Snapshots™

NEWCOMERS:
INSURANCE IN CANADA

AS YOU BUILD YOUR NEW LIFE IN CANADA, YOU WILL WANT TO PROTECT WHAT YOU HAVE GAINED FROM THE UNEXPECTED.

It might be a fire that damages your new home or apartment; it might be an illness that prevents you from working for several months; it could be a careless driver who smashes into your parked car. It could even be a robbery that cleans out your household electronics. You will want to be protected – and insurance is an effective way to manage those risks.

Insurance is a pooling of risks. You agree to make relatively small payments or premiums over a period of time. In return, should the unexpected happen, the insurance company compensates you for your losses, based on the terms of your policy. As the Insurance Bureau of Canada explains it, with insurance, the premiums of many pay for the losses of the few.

There are three ways to buy insurance:

1. You can visit an insurance broker. He or she will represent a number of insurance companies and will be able to suggest a couple of alternatives for you.
2. You can go to an insurance agent. He or she works for an insurance company and offers only the policies of that company.
3. You can deal with the insurance company directly though a call centre or by going online.

What option you take depends on you and your knowledge of insurance. Your first two options give you the advice of a professional who can lead you through the process and explain your options.

There are two major categories of insurance, property and casualty (P&C) and life and health insurance.

Property and casualty insurance

P&C insurance applies to property such as your home and your car. Car insurance is compulsory in Canada whereas getting home insurance is up to you. But considering the consequences, having home insurance is a good idea, especially if you have a mortgage on your home.

Home Insurance

Considering that your home may be the largest purchase you ever make, you will want to make sure it and its contents are well protected against all the things that can go wrong.

Home insurance is an annual contract that you renew each year. There are various levels of coverage. The most inclusive home insurance policy is a “comprehensive” policy. It covers both the building and its contents for all risks except those risks that are specifically excluded from your policy. If a comprehensive homeowners’ policy is too expensive, there are alternatives. A mid-priced “broad” policy can provide comprehensive coverage on your house and insure your contents against very specific “perils.” Or a “named perils” policy – the cheapest – covers loss caused only by the perils named in your policy.

It is up to you to determine the amount of coverage you should have and how much risk you can tolerate. For example, suppose in the midst of a violent storm, a large tree falls on your house. You have extensive structural damage as well as rain and wind damage. Under the comprehensive and broad policies, the repairs to your house will be covered. Under named perils, the damage to your house is covered only if you named tree damage as a peril.

Coverage of contents is different still. Under a comprehensive policy, your contents will be covered, at least up to a certain percentage of the total insured value of your home. Or, they may even be covered for replacement value. But under a broad or named peril policy, your contents will be covered only if your policy includes tree damage.

These are all things you can discuss with your insurance advisor. Make sure you understand exactly what is covered.

One final note: If you are considering renting your house – for example, suppose your job is taking you to another city for three months and you have someone who would like to rent your house for that time – check your homeowners' policy before you commit. Your policy may not cover anyone but yourself living in your home.

Tenant Insurance

You have decided to rent a house or an apartment rather than buy a property – but that doesn't mean you don't need insurance. It still makes sense to protect yourself and your assets from unexpected events. A robbery, for example, could deprive you of the computer you use for work or the big-screen TV you just purchased. Or, what if you forgot to turn off the tap before you left home and the bathtub overflowed, causing damage not only to your apartment but also to the apartment beneath you?

As a tenant, you are responsible for any damage you, your family or your guests cause. So, that overflowing bathtub could cost you the repairs to your apartment – perhaps, a new bathroom floor – as well as the repairs to the apartment below. It could mean new walls, a new floor, even a hotel bill if your downstairs neighbour has to live elsewhere until repairs are done.

Tenants' insurance has two components: basic liability and contents coverage. The former takes care of your liability in situations such as the overflowing bathtub, in which you are responsible for damage to the property. Contents coverage replaces any of your belongings that are lost or damaged.

Landlord insurance

You own a house and decide to make the basement into an apartment to help with the mortgage payments. Or you buy a second house with the intention of renting it out. In either case, you will need to speak to your insurance advisor.

If you are renting out a basement apartment, your tenants are not covered under your homeowners' policy. If a fire starts in your kitchen, for example, and your tenants' contents are damaged as a result, you are liable for their damages – and it will come out of your pocket. Your insurance advisor can amend your policy to include tenants.

If you buy a second house, you will need a separate homeowners' policy for that property.

Once you become a landlord, there are ways to protect yourself and your property.

- Carefully select your tenants. Ask for references from the tenant's employer and past landlords.
- Ask your tenants to sign a rental agreement. It can detail conditions under which the apartment or house can be sublet. You might even ask your tenants to have tenants' insurance.
- Ask your tenants to pay their rent by cheque – no cash. In some provinces you can ask for first and last months' rent; in others you can ask for a damage deposit. Check the tenancy laws in the province or territory in which you live.
- Visit your properties. As a landlord, you have the legal right to visit your rental properties – as long as you give your tenants proper notice. Tenancy laws for your provincial or territory determine the amount of notice required.

