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The cost of life insurance is set to jump

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Rates for permanent life insurance will never again be this low, says one CFP, who insists the time to buy is now

The cost of life insurance in Canada is set to jump so if you are at all considering getting some, now is the time to act, says one certified financial planner.

"Rates will never again be this low for permanent life insurance," says Mark Halpern, a Markham, Ont.-based CFP and president of illnessProtection.com.

He acknowledges that coming from him, it sounds like a sales pitch. "Of course people are going to say: Here is an insurance guy who wants us to buy insurance. But the reality is that this is really happening. And it is the big companies that are leading the way."

Mr. Halpern is referring to Canadian insurance giant Manulife Financial [http://www.manulife.ca/canada/canada1.nsf/public/homepage], whose rates for universal life insurance will surge by as much as 12 per cent as of Oct. 15, 2011.

Steve Parker, Manulife's assistant vice-president of product and marketing, says the company needs to rebalance the pendulum between the premium it charges the client and the risk it is taking.

"This is our second round of repricing in 12 months. We also led the market with a round of repricing in December, 2010," he said in an interview. He says the company is increasing rates for universal life insurance between 9 and 12 per cent, depending on the product.

Mr. Parker insists that even with this second round of increases, permanent life insurance remains a great deal that delivers "excellent value" for Canadians.

In an environment where bond yields have dropped sharply and interest rates are sitting at rock-bottom lows, insurance companies are struggling to fund the guaranteed payout promised in their universal policies. The pricing for their insurance products was based on much higher interest rates.

Canadian insurance companies will also soon have to align themselves with international financial reporting standards, which will cost money. "Since they need to put more into reserves, so the cost of insurance has to go up," Mr. Halpern said.

Unlike term insurance, which provides a benefit for a set period of time and can expire before the person dies, universal or permanent life insurance provides coverage for life. The sentiment in the insurance industry is that current prices for permanent life insurance are unsustainable in today's market environment and that more increases are in the cards.

Mr. Halpern says the rest of the insurance companies are expected to mirror Manulife's increases. "All the top insurance carriers followed suit last time, and will almost certainly do so again."

He does not believe this is the end of the rise. "We have seen an almost 25-per-cent increase in the last year. It won't stop there, you will see rates that will keep going up in the short-term."

Mr. Halpern's advice for people who are considering buying permanent life insurance? Sit down with a professional, preferably a certified financial planner, and look at what your needs are. Even people who already have life insurance should think about revisiting the subject, to make sure their needs have not changed. For our recent Home Cents post on who needs life insurance, click here [http://www.theglobeandmail.com/globe-investor/personal-finance/home-cents/do-you-need-life-insurance/article2190651].

"If you do nothing, you miss an opportunity that will not come back again in our time," Mr. Halpern said.

Chartered accountant and certified financial planner Suzanne Schultz, an estate planning specialist with RBC Wealth Management Financial Services Inc., agrees that the rest of the insurers are likely to follow Manulife's lead, although the actual level of the increase will depend on the individual's age and health status.

"Life insurance is one of those things that once you need it, you wished you bought before," she said. "Because rates increase as we age, we experience health issues that can affect our rates and insurability, and because the insurers may have to increase their rates so we can't know with certainty the cost of waiting to put the policy into place. In other words, waiting can always be a risk."