

What Do I Need To Know When Choosing Life Insurance

HOW TO IDENTIFY THE POLICY TO
PROTECT YOUR FAMILY



THERE ARE 4 *questions to ask.*

01 HOW MUCH LIFE INSURANCE DO I NEED?

02 HOW LONG DO I NEED THE FUNDS TO LAST?

03 HOW MUCH SHOULD PREMIUMS BE?

04 SHOULD I CONSIDER WHOLE LIFE INSURANCE?



HOW MUCH LIFE INSURANCE DO I NEED?

01

The general recommendation is to have 10x your annual (net) salary.

Think about each person who depends on you and how long you might need to provide financial support for that person.

For example—how old is your youngest child? How many kids do you have and do you want them to have the opportunity to attend college or university? The more dependents you have, the more coverage you may need.

3 top *reasons* for purchasing life insurance:



TO PAY OFF DEBT

A common question is “will my kids inherit my debt?” The short answer is “no” but the debt stays with the estate, so before any inheritance is paid out, the estate assets must first be used to pay outstanding debts.



TO PUT CHILDREN THROUGH SCHOOL

You may want to consider the age of your kids, the cost of post secondary education and whether insuring for this is a priority.



TO REPLACE LOST INCOME

This is the big one. Imagine how much it would cost for your kids to live until they are of working age. Who will be taking care of them? Do you have elderly parents who will need to be supported also?

WHAT DO I DO NEXT?

Once you understand your specific reason(s) for purchasing life insurance, there are two primary methods you can use to determine the correct amount.

MULTIPLE OF INCOME

This is the simplest method and is done by multiplying your annual income by a certain factor, most commonly a factor between 10 and 20. The younger you are, the higher the appropriate factor will likely be because you have more years of income ahead of you. Generally, as you get older, you have fewer years of income to replace so your multiple will likely be lower.

COMPREHENSIVE PLANNING

This method uses a computer program to account for a wide range of factors in calculating a survivor's needs. Those factors may include age, taxes, inflation, growth of current assets, college goals and retirement, just to name a few. Comprehensive planning software can be accessed online or by working with a trained financial professional. *Many insurance companies have online calculators!*

LET'S DO ONE TOGETHER!

How much life insurance do I need?

Let's just do a simple calculation together. You're a mom, making \$70,000 (after tax). Your only child is 10, and you'd like to make sure they're taken care of until they're 30 at your current income level. **70,000 x 20 = 1.4M**. In this example, we're using a 20x multiple because the child is quite young.

Another way to look at it:

200,000 left on mortgage

30,000 in debt

100,000 expected school tuition

50,000 per year for 20 years (1M)

1.33M in coverage

and adjust from there!



02

HOW LONG DO I NEED THE FUNDS TO LAST?

Term life policies are generally sold in lengths of five, 10, 15, 20, 25 or 30 years. In some cases, you can find 40-year term life insurance.

The longer the policy, the higher your premium is likely to be. That's because you're locking in your rate for a longer time, and as you age, health problems tend to crop up and your likelihood of dying increases.

Here are the most common term lengths and who they might be a good fit for.

05

5-YEAR TERM LIFE INSURANCE

This could be a good fit for someone with short-term financial commitments, such as a small loan or college fees.

10

10-YEAR TERM LIFE INSURANCE

This term may benefit parents or guardians with older children who still rely on their income, or someone approaching retirement who needs to cover the last leg of their employment.

20

20-YEAR TERM LIFE INSURANCE

This is the most popular term length and can help cover the income of a parent with young children.

30

30-YEAR TERM LIFE INSURANCE

This can help cover large, long-term financial obligations, such as a mortgage or college debt. This term length may also be a good fit for young applicants who want to cover the majority of their earning years.

How to choose the right term length



The length of your mortgage: Your mortgage is a big part of your monthly expenses and often the main reason people buy life insurance. You don't want your policy to expire after 20 years if your mortgage payments will last another decade after that.



How long until children are on their own: Children can be expensive, requiring food, clothing and education, and more. How long until you can expect your kids to support themselves? That may be at least a few years beyond age 18, particularly if you're planning to pay for college.



