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WHEN SHOULD YOUNG PEOPLE BUY LIFE INSURANCE?

Sara Tatelman / September 14, 2017

Janice Lee is remarkably well-insured for a 22-year-old with no dependents. A medical student at McMaster University in Hamilton, Ont., she receives a complimentary $100,000 life insurance policy through the Ontario Medical Association, and a 75% discount on premiums for disability insurance.

"I signed up because it was free," Lee says, noting she wouldn't have done so otherwise. "The only benefit I could concretely foresee is if I die, life insurance pays off my large student loans so my family doesn't have to."

Many millennials share that attitude. After all, they barely have a salary, let alone young children to miss out on wealth transfer. But buying a policy now might still make sense.

To benefit, millennials don't need dependants like children and a stay-at-home spouse. If a client and their partner are together paying down a condo mortgage, for example, both should buy term insurance, says Paul Shirer, president and CEO at Perfect Timing Financial in Toronto. "If something happens to one of them and they pass away, you don't want this person, who's just lost their spouse, to be kicked out of their home, too," he says.

Shirer points out that life insurance is a better bet for new homeowners than mortgage insurance, where the bank is the beneficiary. "Your mortgage is going down with every payment, but you're paying the same premium all the way through," he says. "So, with every mortgage payment, the bank makes a little more profit."

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HEALTH IS WEALTH

Term insurance for young people is "cheap like borscht," says Cindy David, president of Cindy David Financial Group and senior estate planning advisor at Raymond James in Vancouver. A 25-year-old female non-smoker

Premiums by age

Premiums for male, non-smoker ($100,000 policy, 20-year term)

Age 25 – $129/year or $11.61/month

would pay $109 per year for a 20-year $100,000 policy; her male counterpart would pay $129 per year.

Premiums increase every year that a client waits before buying coverage, but not significantly through their 20s and 30s, David says. If a 25-year-old woman waits a decade before purchasing a policy, her annual premium would increase by just $15 by the time she's 35. Premiums rise more steeply when clients reach their 40s.

What can change at the drop of a hat is a client's insurability, David warns. A heart attack or a cancer diagnosis could mean no insurance company will offer coverage. So, buying a policy makes sense before a significant illness is discovered, especially where there's a family history of health issues.

Sarah Rahme, a wealth advisor at BDO Canada in Ottawa, had a young client who first applied for life insurance after getting a mortgage to buy his first home. "As part of the questionnaire, he had to undergo some tests and it turns out he had a medical condition that he was not even aware of," she says. His application was denied.

- Age 30 – $129.35/year or $11.64/month
- Age 35 – $151.16/year or $13.60/month
- Age 40 – $186/year or $16.74/month

Premiums for female, non-smoker ($100,000 policy, 20-year term)

- Age 25 – $109/year or $9.81/month
- Age 30 – $114/year or $10.26/month
- Age 35 – $126/year or $11.34/month
- Age 40 – $141.29/year or $12.72month

Source: Cindy David Financial Group Ltd.

"Had he taken that insurance five years before buying the house he would have been insured for the next 30 years," she says.

But clients suffering from significant illnesses shouldn't assume they're uninsurable. Some insurers will add a flat fee – known as a rating – to premiums for people recovering from medical conditions, Rahme says. The fee depends on the health condition in question, and isn't always cheaper for young people, she adds. The rating could also be percentage based (e.g., 125% of the regular premium).

"Over the course of time, depending on what the health event was, that price of insurance comes back down to standard," David says. She points to a friend who was diagnosed with papillary thyroid cancer but became insurable after she survived 12 months. Clients who suffered from other types of cancer, on the other hand, weren't insurable for a decade. "Don't assume anything about your insurability. Go find out for sure," she says.

Read: Insurance for newlyweds

WHEN TO SAY NO

Plenty of other factors can affect young people's life insurance premiums. Men, for instance, pay more than women because they have a shorter life expectancy. Weight, as a measure of health, may be accounted for, as well as the number of speeding tickets received in the last year, which can suggest a propensity for risky behaviour, Shirer says.

Cigarette smokers pay significantly higher premiums, but if a policyholder can prove they've stopped smoking for one to two years, they can ask for a lower rate, Shirer says. And several insurers don't charge higher premiums to marijuana smokers.

A person's profession can also affect their premiums. Skydiving instructors and racecar drivers are deemed higher-risk than teachers and software developers, for instance. But, sometimes an insurance company will agree to an exclusion rather than a higher premium, David notes. "So, that is to say, if I hop in the car and I go to the corner store to get butter, and I get in a car accident and die, I'm covered," she says. "But if I hop behind the wheel of a race car and I'm driving around the track, I can be excluded for life insurance."

Read: How life insurance can still protect clients, despite tax changes

There are circumstances where it doesn't make sense for a young person to buy a life insurance policy, Rahme explains. If the client doesn't plan to get married and have children, for instance, they may not need it. Or, if they have no debt and their family could cover funeral expenses, it's probably not necessary.

David points out it rarely makes sense for a millennial to buy a permanent policy with a savings component. "Life insurance savings vehicles aren't like bank accounts — they're not easy in-and-out money," she says, adding that young people should max out their TFSAs, save for a down payment on a home, and create an emergency fund before considering a policy with a savings component.

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