has exploded into the fastest and easiest research tool for the young and young at heart. A newly released LIMRA study[10] reveals that almost two-thirds of Canadians gather insurance information online, and 82% agree that the Internet is a good source of insurance information. The millennials (generation Y) are more likely (72%) to use the Internet for information on individual insurance products than gen Xers (67%) and boomers (60%).

Of those who search online — be it by desktop, laptop, tablet or smartphone — the study found that 50% seek information on products that companies offer, 41% look online to help them determine which products are right for them, and 36% want to compare prices. Boomers more often seek general product information or to find information for people of their age, gender or lifestyle, while millennials are more likely to go online to seek opinions, recommendations, referrals, and to locate financial professionals.

When it comes down to purchasing insurance, the Internet offers online buyers convenience, simplicity, low pressure, and plenty of information.[11] But at the end of the day, Canadians prefer personal service — whether face-to-face, over the phone or via online chat — before signing on the dotted line. They may go online first, but they like to talk with financial professionals to clarify and expand on what they learned on the Internet. The majority of consumers will buy their next product in person. While only about 1 in 7 consumers prefer to purchase their next product online, generation Xers and millennials are more willing to do so than boomers.[11]

**82%**
agree that the Internet is a good source of insurance information

# It's never too early to insure

With the abundance of resources available online and offline to research and purchase insurance, why are Canadians under-insured? There seem to be some misconceptions holding Canadians back from initiating their insurance needs.

**Insurance is too expensive.** Not true; the pure cost of insurance has decreased every year due to competitive rates and increasing life expectancy.

**I don't understand it.** There are myriad ways to learn more, including online and from your financial professional.

**I have group insurance.** Group coverage can end at a moment's notice if employment is terminated.

**I'm not old enough and don't have kids.** Life happens. Critical illness insurance provides cash if one develops a covered life-threatening illness, and allows those affected to focus on getting better. It is cheaper to buy insurance when one is young, and doing so early provides protection now and in the future.

### Steps to keep in mind when choosing a policy:

**Know thyself** Everyone has a unique situation and varying personal goals. Visualize a financial future impacted by various life events and then determine what insurance is necessary at life's different stages.

**Review the options** Take the time to learn and understand the types of insurance available.

**Get comfortable** Whether buying online or with the help of an advisor, there is no shortage of resources and options available to meet insurance needs.

**Know what is important** Insurance is not just about making sure that one has enough coverage to take care of financial commitments. It is also about ensuring that the plans a person made for the future — whether for themselves or for their family — are not derailed due to disability or death.

**Seek advice** A financial professional can help to develop a financial plan that incorporates all of an individual's short-term and long-term goals, including preparing for unexpected events through insurance.

# Footnotes

1 Canadians at Financial Risk: 2013 Canadian Life Insurance Ownership Study, LIMRA.

2 Survey conducted by ValidateIt™ for the BMO Wealth Institute from June 2–10, 2015, with a sample size of 1,005 Canadians. Overall probability results for a sample of this size would be accurate to within +/- 3.1%, 19 times out of 20.

3 Survey commissioned by BMO Life Assurance Company completed by Pollara between October 22–24, 2014, with an online sample of 1,002 Canadians 18 years of age and older.

4 Canadians at Financial Risk: 2013 Canadian Life Insurance Ownership Study, LIMRA.

5 Survey commissioned by BMO Life Assurance Company completed by Pollara between July 2–4, 2014, with an online sample of 1,005 Canadians 18 years of age and older.

6 Survey commissioned by BMO Life Assurance Company completed by Pollara between May 9-13, 2013, with an online sample of 1,000 Canadians 18 years of age and older.

7 The Canadian Association of Financial Institutions in Insurance. Accessed May 25, 2015 http://www.cafii.com/creditor_insurance

8 Canadians Ill-Prepared For Long-Term Care Costs. Benefits Canada Website. June 22, 2012. Accessed June 2015. http://www.benefitscanada.com/benefits/health-wellness/canadians-ill-preparedfor-long-term-care-costs-29917

9 Survey commissioned by BMO Life Assurance Company completed by Pollara between June 14- 18, 2012, with an online sample of 1,000 Canadians 18 years of age and older.

10 Information Seeking in Canada, Consumer Internet Use for Retail Insurance, LIMRA, June 2015.

11 Purchasing Insurance in Canada, Consumer Internet Use for Retail Insurance, LIMRA, July 2015.

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