BY JUDY WILLIAMS

Tackling a taboo

How to broach the topic of children's insurance with your clients

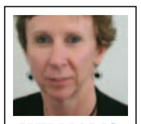
A challenging part of an advisor's job is discussing two topics people least want to discuss: illness and death. Starting a conversation with clients about insuring their children is even more difficult. Parents don't want to consider the possibility harm could come to them.

Unfortunately, avoiding the topic doesn't make the issue any less real. Life and critical illness insurance for children are essential components of a family's financial plan. Fortunately, there are simple approaches to raising the topic without coming across as insensitive or greedy.

Giving children a head start

It's difficult enough to convince people to buy insurance for themselves, much less their children. There are only so many insurance dollars to go around and financial experts agree parents need to insure their own lives before insuring their children.

Once your clients have insured themselves, ask them how things



WILLIAMS

would have been different if their parents purchased a life insurance policy for them when they were young. Like themselves, their children will grow up, begin a career, buy a home and start a family.

Then they will be discussing with an advisor what insurance is needed to protect their own family's financial security. Will they be starting from scratch, or supplementing life insurance coverage their parents purchased for them many years ago?

> ***Buying insurance on children provides them with protection that will carry into adulthood. A limited-pay policy will benefit them further by providing insurance protection when their needs are high but their discretionary income may not be.***

Buying insurance on children provides them with protection that will carry into adulthood. A limited-pay policy will benefit them further by providing insurance protection when their needs are high but their discretionary income may not be.

Sounds logical, but you may still be hesitant to bring up the topic. Talking about a child getting sick or dying is taboo. And to benefit from it? Unthinkable.

"It won't happen to my family"

Many advisors stop right there. Why bring up such an emotionally charged topic when it likely won't happen? While no parents want to consider the possibility of their child becoming sick or dying, it happens more frequently than we think. Consider the following: a survey by Health Canada revealed that when it comes to the well-being of Canadian children, when compared to the 29 OECD nations, Canada ranked:

- 21st in child well-being, including mental health,
- 22nd for preventable childhood illness and death, and
- 27th in childhood obesity.

The Toronto Hospital for Sick Kids alone receives over 300,000 visits every year. Somewhere between one in 500 to 1,000 newborns are born with cerebral palsy, according to Cerebral Palsy Canada. One in 3,600 children born in Canada has cystic fibrosis. Half are expected to live into their 40s and beyond, according to Cystic Fibrosis Canada.

"Why insure a child?"

Statistics aside, many advisors feel this debate can be put to rest with one statement: "Insurance is intended to replace an income and therefore is only required on the breadwinner."

Years ago, it was not uncommon for advisors to sell a life insurance policy on the husband only. After all, most women did not work outside the home or contribute to the household income. There were two consequences to that practice:

- If the husband died, his family received the insurance proceeds to pay for the funeral and cover day-to-day expenses. End of story.
- If the wife died, her husband had to borrow from the family savings to cover funeral expenses. He was forced to return to work immediately to ensure there was money to cover the household bills. But the family now had the added expense of paying for childcare and home support.

Fast forward to the 21st century. According to Statistics Canada, dual-income households now account for 61.9% of homes in Canada. It is common to sell life insurance on both spouses to replace their incomes. The family's financial security is protected. Or is it?

Meet the Smith family

The Smith family consists of Mom (Mary), Dad (Joe) and children Sarah (age 1) and Jack (age 3). Since Joe and Mary are both breadwinners, they each purchased a life insurance policy on their lives. So if either of them dies, the family will receive the insurance proceeds to maintain their lifestyle.

But what if the unspeakable happens and one of their children dies? Chances are Joe and Mary would both be so devastated by the loss that they would be unable to focus on little else. Work would become difficult, if not impossible. A leave from work may be an option, but ultimately, the family's income would be jeopardized.

Would it help if they could receive six to 12 months of income to grieve, deal with the loss as a family and bring normalcy back to their life?

That's what insurance on the life of a child can do. Although a child is not a breadwinner, the emotional and physical stress of losing that child affects the breadwinner's ability to do just that. When you consider the increasing number of single-parent families, this becomes even more important.

The solution

Life insurance for each member of the family, including the children, will eliminate the financial hardship experienced in the unlikely event of a child's death while his parents are still alive. This can be accomplished in a few ways.

While a child rider is less expensive and simpler to put in place, it only covers funeral expenses, so the amounts are usually small. A grieving parent may be required to return to work before they are emotionally ready.

A stand-alone policy for a child will be more expensive and require that uncomfortable conversation with parents; but it offers many advantages over the first option.

The benefits of a stand-alone life insurance plan for children are as follows:

- It allows a client to insure children when they're young and healthy, making it easy and affordable
- Lock in the rates today. Lifestyle and career choices later in life may make them uninsurable or subject to higher, rated premiums.
- Add a rider that guarantees their right to purchase, without evidence of insurability, additional insurance when major life events increase their need for insurance protection: getting married, buying a home, opening a business, or providing for their own family's financial well-being.
- Select a limited-pay plan so, as young adults, they benefit from a paid-up policy that provides insurance protection at a time when their expenses are high and their debt is growing.
- Protect the financial security of the whole family since the loss of a child can also trigger the loss of income for one or both parents.
- Make funds available to establish a scholarship fund or make a donation in the child's name as a lasting memorial to their life.

