plaintalk
about life insurance

THE
Great-West Life
ASSURANCE COMPANY

The right life insurance protection can have an enormous effect on your life and the lives of those you love. It can mean the difference between leaving your loved ones well positioned financially and leaving behind debts and an inadequate income.

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plain**talk**
about life insurance

The basics of life insurance in easy-to-understand terms

Canadians generally agree that life insurance is an important part of a sound financial security plan. However, many aren't sure what type of life insurance is right for them or how to purchase it.

Plain talk about life insurance presents the basics of life insurance in easy-to-understand terms. This information will help you find the answers to such questions as:

Do you need life insurance?

How much life insurance do you need?

What different types of life insurance can you buy?

How do you select the right life insurance for you?

Reading this booklet and talking things over with your financial security advisor will help you better understand your many choices for life insurance. Making the right life insurance choices today will benefit you and the people you care about for a lifetime.

Your personal dreams and goals are the foundation of a long-term financial security plan tailored just for you.

What does life insurance do for you?

Life insurance can create financial security for you and your family.

If you should die prematurely, life insurance can:

- Cover final expenses and pay off any debts you may have
- Ensure your family has the resources to maintain a comfortable standard of living
- Leave a legacy to your favourite charity

While you're alive, some types of life insurance can:

- Build a tax-advantaged cash value you can draw on for personal or business opportunities
- Supplement your retirement income
- Provide for long-term care or home care

What are the advantages of life insurance?

An instant estate

Few individuals, particularly young families, have enough savings to adequately protect their loved ones if an income earner dies. Life insurance can help you create an estate at the very time when your family needs the funds most. It's a cost-efficient way to ensure your family's continued financial well-being.

Money in hand – quickly

Your beneficiaries can get the life insurance money within days of the insurance company receiving the required information. By contrast, savings and other assets can be tied up legally for some time.

Financial benefits during your lifetime

Some people think that life insurance pays only if you die. That's not always true.

With permanent life insurance, you can build up cash value, or equity, in your policy, which you can access during your lifetime. What's more, you can accumulate this cash value on a tax-advantaged basis. The growth in the cash value is generally only taxable when withdrawn from the policy.

How you use your policy's cash value is up to you:

- Provide ready cash in an emergency
- Make a down payment on a home or cottage
- Launch or expand a business
- Act as collateral for a loan
- Supplement your retirement income
- Pay for long-term care or home care for you and your spouse

Other advantages

- Your family, or any other beneficiaries you name in the policy, almost always receives the money tax-free.
- You can eliminate probate on the life insurance proceeds by naming a beneficiary other than your estate (not applicable in Quebec).
- Information about your life insurance can stay private, unlike your will.
- Life insurance proceeds are often protected against creditors.

A life insurance policy can play a key role in providing a lifetime of financial security for you and your family.

Who needs life insurance?

Quite possibly, the largest burden on your estate could be the taxes owing on your assets.

People with responsibility for others

If a spouse, child, grandchild, adult child or parent depends on you, life insurance can play a fundamental role in their continued financial well-being.

- Immediately after your death, life insurance can provide the money your family needs for the funeral, unpaid bills and other expenses, such as legal fees, taxes, medical expenses, mortgage, loans and credit cards.
- Over the longer term, life insurance can give your family a source of funds to make up for the loss of your income. If you're a stay-at-home parent, your role also needs to be covered, because of the additional childcare costs if something happens to you.

People with no family ties

If you're single, or you and your partner don't have a family, life insurance still plays an important role in your financial security plan.

- Life insurance can provide an efficient, cost-effective way to take care of final expenses, unpaid bills and other debts.
- You can use life insurance to supplement your retirement income and leave a gift to a loved one or a favourite charity.

People with estates to protect

Many people believe that as they get older and more financially independent, they don't need life insurance as much. However, as the value of your estate increases, so does the burden of estate taxes that must be paid when you die.

Life insurance can help protect your estate by covering these growing tax liabilities. This lets you pass as much of your estate as possible on to your beneficiaries or favourite charity.

