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FINANCIAL POST

Most Canadian Baby Boomers planning to stay put in r

TREND REPORT

A whopping 85% of Canada's Baby Boomers plan to remain in their "home and native land" once they retire, according to a BMO Retirement Institute survey published Tuesday. "While Canadians often talk about a change of scenery during retirement, what happens in reality is very different," says the report, entitled *Where do Canadians plan to retire and why?* Only 5% plan to relocate to the United States, 2% to Europe and just 1% to Latin America or Asia. Not surprisingly, given Canada's harsh winters, weather was the most cited factor motivating Boomers to relocate, cited by 57% of those surveyed. Financial reasons were next most cited at 54%, followed by

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"My estimation is there will never be as good a time as there is now to buy insurance," says Mark Halpern, a certified financial planner who specializes in insurance, retirement and estate planning at illnessprotection.com.

Poor investment returns for insurance companies means higher rates are coming

The time to buy insurance is now

GARRY MARR
Family Man

You probably don't want to hear this, but poor investment returns are delivering a new casualty — rising insurance premiums.

Rates on universal life policies are set to increase in the coming weeks on top of increases in November 2010, as insurance companies attempt to better match their funding commitments.

"We led the first round [of increases last year] and we are leading this round," said Paul Smith, vice-president of marketing and product development at Manulife Financial about the bump due Oct. 15, which will see premiums rise as much as 12%.

"Interest rates have fallen. When we did our price change last year, we looked at it historically. The way we figure that price out is we discount it at what we think we can invest the premiums at."

It was less than a year ago that Manulife raised premiums about 10% on average for universal policies. The younger you are, the more the increases will hit you because a longer commitment means increased risks for insurance companies. Premiums for 25-year-old males have climbed 40% in a year, says Mr. Smith. "You got a deal," he says about people who locked in last year. The last thing you want to do is let that policy lapse.

Unlike a term policy, which covers you for a prescribed length, universal is good for life and guarantees a payment to your beneficiary upon your death. The policy also includes an option to invest an extra amount, prescribed by law, which accrues tax-free with the consumer deciding how the money is invested based on a range of offered products.

Consumers get to pay the same rate for the life of the policy, essentially paying more than they would for a comparable term policy in their younger years and less in their older years. Any extra money invested in the policy can be applied to pay off the basic premium.

The issue for insurance companies has been how to fund the guaranteed payout

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offered in universal policies. The policies, which now make up about 40% of the market, became popular 15 years ago when interest rates were above 8%.

Yet as interest rates fell, premiums didn't follow suit. The insurance companies have been holding off raising premiums based on a sentiment that rates were going to rise.

"It's all come to head in the last year, but we all believe now we are in for a longer period of low interest rates," Mr. Smith.

"One of the other issues is you can't even buy bonds to match these liabilities. Think of a 30-year-old. They are going to live to 85. You can't buy a 55-year bond."

Before we get all weepy for the insurance companies, they've done pretty well based on the fact that people with these policies are actually living longer, which means more premiums and less payouts.

Interestingly enough, term insurance policies in the 10-year and 20-year range have actually seen a drop in premiums. "They've been coming down and down and because there isn't the same risk of mortality," says Mr. Smith.

Just remember, you are only covered for the length of the policy with term insurance, leaving you with zero residual value if you don't die during the period. Term makes up 40% of the market. The other 20% is whole life insurance, which is a bit like universal in terms of a guaranteed rate and lump sum payment.

Certified financial planner Mark Halpern, who runs illnessprotection.com, said there is a window today that is making a universal policy a better bet than a term policy.

"Right now, a 50-year-old male could acquire $1,000,000 of universal life insurance for a guaranteed premium of $10,500 per year. With a life expectancy of 82, that individual would have to earn an after-tax return of 6% for 32 years to accumulate $1,000,000 after tax. That is an impossible return on a guaranteed basis," says Mr. Halpern.

He adds it's not just Manulife.

"I can guarantee all will follow suit," Mr. Halpern says. "My estimation is there will never be as good a time as there is now to buy insurance. Certainly permanent insurance."

I know, I know. You've heard it all before from insurance guys. This time it looks to be true.

Financial Post
gmarr@nationalpost.com

FP financialpost.com

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