INSURANCE

YOU CAN PUT YOUR EGGS IN ONE BASKET

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WARD PERRIN/Vancouver Sun

PROTECTION: Insurance adviser Blair MacLean (left) and Laurie Porter help Ken and Marian Snowball and their children consolidate their insurance needs.

MICHAEL KANE
SUN MONEY COLUMNIST

Most of us hate thinking about insurance because we assume it pays off only on bad news and we know the premiums swallow a hefty chunk of the household budget.

In fact, we can cut costs and improve protection by consolidating coverage with a broker who has access to all insurers. Insurance can also open the door to significant tax-planning opportunities.

When you tally it up — life insurance, mortgage insurance, homeowner insurance, car insurance, disability insurance, medical insurance, travel insurance, loan insurance, business insurance, pet insurance and extra insurance for grandmother's china — chances are you're paying twice to cover some areas of your life and leaving yourself exposed in others.

Like most of us, financial planners Marian and Ken Snowball acquired insurance piecemeal as their circumstances changed.

"When I was single I had no insurance and now I can't believe how much insurance I have collected in 10 years," says Ken, the 41-year-old father of Nicole, 4, Martin, 2, and seven-month-old Patrick.

"Life tends to creep up on you. A child is born and you buy another policy. What I overlooked was that I was paying a policy fee on each one. I could get more protection for less with just one policy."

When the Snowballs formed West Vancouver's BC Partners in Planning with Blair MacLean, it made sense to review their insurance. Not only is MacLean the firm's life insurance specialist, there were business insurance needs to be addressed.

With help from MacLean and property insurance broker Laurie Porter of Lee & Porter Inc., the Snowballs have saved money and significantly spread the risk for many of the uncontrollable events that are part of life.

The first priority was life insurance and how much would be required to replace the income that Marian or Ken brings to the family. Factored into their annual costs are mortgage payments on their home in Dundarave and maximum RRSP contributions.

The Snowballs refused mortgage insurance offered by financial institutions because it can cost as much as four times as term insurance for the same amount. As well, mortgage insurance decreases in value as a mortgage is reduced but premiums remain the same.

To generate income of $50,000 each, MacLean calculated they need life protection of $560,000 each, assuming the proceeds can be invested to earn nine per cent.

"We're comfortable with nine per cent because we are fairly aggressive investors," said Ken. "If we were more conservative and expected to earn only five per cent, we would need more than $1 million each to replace our income."

The Snowballs decided to buy renewable term insurance, the least expensive form of life insurance with annual premiums guaranteed for 10 years.

Term insurance is pure insurance with no investment component, no cash value and no residual value, although it may be converted into permanent insurance without providing evidence of insurability. This is an important feature if an individual becomes uninsurable during the initial term.

MacLean checked his computer for quotes and found Ken could pay $766 to $1,175 for the same life coverage from different insurers. Marian, who is 35, was quoted from $436 to $874. If they were smokers, they would each pay about 50 per cent more.

MacLean was able to reduce their annual premiums by $187, but he cautions that cheapest is not always best. You may pay a lower premium today but face a significantly higher renewal rate in 10 years time.

The Snowballs' term premiums could triple after a decade but by then they expect their income replacement needs will be lower because they will have less debt.

It can make sense to pay a higher premium today with an insurer who offers a lower renewal rate but remember, if you deal with an agent who is tied to one company, you could pay too much today and still face whopping premium increases down the road.

With income replacement covered, the Snowballs turned to estate coverage which means insuring for tax liabilities which will exist when both die. That's when universal life coverage comes into its own. Insurance proceeds are paid out tax-free and can be used by the estate to pay the taxes on other assets so that they can pass unencumbered to the children and other heirs.

If they should die tomorrow the Snowballs estimate their current tax liability at close to $200,000. That includes income tax on their RRSPs, capital gains tax on mutual funds held outside the RRSPs, and capital gains on rental real estate in Vernon. Two tax-shelter schemes also mature during the next 12 years with liabilities totalling $35,000.

