Insurance – An Investing Perspective

Investors don't usually think of insurance as part of their investment strategy, but they should.

An individual's insurance needs change during their lifetime. Insurance products over the past decade have become increasingly innovative in the number of ways these needs can be accommodated. Specialized health care and illness insurance as well as wealth and estate planning insurance options enable investors to protect themselves during their lifetime. Additionally, insurance can offer legitimate ways to maximize retirement savings and minimize estate tax liability.

Insurance becomes part of an investment strategy when it protects you against loss of health or income. It can also protect your ability to save and invest for the future. From an investor's perspective, the type of insurance you buy can be determined by asking the same basic questions you'd need to ask regarding any investment decision: Will it have real value when I need it? Do I understand what I'm buying? And what is my "return on investment"?

Life insurance – term, whole, and universal – needs to be matched to the timing of the risk. Term insurance is short-term coverage for income replacement or asset protection. Its value will be found in how well it can retire mortgage and other debts and become a source of income for the beneficiaries of the policy. The term of the insurance policy is fixed and it is renewable, but the cost becomes progressively more expensive. Older investors who have wealth that has increased along with their age may want to convert to a whole or universal life insurance policy with a death benefit value based on the estimated taxable assets of the estate. In this way, the policy's beneficiaries can settle outstanding debts and taxes of your estate and avoid the hasty or unwanted disposition of assets.

Investors can also use a life insurance policy for supplemental retirement income, using the policy's cash value as collateral for a series of tax-free loans during retirement. Upon death, the policy death benefit pays back the loan.

Various kinds of health and care insurance are of growing investor importance. Disability and critical illness insurance can be of real value to investors building a savings or investment portfolio and who need some protection from premature withdrawal of funds as a result of a prolonged illness or disability.

The real value of a disability or critical illness policy (and assessing if the premiums are worth the coverage) depends on a clear understanding and knowledge of exactly what your coverage is and the claims qualifications and conditions. For instance, it is important to know how a disability insurance policy defines a "disability." The insurance can initially define a disability as a person's inability to do work for which they are trained and qualified. But there is usually a time limit. After two years, the definition of disability may change to your inability to perform any kind of work at all. The reason for the disability – accident or illness – may also be specifically defined in the policy. The cost of a disability policy also depends on the wait period before the first disability cheque arrives (up to 180 days), and for how long the benefit can be expected to last.

A critical illness policy defines very specifically what illnesses or diseases are covered by the policy and the lump sum a claimant is eligible for. Usually, payment is made 30 days after a physician confirms the diagnosis and the claim is accepted. From an investor's point of view, critical illness insurance can have distinct advantages. The prompt, one-time payment has no restrictions on how it's used. It could pay debts, take items off the "bucket list," be invested, or be used to finance medical treatment. Some critical illness policies will return paid premiums if the contract is surrendered without a claim. Long-term care insurance is another protection option, which is different from disability and critical illness insurance. It covers the cost of in-home and/or institutional care for an insured requiring supervision or assistance with daily living activities and protects against the financial hardship of maintaining a loved one in an assisted-care facility for a long period of time. The value of this type of insurance depends on the details of the policy and on the circumstances of individual investors.

Insurance can be an important part of any investment strategy, especially if it means you're able to sleep better at night. Investors need to be perfectly clear on how their insurance protects them, and the conditions and terms under which they can expect to make a successful claim. The amount of the insurance benefit is determined by what you and your family need to protect both present and future assets. If wealth management and asset protection are becoming part of your investment thinking, then your financial advisor can arrange a meeting with an estate planning and insurance specialist who can help you focus on insurance products that prepare and protect you and your family for the future.