People who want to leave a legacy

You may want to leave money to a favourite charity. Life insurance can enable you to leave a lasting personal legacy and provide your favourite charity with stable, long-term funding. A carefully arranged, planned gift can be tax-effective, without jeopardizing your own financial independence or reducing the estate available to your family.

People starting a child's insurance program

Life insurance can provide a strong foundation for building your child's or grandchild's financial security plan. It's a flexible asset that grows with them. Premiums for children are relatively low, and can remain low throughout their lives.

Business owners

If you're a business owner, life insurance can help protect what you've built.

- **Debt protection** – You may be personally liable for your business's debts. At your death, business creditors could significantly reduce your personal estate. Life insurance can cover these claims, so your beneficiaries aren't left without the financial security you intended.
- **Liquidity** – Most of your money may be tied up in your business. If your policy has a cash value, you can use that value as a source of liquidity for business opportunities or retirement. After your death, any remaining life insurance proceeds can give your family a ready source of income.
- **Business succession** – Life insurance can help fund a well-thought-out succession plan. This allows a smooth transition of ownership to a family member, partner or key employee. It also helps ensure your family receives fair value for the business, which may well be your family's largest asset.

To determine your specific life insurance needs, talk with your financial security advisor about the stage of growth your business is in today, as well as your long-term goals for your business, your family and yourself.

When should you buy life insurance?

Not surprisingly, the cheapest time to buy life insurance is when you least expect to need it – when you're young and healthy.

However, life insurance can be an excellent value at any time of your life because of the fundamental protection it provides and because you can tailor it to your changing needs and budget.

Life insurance meets different needs at different stages of your life. You can, and should, update your coverage to reflect important events in your life:

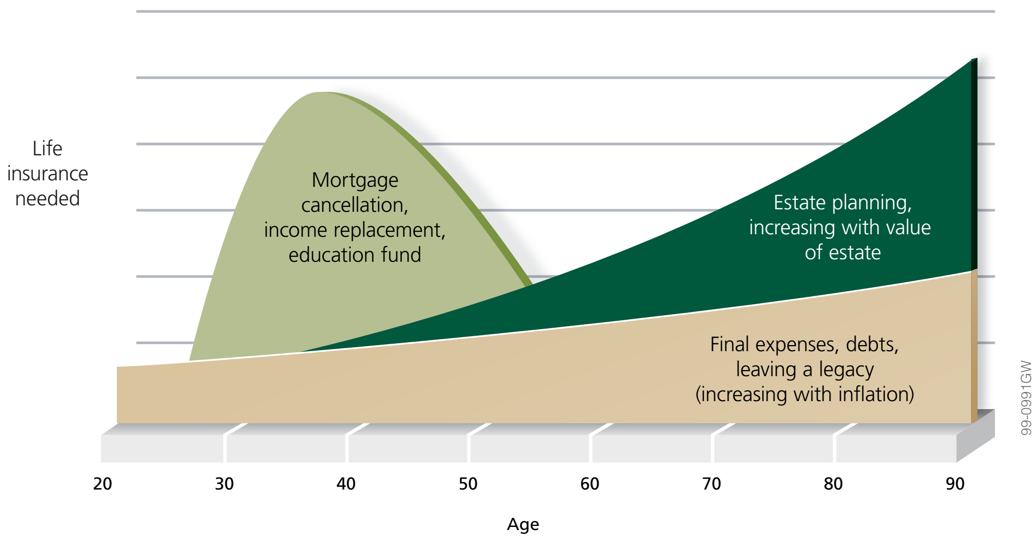
- A new child or grandchild
- Marriage or divorce
- Death of a parent or spouse
- Children leaving home for college or to start families of their own
- Purchase of a home or cottage
- New job or business

Whenever you face significant life events like these, and at least once a year, you should review your insurance protection with your financial security advisor to see if you need to adjust it to fit your changing needs.

How much life insurance do you need?

The amount of life insurance you need changes over time, as this chart illustrates.

The changing need for life insurance



The key to understanding your life insurance needs is to determine what protection you need today, keeping in mind what may be important tomorrow.

