FOCUS ON INSURANCE

Insured through work?  It may not be enough

Odds are, your employer is not in the insurance business. So why would you trust something as important as your family’s security to your employer’s group insurance plan?

The reality is that there are a number of potential shortcomings to many employer-sponsored plans. The following are some of the most common.

Insufficient life coverage. Life insurance coverage is often tied to your base salary. For example, it might be one or two times that amount. Would that really be sufficient to protect your family if something were to happen to you?

Limited disability coverage. Disability coverage (if you have it at all) might provide benefits for only a short period of time or only if you are unable to work in any job, not your own occupation.

No protection from critical illness. Outside of an executive compensation package, critical illness protection is not usually part of most employer-sponsored plans.

Lack of portability. Regardless of the benefits you do have, should you leave your job, those benefits will stop. By then, your ability to obtain insurance could be compromised.

No coverage for family members. Even if your plan offers sufficient coverage for you, it may not extend to your spouse or other family members.

In many situations, stand-alone policies, which protect you regardless of your employment situation, may deliver the best value and the most peace of mind.
Mutual funds + professional advice: A winning combination for managing risk

When we think of risk, we tend to focus on the possibility of losing money in the markets. But every investment has its risks. Even investments that seem completely safe like Guaranteed Investment Certificates (GICs) come with some risk — notably, will they keep pace with the cost of living?

Here’s a look at the main kinds of risk — and how mutual funds help protect against them.

Market risk
Also called market volatility, this type of risk is associated with investing in the stock market. It includes any event that can depress the markets, such as war or political turmoil, as well as events that can depress specific industries — such as the airline industry after 9/11.

Managing market risk. Diversification is the best way to protect against market risk. By holding a number of investments, we reduce the effect of a decline in any one. In fact, that’s a main reason why so many investors choose mutual funds in the first place. A mutual fund provides much greater diversification than any individual investor could achieve.

In addition, we can diversify your portfolio with equity funds providing growth potential, bond funds adding stability, and cash equivalents giving you security and liquidity. If the equity portion of your portfolio is declining, cash and bonds may take up the slack.

Company-specific risk
Also called “business risk,” this type of risk refers to any event or trend that affects a specific company in any industry. Examples include the failure of a major project or product, or changes in leadership.

Managing company risk. Mutual funds are one of the best ways to manage company-specific risk. Rather than buying the stock of one or two companies, a broad equity fund will invest in numerous companies.

In addition, fund managers typically conduct rigorous company analysis before they invest and on an ongoing basis afterward.

Inflation risk
Inflation risk is the risk that rising prices for goods and services will erode the value of your savings. In Canada, inflation has been low for the past few years. However, over the long term, the effects of even moderate inflation become evident.

For example, the average annual rate of inflation over the past 35 years is 3.04%. That means a basket of goods and services — including food, housing, transportation, furniture, and clothing — that cost us $100 in 1980 would set us back $294 today.

Managing inflation risk. Historically, equity mutual funds have outpaced inflation better than fixed-income or money market funds. While they are subject to short-term volatility, they offer us the potential for greater growth over the long term.

Currency risk
Fluctuating currencies can affect the value of your investments when they are converted back into Canadian dollars. We have seen this in the past few years, as the Canadian dollar has fallen against the U.S. dollar.

Managing currency risk. Diversifying internationally can help reduce currency risk. A global mutual fund, for instance, will invest in a number of countries and gain exposure to a basket of currencies. This can help reduce the impact of currency fluctuations on your portfolio.

You can also take advantage of currency-neutral funds, which invest in U.S. or international markets but eliminate currency risk by hedging returns back into Canadian dollars.

Putting theory into practice
Working together, we can find the right amount of risk you’re comfortable with so you can take advantage of the growth of the markets over time. ■

1 Bank of Canada Inflation Calculator.
Canadians embracing entrepreneurship

Whether it’s the ongoing popularity of shows like *Dragon’s Den* and *Shark Tank* or a desire to pursue a passion, Canadians are setting out on their own in record numbers — some 2.8 million of us were self-employed in 2015, according to Statistics Canada.¹

This figure has been rising steadily over the past decade. That’s because Canadians between the ages of 55 and 64 are almost twice as likely as their 25- to 44-year-old counterparts to be unincorporated, self-employed workers.²

If you’re considering self-employment, let’s get together soon to talk about:

- Revising your budget to reflect your new situation.
- The best way to access cash if you need capital to get started.
- The potential tax benefits of being self-employed.
- How to stay on track to your retirement goals.
- Whether you need to replace any employer group benefits you’ll be giving up.
- Whether we need to adjust the asset allocation in your portfolio in light of your new circumstances.

