

Finding insurance solutions when money is tight

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In a precarious job market, having some coverage should be a priority to protect families from loss of income.

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Francine Dick's heart broke a little when the calls came in from two of her clients who recently lost their husbands and discovered their spouses didn't have personal life insurance outside of their workplace coverage.

"They're now two widows with young children," says Ms. Dick, a certified financial planner with Carte Wealth Management Inc. in Mississauga. "No one thinks it will happen to them."

At a time when many Canadian families are struggling financially, buying medical coverage and life insurance may seem like a costly expense. But in a precarious job market, having some coverage should be priority number one to protect families from loss of income, a potential disability or illness, says Samantha Sykes, senior investment advisor and personal financial planner with Sykes Wealth Management in Toronto at Raymond James Ltd.

"If something were to happen, their lives would change dramatically," she says.

Ms. Sykes says mentally separating bills for car loans, rent and groceries from insurance premiums can help establish insurance as an essential expense.

"Canadians tend to be underinsured [but] they have to prioritize these [costs]," she says. "Insurance should be an important part of your financial plan."

Covering all the bases

Many employees have some medical and life insurance under an employer-sponsored plan if they're working full-time. But as Ms. Sykes points out, those amounts may not be adequate, with typical workplace life insurance coverage equivalent to two to three times an employee's salary.

As well, group health and dental benefits aren't always lavish, with dental and drugs frequently capped to save costs for employers. As a result, if a client knows they'll need more medical coverage – a new diagnosis requiring various therapies, for example, or a child who needs braces – they might want to augment their medical coverage.

Taking stock of existing coverage

Ms. Sykes says clients should write down all the coverage and premiums they currently have to determine if that coverage is enough – or, if money is tight, to see where they can reduce coverage to lower their monthly premiums.

She says having a financial advisor review exactly what the client's workplace benefits cover. An advisor can also make recommendations about what to augment and shop around for the best prices, working with insurers to bundle offerings for lower rates.

The most important coverage is life insurance and disability, Ms. Sykes says. If a client has a young family, an accident or death can be devastating, especially if the family has daycare costs, a car loan and a mortgage. "When you're younger, your family's human capital is what you should be focused on," she says.

Choosing life insurance

If finances are a concern, term insurance is "the most cost-effective solution," says Morgan Ulmer, a certified financial planner with Caring for Clients in Calgary. Term insurance, which is most often for 10 or 20 years, can help families pay for anything they need to cover, be it a mortgage, a child's education or income replacement.

"You should ideally have a standalone policy on top of a group insurance policy," Ms. Ulmer says.

Opting for disability coverage

Disability insurance is intended to replace a person's lost income, so it can only be purchased when someone is employed. While employers often offer short-term and long-term disability coverage, it usually replaces anywhere from 55 per cent to 80 per cent of income.

Topping up that coverage can be expensive but worth it, Ms. Sykes says, as a catastrophic accident could leave a person unemployed for life. To lower the costs of disability insurance, clients might buy it when they're younger or opt for a shorter term – such as 10 years – and increase the waiting period before coverage begins following an injury or illness. "That would be affordable," she says.

Critical illness insurance, which pays out a tax-free lump sum if a policyholder develops a life-threatening condition or illness, is another consideration, albeit a pricey one. To keep premiums low, a client could opt to cover fewer medical conditions – focusing solely on cancer, heart disease, stroke or coronary artery bypass, for example, Ms. Dick says.

Weighing medical coverage

If an employee loses health and dental coverage through work, there are several options to consider. To begin with, Ms. Sykes tells her clients to negotiate a longer coverage period as part of a severance package. “Try to extend it to three to five months – until you find another job,” she says.

If that fails, in many cases employees are given the option to carry on their group medical benefits as long as they apply within two months after being laid off. But the costs can be prohibitive, Ms. Ulmer says. As a result, she says Canadians should work with their advisor to determine their eligibility for a provincial or federal program.

The federal government recently introduced the Canada Dental Benefit, which provides dental coverage for families with an adjusted net family annual income of less than \$90,000. Ontario’s Trillium Drug Program reimburses families that spend more than 4 per cent of their income on prescription drugs; and children under 25 in Ontario without private medical coverage who are covered under provincial health insurance receive free prescriptions.

In cases in which a family wants to purchase private medical coverage, they should look at where they’re spending the most money and insure those items. For example, Ms. Dick says an individual might buy health coverage but exclude dental, knowing their child will be eligible for the Canada Dental Benefit.

Whatever a client decides, Ms. Dick says getting organized to avoid missing any of the benefits their coverage provides. To begin with, she says clients should ensure all beneficiaries are up to date on all paperwork. “It’s good to have a review,” she says.

As well, clients should never cancel coverage until new coverage is finalized in case there’s a period in which they’re uninsured, she says.

And whatever the final amount of life insurance coverage clients decide on, Ms. Dick emphasizes the value of at least having some coverage.

“We can even do something for \$25 a month,” she says. “At least take out enough to pay off the mortgage.”

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Editor’s note: A previous version of this article included an incorrect designation for Samantha Sykes. The correct designation is personal financial planner.

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