Talk openly with your financial security advisor about your specific situation right now, as well as your goals for the future. Your financial security advisor can then help you determine how much life insurance you need immediately and how much to include in your financial security plan for the years ahead.

Life insurance is an asset that can play a variety of financial security roles throughout your lifetime.

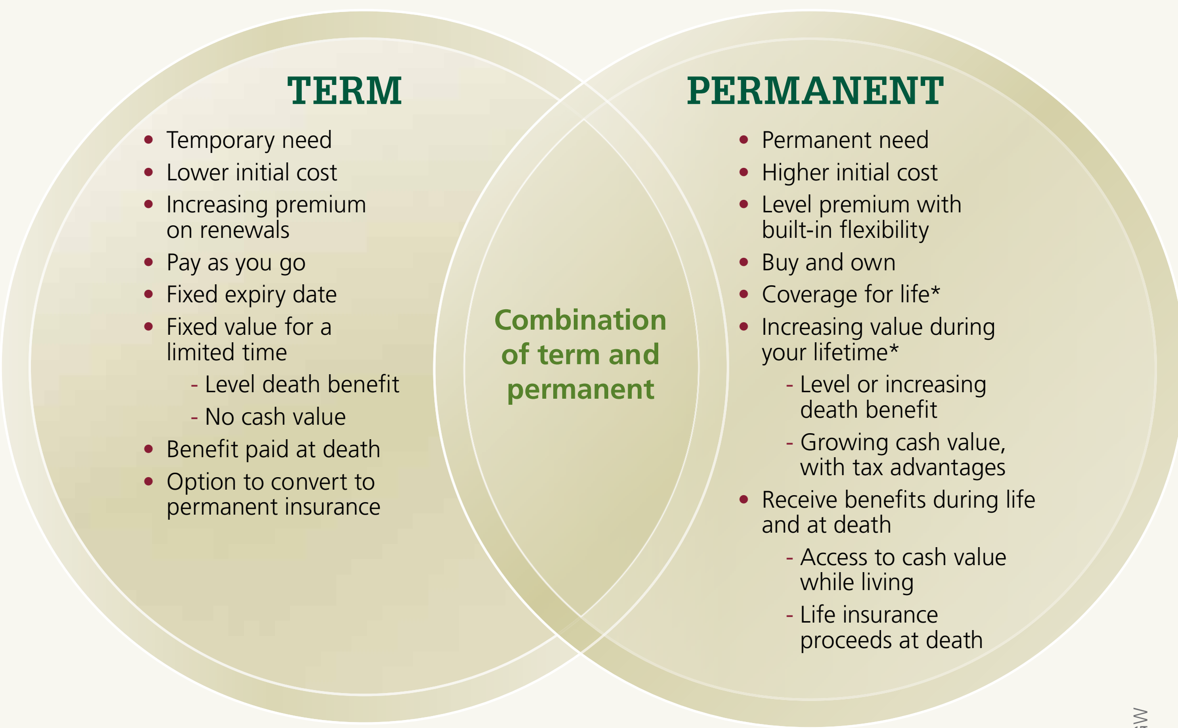
What types of life insurance can you buy?

There are two kinds of life insurance coverage – term and permanent. They offer different features to meet different life insurance needs as shown in the chart below.

How much protection you need, your cash flow, your preferences for flexibility and control, how long you need the coverage – all these factors help determine the type of life insurance you need.

Term coverage may be all you ever need, or it may be an interim step before you purchase permanent coverage. The best solution for you might be a combination of term and permanent coverage in the same policy.

What's the best life insurance for you?



* As long as premiums continue to be paid or there is cash value in the policy to cover premiums

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Term life insurance

Term life insurance is well suited to meeting high, short-term protection needs for a low initial cost.

For example, a couple with young children and a mortgage might select term life insurance as an affordable way to obtain the full protection they need today.

Many term life insurance policies are renewable after five, 10 or 20 years with no need for proof of health. At renewal, the price will increase as appropriate for your age. These increases in premium can become substantial in later years. Coverage usually ends at age of 75 or 85.