Auto Insurance

You cannot drive in Canada without car insurance. If you own a car, it must be insured. If you regularly drive a car that belongs to a friend or relative, you should be listed as a driver on his or her auto insurance. If you rent a car, the rental company will ask that you have insurance.

The cost of auto insurance will depend on your age, your gender and your driving record as well as the type of coverage you choose. Your auto insurance may cover damages to yourself and your car as well as damages to others, if you are at fault in the accident. But auto insurance is a provincial/territorial affair and the rules vary. Some provinces have public auto insurance; an agency of the provincial government provides auto insurance and all owners deal with that agency. In other provinces and territories, private insurers provide auto insurance. If you're dealing with a private insurer, be sure to shop around and compare prices.

Life and health insurance

Life and health insurance applies to you personally. You may have extended health insurance through a work group plan or individually (see the Health Care section). But you can also buy critical illness and/or disability insurance to see you through an illness and protect your family and assets. Or you can employ various kinds of life insurance as part of your retirement planning.

Life insurance

Basically, when you take out a life insurance policy, you agree to make regular payments (premiums) to a life insurance company and, when you die, the insurance company will pay out a pre-determined amount to your beneficiaries, usually your family, tax-free. But there are a number of ways to approach life insurance, including options that allow you to save and invest for retirement. A skilled life insurance advisor will be able to discuss these options with you and determine the coverage that is right for you and your family.

There are three main types of life insurance:

- **Term life insurance**. Term life is generally the lowest-cost life insurance. With a term life policy, you pay a set premium to insure your life for a set amount of money for a defined period of time, hence the name. If you die within that term, the insurance company will pay that amount to your beneficiary. If you are still alive at the end of the term, you can roll it over into a new term policy, but at a higher premium. Or, your policy may have a "convertible" clause, allowing you to convert your term policy to a "permanent" policy (see below).

  The term you choose will depend on your circumstances. If you are in your 30s with a young family, you might opt for a 20-year term, taking you past the expense-heavy years when you are carrying a mortgage and raising children. If you are in your 60s, you might opt for a five-year term, to cover a short-term loan or line of credit. Term insurance does have an expiry date, a point at which it is no longer available, typically at age 70 or 75. If you are planning to leave a bequest through insurance, term insurance is not the right choice, but there are other options (see below).

- **Whole life insurance**. A type of permanent insurance, whole life insurance provides coverage for as long as you live (hence the name) provided that you pay the required premiums. A more expensive product than term insurance, there are a number of options with whole life. Some policies allow you to pay larger premiums for a specified time period —10 years, for example – and your coverage continues until your death. With some policies you pay the same premium for the life of the policy. You may also receive policyholder dividends; you can accept cash, or use the dividend to reduce your premiums or leave it in your policy to accumulate. If you are planning to leave a bequest to family members upon your death, you should consider whole life.

- **Universal life (UL) insurance**. UL insurance is a type of whole life insurance that combines a life insurance component with a savings and investment component. The premiums you pay cover the cost of the insurance portion and leave something extra for the investment portion. It is the most expensive of your insurance options and the most flexible. UL can be a tax-effective strategy for planning for retirement, but it is a complex product. You will want to discuss the pros and cons with your insurance advisor.

Health Insurance or Living Benefits

Disability and critical-illness insurance are two common forms of insurance called “living benefits.” They are both meant to protect you and the financial and real assets you have accumulated in the event that you can no longer earn a living because of illness or injury. Given the alarming statistics around the incidence of cancer, heart disease and stroke, you may want to discuss the benefits of having living benefits insurance with your insurance advisor.

- **Disability insurance (DI)**. If you have a debilitating illness such as cancer, a degenerative disease or an injury that keeps you from work for an extended period of time, DI provides you with a regular income. Depending on the type of policy you hold, DI will replace 60%–85% of your paycheque. Some policies provide tax-free income, others not. Most people enroll in DI programs through the group benefits programs at their places of work. It is often optional and your employer may or may not contribute to the cost of your coverage. You can also get an individual plan which has the advantage of staying with you if you should change employers. If you are self-employed, there are also DI plans structured for your needs.

  There are lots of options available with DI and costs vary depending on the options you choose. For example, your DI might start 30 days after your accident or illness or it might start 90 days after. The sooner it starts the more expensive it is. Your coverage might last two years – or it might last as long as you are disabled. The longer the coverage, the higher the premium. When you discuss DI with your insurance advisor, make sure you understand the terms of your policy and be sure that your insurance package is right for you.

- **Critical Illness (CI) Insurance**. If you become ill with a long list of serious diseases – such as cancer, heart disease, stroke, Alzheimer’s Disease, multiple sclerosis – your CI will pay you a tax-free lump sum usually 30 days after your diagnosis. The amount you receive is determined by your policy; it is not tied to your employment income. And you can do whatever you choose with the money.

  CI is a relative newcomer and it is an expensive product. But the benefits may give you peace of mind at a very difficult time.

Important Note

There are numerous types of insurance available and they are all suitable for particular needs and circumstances. Your financial advisor will be able to provide direction and information within the context of your overall plan. Your advisor may also be licensed to sell insurance or he or she can introduce you to a qualified insurance professional to ensure that your insurance coverage meets your needs.

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