Whatever path you decide to take, we’re here to support you.

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¹ Statistics Canada Table 282-0012 Labour Force Survey Estimates.

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EYEOPENER

What’s under your mattress?

A recent BlackRock Global Investor Pulse survey¹ found that Canadians are holding a whopping 60% of their portfolios in cash-type investments. Here are the top three reasons why:

**Top 3 reasons investors hold cash**

- **Liquidity:** 46%
- **Convenience:** 33%
- **Safety:** 24%

We can help you decide on the best way to put your cash to work so that you are getting the returns you need to meet your goals without taking on more risk than you’re comfortable with.

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¹ BlackRock Global Investor Pulse: Stuck in Cash.
² Taxtips.ca, “Historical Returns on Stocks, Bonds, T-Bills.” Pre-tax returns as of Dec. 31, 2015 in Canadian dollars.
Treat insurance like investing, with a portfolio approach

Most people are familiar with the concept of an investment portfolio. But did you know that the same approach is also effective when it comes to protecting yourself and your family?

An insurance “portfolio” consists of several complementary types of coverage. Together, they provide comprehensive protection.

Protecting your family’s lifestyle
If you should pass away, you’d want your family to be able to stay in their home, your kids to be able to get (or continue) post-secondary education, and your spouse not to have to worry about making ends meet.

Solution: Life insurance on your own and your spouse’s life. Coverage can be adjusted as your protection needs change.

Protecting your income
An interruption in your earnings caused by disability or critical illness could spell financial hardship for you and your family.

Solution: Disability and critical illness insurance. Disability insurance is designed to replace a portion of your income until you can get back to work. Critical illness insurance provides a one-time payment that you can use to seek alternative treatment, pay off debts, provide in-home care, or anything else that can help ease the strain on your family.

Protection from debt
Borrowing can help you achieve important goals. But unexpected events can sometimes interfere with regular repayments, putting you, your family, and your savings at risk.

Solution: Sufficient life and disability coverage to maintain required payments or pay off your debts. While many lenders offer creditor life and disability insurance to cover the outstanding balance on a mortgage, line of credit, or credit card, a free-standing policy will give you greater flexibility and may be more cost-effective.

Preserving your estate
When you pass away, a deemed disposition of all your assets occurs for tax purposes, which may result in substantial capital gains.

Solution: Permanent life insurance. Permanent coverage provides protection for life, so you won’t have to worry about not being able to qualify or not being able to afford premiums that rise as you get older.

Protection against healthcare costs
As you age, you may need assistance for everyday activities. Whether you need occasional help in your own home or round-the-clock nursing care, the cost can be significant.

Solution: Long-term care insurance. With sufficient long-term care insurance, you’ll be able to have the level of care you want without having to tap into your own financial resources or rely on your children for support.

As you can see, there are many different factors to consider and many are subject to change. We can help make sure you have the right types of coverage, in the right amount, so that your insurance portfolio provides the protection you and your family need.

How insurance can help you invest

The primary purpose of purchasing life insurance is to protect your spouse, children, or other dependants from financial hardship if you were no longer there to support them. Permanent life policies (universal and whole life), however, include an investment component as well as providing you with coverage for life. Even better, the investment growth generated is tax-free.

The premiums you pay for permanent insurance will be higher than the premiums for the same amount of term coverage. That’s because part of every premium goes into the investment component of the policy, increasing its cash value.

Your policy’s cash value has many potential uses:

• Estate enhancement. The accumulated cash value can be added to the tax-free death benefit, resulting in a larger benefit for your heirs.

• Premium holiday. Some policies will allow you to use the cash value to cover some of the premiums, so if you face a temporary cash-flow shortfall, you don’t have to worry about possibly losing coverage for non-payment of premiums.

• Extra retirement income. You can draw on the cash value or use it to secure a loan or line of credit to provide you with additional income in retirement. Note that cash withdrawals may be taxable and both strategies will reduce the amount of your insurance coverage.

We’d be happy to chat with you more about the potential benefits of a permanent policy in your situation and provide a no-obligation quote.