Many term life insurance policies also provide the option to convert to permanent life insurance, with no proof of health. However, this convertibility often expires around age 65 or 70. Be sure you understand the available conversion options. Some companies impose significant restrictions or have a limited choice of permanent life insurance policies to which you can convert.

The overall cost of term life insurance reflects:

- Initial premium
- Renewal rate and whether evidence of insurability is required
- How long you'll need the protection
- How much flexibility you want to meet your changing needs in the future

Permanent life insurance

As the name suggests, permanent life insurance can protect you and your family throughout your lifetime. It provides a death benefit and usually builds a cash value.

The cash value accumulates in the policy on a tax-advantaged basis. If you need to, you can withdraw cash or borrow against its value. Withdrawals may be subject to tax.

Be sure to review the product guide provided by the life insurance company. It should clearly show:

- How the life insurance works
- How cash value can accumulate in the policy
- The company's track record for providing value to policyowners

Universal life insurance

Universal life insurance combines permanent life insurance with a tax-advantaged investment component.

You can select an investment mix that's as individual as you are, taking into account the amount of investment risk you're comfortable with and your financial goals and circumstances.

As your cash value accumulates, you can use it to pay the cost of insurance or, depending on the option you select, to increase the total death benefit.

This type of life insurance is particularly suited to people who want to actively manage the investment component of their life insurance policy.

Participating life insurance

Participating life insurance gives you a foundation of guaranteed values and tax-advantaged growth, plus the opportunity to receive policyowner dividends.

Participating policyowners' premiums go into a special account called the participating account. The life insurance company manages this account, investing in a diversified portfolio of bonds, mortgages, equities and real estate. This frees you from the details of hands-on management. Earnings come from favourable investment returns, mortality experience and expense management. The life insurance company may then distribute some of these earnings to you in the form of policyowner dividends.

You can decide how you want to use your dividends. Some popular options are:

- Use your dividends to buy more permanent life insurance. This can help offset inflation and provide higher long-term growth in your cash value and death benefit.
- Use your dividends to buy a combination of term and permanent life insurance. This can help you buy more coverage today at an affordable price.

Combination of term and permanent life insurance

Many people have both short- and long-term life insurance needs. They require varying amounts of coverage over different periods of time.

To meet these combined needs, you can buy policies that combine the features of both term and permanent life insurance.

Most permanent life insurance lets you add low-cost term coverage with no additional policy fee. This gives you the total coverage you need today at a more economical price, while building a base of permanent coverage that won't increase in cost.

Other types of life insurance

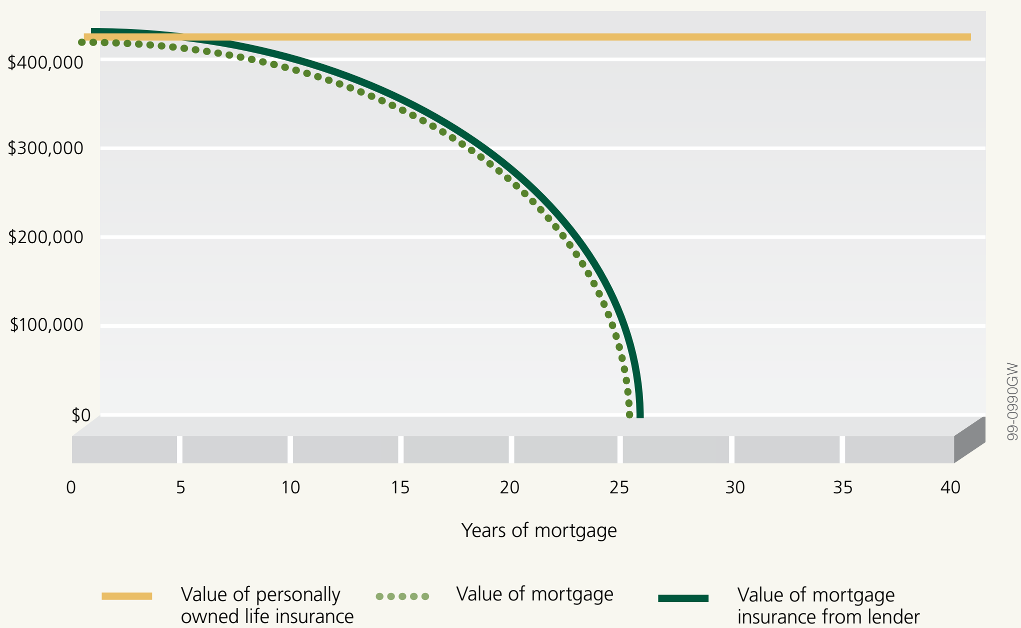
Decreasing term (creditor insurance, mortgage life insurance)