The number of years until you retire: Ideally you'll have savings for when you stop working. Therefore, if you're buying term life insurance primarily to replace your income, you may not need it after retirement.



03

HOW MUCH SHOULD PREMIUMS BE?

The average cost of life insurance in Canada ranges between \$15 to \$100 per month. The average cost of term life insurance rates in Canada is \$26.55 per month for PolicyMe customers (age 40 and under, \$500,000 in coverage, 10 year term).

The Cost of Life Insurance

HERE'S WHAT YOU COULD EXPECT TO PAY FOR LIFE INSURANCE, ON AVERAGE, BASED ON DATA FROM 33 DIFFERENT CANADIAN LIFE INSURERS:

Type	Woman	Man
Term life insurance (PolicyMe)*	\$45.22	\$51.78
Permanent life insurance*	\$337.27	\$391.05
Life insurance for smokers**	\$57.27	\$79.91
Life insurance for pre-existing conditions*	\$42.75	\$56.70
Life insurance for seniors***	\$270.13	\$373.52

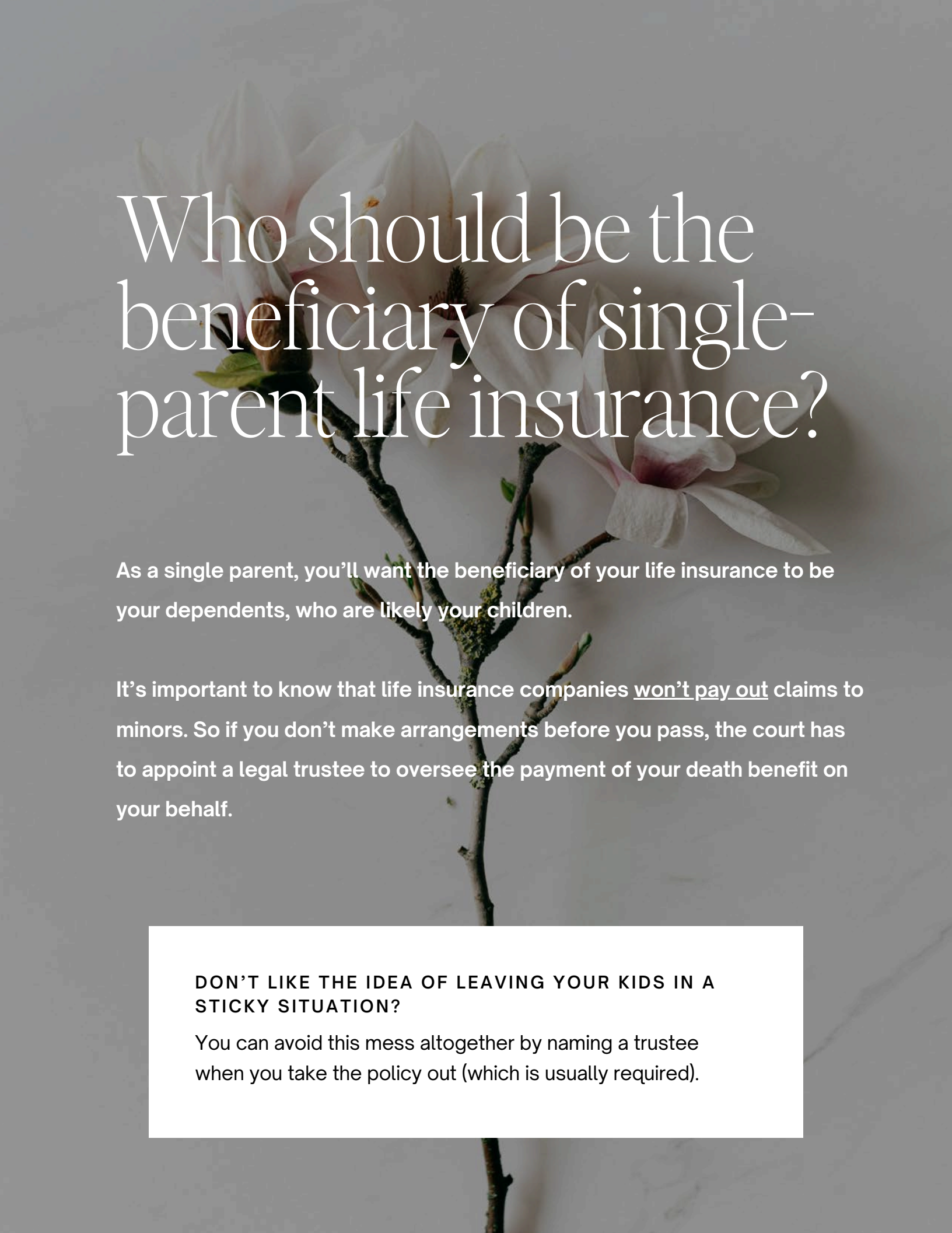
**Starting prices based on \$500,000 coverage for a 40-year-old.*