Use the cash value to fund education

If your clients' only goal is to save for their child's education, they should invest in a Registered Education Savings Plan (RESP) or other investment vehicle. But if they are looking for more options, permanent life insurance can offer some flexibility for the future as well.

Using whole life insurance as an investment vehicle can also be a wise financial strategy. The cash value of some whole life policies can be used as collateral for loans, giving your clients access to additional funds down the road, if those funds are not withdrawn or borrowed against for education purposes.

If the funds are not needed for education, they can continue to grow on a tax-advantaged basis within the policy for maximum long-term value, subject to Income Tax Act provisions.

If your clients need life insurance, sell them life insurance. If they need to invest for college or university, select an investment vehicle that will best help them achieve that goal.

If they are looking for flexibility to do both or possibly use funds for a different purpose, whole life insurance may be the right product for both needs.

The anatomy of children's life insurance

While the details of the policy will vary from company to company, some of the basic elements of life insurance on children include:

FIVE IDEAS TO GET THE DISCUSSION STARTED

Here are some ideas to broach the topic of juvenile insurance:

1. Don't use direct mail or pre-approach letters to introduce the topic. It's too emotionally charged and needs face-to-face discussion.
2. Don't raise the topic until the parents commit to life and critical illness insurance for themselves.
3. Explain how an entire family is affected, both financially and emotionally, when a child gets sick or dies through real life experiences. You may have one of your own examples or testimonials from existing clients. Newspapers often contain stories you can use. Keep a file.
4. Host a client appreciation event and invite a guest speaker who has experienced the illness or loss of a child to share their story. Local organizations that offer grief support services may be able to help you find a guest speaker. This can help raise your clients' awareness of the issue by hearing real life stories without having to be directly involved in the conversation.
5. Follow up on an individual basis.

- Life insurance coverage that pays out the face amount of the policy upon the death of the life insured.
- Limited pay options are a popular choice for children's policies as they essentially provide the child with a paid-up base plan typically after 20 years.
- Permanent life insurance protection accumulates value within the policy that can be accessed in the future or used as collateral for a loan.
- An Applicant Waiver of Premium rider can usually be added to ensure the premium is paid and the plan remains in force should the applicant become disabled.
- Many companies offer a guaranteed insurability option that guarantees the child's right to purchase additional insurance at specific intervals or dates in the future, without evidence of insurability.

So far, our discussion has focused on life insurance for children. When you're helping a family protect their financial security, critical illness insurance is also an essential element for each member of the family, for all the same reasons as life insurance. When a child gets sick, it affects the whole family.

Meet the Johnson family

Mom (Tammy), Dad (John), big brother Cody (age 6) and big sister Mary (age 3) have anxiously awaited the arrival of the newest member of their family.

Finally, the big day arrives as anticipated, and baby Mark makes his debut. The expanded Johnson family begins a new, exciting chapter in their lives.

But then, Mark gets sick, and spends so much time in the hospital that Tammy often sleeps there. Family outings are no longer spontaneous because what they do and where they go depends on treatment schedules and how Mark is feeling.

Tammy is forced to leave her job. With countless trips to the hospital and the specialist, keeping Mark comfortable at home and taking care of the rest of the family, there isn't time.

Money set aside for family vacations, their children's education and their own retirement is almost gone now, used to cover household bills, medical expenses and home renovations to make it easier for Mark to get around.

The benefits of critical illness insurance for children:

- Cover expenses so a parent can take a leave from work to be by a sick child's side during treatment and recovery.
- Pay for specialized or alternative treatments not covered by group or government-sponsored plans.
- Cover travel and accommodation expenses when out-of-town or out-of-country treatment is required.
- Pay for in-home nursing or home-care support.
- Pay for respite care so that parents can share some personal time with the other children in their family.
- Pay for home or vehicle modifications to improve accessibility.
- Continue saving for a special family vacation, their children's education or their retirement.
- Buying a permanent adult plan at children's rates.

Children's CI insurance details

While the details of the policy will vary slightly from company to company, some of the basic elements of critical illness insurance include:

- Critical illness insurance that pays out a lump-sum benefit, following a survival period of typically 30 days after diagnosis of one of the conditions covered by the plan.
- Depending on the company, critical illness insurance on children is available as a rider on an adult plan, stand-alone plan on the child that continues into adulthood, stand-alone plan on the child that expires at age 25 but is convertible to an adult policy at adult rates.
- The length of time premiums are payable varies by company.
- Issue ages vary slightly in the industry, but generally a policy can be purchased on children as young as 15 to 60 days old, to a maximum of 17 years for most companies.
- In addition to their covered adult conditions, almost all companies cover the following childhood conditions: Cerebral Palsy, Congenital Heart Disease and Cystic Fibrosis. Other additional covered conditions vary by company and may include Muscular Dystrophy, Type 1 Diabetes Mellitus, Autism and Rett's Syndrome.
- Coverage for childhood conditions continues until age 18 to 25, depending on the company.

Help your clients rewrite the story

Insurance for a child isn't about profiting from the child's illness or death, but rather protecting the family and helping create some normalcy when life is anything but normal. It isn't easy to raise the topic but when you do, you'll be doing your clients a great service. AER

JUDY WILLIAMS *is assistant vice-president of Individual at Equitable Life of Canada in Waterloo, Ont.*