Most lending institutions offer life insurance (creditor protection) as part of their mortgage, loan or line of credit packages.

The question is, which is better for you – buying the lender's creditor protection or using your own personal life insurance to pay off the debt in case of death?

This chart illustrates these options for mortgage life insurance.

The right mortgage life insurance protection



Creditor protection is generally non-convertible term insurance. You can't convert to permanent life insurance if your needs change. There is no cash surrender value and no premium flexibility. It's commonly designed as decreasing term insurance, meaning your coverage decreases along with the balance of your loan, line of credit or mortgage. Typically, when you finally pay off the mortgage, loan or line of credit, there's no insurance left.

By contrast, personal life insurance lets you meet more of your family's needs.

- You control the amount of coverage, because it's not tied to the balance of your loan or mortgage.
- Your beneficiaries choose how to use the funds – to pay off the loan, line of credit or mortgage, provide a monthly income or take care of other immediate needs. It's their choice, not the lenders.
- You choose the type of life insurance that suits your needs with premiums to suit your budget. The cost may be lower than creditor protection or mortgage life insurance.
- You own the policy, not your lender. This gives you the freedom to move your loan, line of credit or mortgage to another lender without jeopardizing your life insurance.

Group insurance

If you're working, there's a good chance your employer offers group life insurance. You may also have life insurance through your association, professional body, union or club.

Group coverage provides simple, low-cost life insurance. However, it can have drawbacks, compared with personal life insurance.

- Group coverage doesn't offer the same level of control, portability or flexibility.
- You're often insured only as long as you're part of the group.
- Employers own their employees' coverage. They can change it at their discretion, based on an annual review.
- You usually have the right to convert to an individual policy when you leave the group. However, you may only be allowed to convert to non-convertible term life insurance that expires at age 65. Converting to permanent life insurance could be expensive or impossible.

Term coverage may be all you ever need, or it may be an interim step before you purchase permanent coverage. The best solution for you might be a combination of term and permanent coverage in the same policy.

How can you tailor your life insurance to your needs?

There are many ways to customize your life insurance policy. Here are some of the more common options. Talk to your financial security advisor to learn about other ways to tailor your life insurance to your needs.

Protection in the event of disability

If an accident or illness prevents you from working, the life insurance company pays your premiums. Be sure you understand the definition of disability, the waiting period before premiums are paid and any additional benefits you receive while disabled.

Right to buy more life insurance

This guarantees your right to buy more life insurance. It protects you from the risk that sickness or an accident might disqualify you or make you pay higher-than-standard premiums. The cost of this benefit is usually minimal.

Accidental death benefit

This option pays an additional benefit in the case of a fatal accident. This is part of your main life insurance policy, not a separate policy. (You may occasionally receive offers to buy a separate accidental death insurance policy. It may offer high coverage at a low cost. However, if you die from anything other than an accident, there is no payment at all.)

There are many ways to tailor your life insurance, such as protection in the event of a disability or an accidental death benefit.

Should you replace your current life insurance?

If anyone suggests canceling your current life insurance policy, ask for a written proposal. Most provinces require financial advisors to provide a written comparison.

Then get in touch with the company that issued your current policy. Have them confirm and double-check the details in the comparison statement. If your current policy has a cash value, consider any tax implications of surrendering it. That way you can base your decision on complete, accurate information.

Be careful when comparing policy illustrations, which show how a policy works. Illustrations may contain future, non-guaranteed values. Even small differences in assumptions can make huge differences in the illustrated values. It's generally inappropriate to base your decision on illustrations alone.