***Average prices based on a 20-year term policy for \$250,000 coverage.*

****Starting prices based on a 20-year term policy for \$250,000 coverage for a 65-year-old.*

THE COST OF LIFE INSURANCE IN CANADA PARTLY DEPENDS ON FACTORS THAT ARE OUT OF YOUR CONTROL, LIKE YOUR **AGE AND GENDER**. AND IT ALSO MAY DEPEND ON FACTORS THAT ARE IN YOUR CONTROL, LIKE YOUR **HEALTH, LIFESTYLE AND COVERAGE AMOUNT**. HERE'S EXACTLY WHAT INSURERS CONSIDER WHEN CALCULATING YOUR LIFE INSURANCE PREMIUMS:

- ★ **Age:** The risk of death goes up as you age, making it more costly for insurers to cover you.
- ★ **Gender:** Women [tend to live longer](#) than men. Men will typically pay more for a life insurance policy.
- ★ **Smoking:** Smokers pay at least twice as much as non-smokers.
- ★ **Health:** The poorer your [health](#), the more you'll pay (includes pre-existing health conditions like diabetes or high blood pressure).
- ★ **Lifestyle risk factors:** Risky hobbies or jobs will raise your insurance policy rates.
- ★ **Coverage amount:** The more coverage you get, the higher your premiums will be.
- ★ **Type:** Term life insurance is often more affordable than permanent life insurance policies.
- ★ **Company:** Different insurance companies have different pricing structures; it pays to shop around.



Who should be the beneficiary of single-parent life insurance?

As a single parent, you'll want the beneficiary of your life insurance to be your dependents, who are likely your children.

It's important to know that life insurance companies won't pay out claims to minors. So if you don't make arrangements before you pass, the court has to appoint a legal trustee to oversee the payment of your death benefit on your behalf.

DON'T LIKE THE IDEA OF LEAVING YOUR KIDS IN A STICKY SITUATION?

You can avoid this mess altogether by naming a trustee when you take the policy out (which is usually required).

Common MISTAKES

01

NAMING A MINOR AS BENEFICIARY WITHOUT APPOINTING A TRUSTEE

If your kids are under 18, you have to name a trustee who will be responsible for the life insurance payout until your kids are old enough. And like the word suggests, make your trustee someone that you trust to help guide your family in this tough time.

02

BUYING PERMANENT LIFE INSURANCE

Buying permanent life insurance (including “universal” or “whole life”) is more expensive than term life insurance (5-15x the cost!) and is usually unnecessary. If you don’t expect to have dependents or debt well into the future, why pay life insurance premiums for the rest of your life?

03

BUYING LIFE INSURANCE FOR YOUR CHILDREN

Buying life insurance for your children is also unnecessary. If you buy life insurance for your children, you’ll be locked into a permanent plan with a high monthly premium. And you’re unlikely to ever make a claim against it.

04

RELYING ONLY ON GROUP LIFE INSURANCE

Relying only on group life insurance isn’t a good idea because it’s often insufficient on its own. You should view it as complementary to a more robust term life insurance policy. Group life insurance typically covers one to two times your annual salary.



04

SHOULD I CONSIDER BUYING PERMANENT LIFE INSURANCE?

Nope.

Insurance should be used for insurance and investments should be used for investing.

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