Their premium for $200,000 of joint last-to-die coverage is $590 a year which will stay constant. But over time the value of the policy will grow through investments which they can choose.

They can also put additional money into the policy which will grow on a tax-deferred basis, similar to an RRSP. Marian, a chartered accountant, counsels against over-funding universal life insurance until you have eliminated non-deductible debt such

SEE INSURANCE, F3

Umbrella policy can save money

Insurance is often marketed as an umbrella offering protection when a little rain falls into your life. Less well-advertised is the concept of a personal umbrella policy offering excess liability coverage whether you are driving your car in the United States, rowing a boat on Howe Sound, or welcoming guests at a condo in Whistler.

If you have more than one vehicle in the family, or recreational property in Canada, or a boat, an umbrella policy could save you money and offer greater peace of mind, says West Vancouver insurance broker Laurie Porter.

Ken and Marian Snowball need individual insurance for two cars, their home, a recreational property and a rental property. They could pay hundreds of dollars more in premiums if they wanted to raise the third-party liability threshold above the typical $1 million on each policy.

In this litigious world, it is prudent to have at least $2 million in protection if you drive in Canada, and probably $5 million if there is a chance you could be involved in an accident in the U.S. You could also be held liable for injury or damage as a result of accidents involving watercraft or at property for which you are responsible.

To raise liability protection from the basic $1 million to $5 million in B.C. would cost $128 per vehicle, based on a 40 per cent good driver discount.

By paying one $279 premium on a personal umbrella policy, the Snowballs obtain $5 million protection for their cars and properties, over and above $1 million on their primary coverage. They will also be covered for a boat whenever they can afford one.

The policy does not cover their business activities but takes care of a few other perils including libel, liability assumed under some contracts and liability incurred as the result of volunteer work in a non-profit organization, subject to exclusions.

By consolidating insurance on the Snowballs' three properties, Porter was able to reduce their annual premium by $108 to $1,288 and significantly upgrade the coverage on their Gibsons recreational property from minimal fire and extended coverage to secondary homeowners' protection.

That means the building and contents are insured on a replacement-cost basis, a quality of protection not available for recreational property unless it is occupied at least once every 30 days, roads are accessible year-round, and the building is constructed as a year-round residence and is not merely a winterized cottage.

— Michael Kane

INSURANCE from F2

Cash access available when circumstances force situation

as a home mortgage and maximized your RRSP.

In addition to the tax-sheltering potential, MacLean says it is easy to increase universal life coverage as the need arises and the policy holders can get access to the cash value if necessary, although there may be a surrender fee.

The fee declines as each year passes and is usually eliminated after 10 or 15 years. The surrender fee covers the cost of the insurance agent's commission as well as underwriting and administration costs.

PATRICK SNOWBALL

Next on the agenda was disability insurance which is also geared to income needs rather than actual income and is calculated at 66.6 per cent of requirements because it is paid tax-free.

To cover income needs of $3,000 a month, Ken pays $127 monthly and Marian pays $112 monthly.

Marian could have been required to pay a higher premium because women have a higher claims history but she also rates a discount because she is a chartered accountant. Premiums are influenced by the claims record of your occupation.

Lawyers and realtors typically pay more because they are more likely to claim.

In selecting a disability carrier, MacLean looks for a well-capitalized company with a track record of not only paying claims but rehabilitating individuals to return to work.

He also looks for unambiguous definitions of disability and payments indexed to inflation.

The three partners are still working on "buy-sell insurance" which allows a company to buy a deceased partner's shares from their estate and carry on business.

They are also discussing "key-man" coverage that allows the corporation to replace a deceased partner, as well as dealing with the loss of revenue that the partner was contributing, and keeping creditors at bay.

To address those needs, MacLean says the cost to the corporation for $150,000 worth of 10-year renewable term insurance would be $228 annually for Ken, $151 annually for Marian, and $197 annually for MacLean.

The expense is non-deductible to the corporation because the benefit is paid tax-free.