Compare the entire policy, not just one or two features. Compare it over the long term, not just the short term. Here are some factors to compare:

- Death benefit
- Cash surrender value
- Premiums
- Tax considerations
- Guarantees
- Extra benefits and riders

Your current policy was probably designed to be flexible. You may be able to adapt it to meet your changing needs.

If you decide to give up your current policy, be sure to keep your present coverage in place until you have a new policy safely in-hand.

How should you select the right life insurance for you?

Professional advice

Life insurance is definitely not one-size-fits-all. Buying life insurance that meets your needs now and in the future can be complex. That's why professional advice from your financial security advisor is essential.

Your financial security advisor can:

- Take the time to understand your personal financial goals, insurance needs, risk tolerance and desired level of hands-on management
- Help you evaluate your options and select life insurance that's a good fit for you now and in the future

Value for your money

Your best buy is a policy with the features that meet your needs and budget today, plus the flexibility to meet your needs in the future.

This means the lowest-priced policy today may not always be the best value for you over the longer term. Here are some variables that affect the cost of life insurance:

- Gender – Women pay less, because on average they live longer.
- Age – The younger you are, the lower your premium.
- Health and lifestyle – Good health and a sound lifestyle, like not smoking, usually qualify you for better rates.
- Type of policy
  - You usually pay less initially for term insurance.
  - You usually pay more for permanent life insurance that builds cash surrender value, because it gives you more than just the basic death benefit and protects you for your entire life.
- Frequency of payment – You often pay less if you pay annually, rather than monthly.
- Job, sports, hobbies – Some are riskier than others.
- Foreign travel or residence – Depending on the country, you may be exposed to increased risks.

Underwriting

Underwriting is an assessment of health and lifestyle factors. For example, underwriters look at smoking and other lifestyle habits, as well as build, personal and family medical histories, occupation, aviation and avocation activities, travel, driving history and finances. This enables the life insurance company to offer coverage at a cost that reflects its risk, so all policyowners receive good value for their premium.

Life insurance applications include questions about these factors. In some cases, you may have to give blood and urine samples or take medical tests. These are conducted by registered nurses, often in the comfort of your own home. Your doctor may also be contacted about your health. This is all part of the underwriting process. Your willingness to provide the necessary information quickly will expedite the process, so you get the coverage you need as soon as possible.

The company that stands behind your life insurance

Life insurance is a promise that may not be put to the test for 30, 40, 50 years or more. You need to be certain your policy is backed by a life insurance company that's established, reputable and secure.

Here are some key things to look for:

- Highly trained, qualified professionals
- Proven reputation for client service. When you need help, they're accessible, with answers at their fingertips.
- Long-term financial strength and ability to pay claims. Always check the company's financial ratings and track record for providing value.

The next step after reading this booklet is to talk with your financial security advisor about your own personal financial goals and needs. Your advisor can help you select the specific life insurance that's right for you.

GLOSSARY
of LIFE INSURANCE TERMS

Beneficiary
One or more people or organizations named in the policy to receive the life insurance proceeds when the insured person dies.

Cash surrender value
The cash value that policyowners receive if they cancel the policy (or withdraw funds in a partial surrender). With universal life insurance, the cash surrender value is the total account value, minus any surrender charges, market value adjustments, withdrawal fees and policy loans. If you surrender the policy, there may be tax implications.

Convertible term life insurance
Life insurance that allows policyowners to change to permanent life insurance, without providing evidence of insurability. The new premium is usually based on the age of the insured person at the time of the conversion.

Cost of insurance
The charge for the risk, or insurance, component of a universal life policy. It is typically deducted monthly and based on guaranteed rates per $1,000 of life insurance. It varies by age, gender, smoking status, medical rating and coverage amount.

Death benefit
The amount to be paid when the insured person dies.

Decreasing term life insurance
Life insurance in which coverage decreases during the term of coverage.

Dividends
See policyowner dividends.

Evidence of insurability
Medical, financial and lifestyle information that underwriters need to assess the risk before approving a life insurance application. The life insurance company may request this information from the policyowner, the insured person or both.

Increasing death benefit (coverage plus)
With universal life insurance, an option where the total account value is added to the basic coverage to determine the basic death benefit.

Insured person (life insured)
The person on whom the application, premium and coverage are based. This person may or may not be the policyowner.

Investment options
A range of interest options with universal life insurance, based on short-term, long-term or index-linked investments. The value of each option is based on the changing value of the underlying investment. It may be positive or negative, depending on actual performance.

Lapse
Termination of a life insurance policy, because premiums haven't been paid and there aren't enough funds in the policy to keep it in force. Coverage is suspended and can be terminated if premiums aren't paid within a certain time.

Level death benefit
With universal life insurance, an option that keeps the death benefit level. As the value of the investment component increases, the amount of the life insurance component is decreased. This option uses the total account value to reduce the cost of insurance.

Participating life insurance
Permanent life insurance that's eligible for policyowner dividends. The dividend amount depends on investment returns, mortality experience and management of expenses.

Permanent life insurance (whole life insurance)
Life insurance intended to provide protection for the lifetime of the insured person. Most permanent products have a cash surrender value.

Policy illustration
A presentation to help explain how a life insurance policy works. It's for information purposes and isn't part of the contract. It should clearly show what's guaranteed and what's not.

Policy loan
A loan from a life insurance company to a policyowner, secured by the cash surrender value of a life insurance policy. The policyowner pays an interest charge. The net cost of the loan is the difference between the policy's earnings and the loan's interest. Taking a policy loan may create taxable income, while repaying a loan may create a tax credit.

Policyowner
The person who owns the life insurance policy and can access any cash value it has. This person can request changes to the policy, unless the policy is assigned or has an irrevocable beneficiary. This is not necessarily the person who pays the premium, who could be another payor.

Policyowner dividends
Earnings from the participating account distributed to the owner of a participating life insurance policy. The policy has certain guaranteed values, based on assumptions about investment returns, mortality experience and expenses. If actual experience is more favourable than these assumptions, earnings are generated in the participating account. Each year the life insurance company can distribute a portion of the earnings to policyowners, as approved by the board of directors.

Premium amount
Payment in exchange for life insurance coverage.

Premium loan
A standard option to prevent a permanent life insurance policy from lapsing. If a premium payment is missed, the premium amount is borrowed from the cash surrender value. This keeps the policy in force, as long as the policy cash surrender value is enough to cover the outstanding loan.

Premium schedule
The amount of premium the policyowner chooses to pay, from the options available in the policy. Some policies provide considerable flexibility, while others specify one premium schedule. Guaranteed premium levels are generally specified in the policy.

Renewable term life insurance
Life insurance you can renew, or continue until its expiry date, without evidence of insurability. There are non-renewable and non-convertible policies in the marketplace, so you should verify these features.

Risk tolerance
Your ability or willingness to endure declines in the value of your policy's investments or increases in premiums. Your financial security advisor should help you assess your risk tolerance before recommending a specific life insurance product.

Term life insurance

Life insurance that provides coverage for a specified period of time. The premium usually increases at each renewal. There is no cash surrender value.

Total account value

The total of all the investment accounts in the investment component of a universal life insurance policy, before surrender charges, market value adjustments and withdrawal fees.

Underwriting

The life insurance company's process of assessing the risks of the insured person's health and lifestyle. See discussion on page 18.

Universal life insurance

Permanent life insurance with a life insurance component (the insurance amount) and an investment component (the total account value). Compared with other types of permanent insurance, it offers more choice and flexibility in paying premiums and changing the amount of the basic death benefit. It also offers choices in the type of death benefit and cost of insurance. At the same time, it requires more decision-making by the policyowner and there are more fluctuations in the investment returns.

Whole life insurance

See permanent life insurance.

Withdrawals

Taking money out of the policy's cash surrender value. Withdrawals are subject to tax and generally reduce the total death benefit. Unlike with a policy loan, no interest is charged, but the growth of the cash surrender value is reduced. There may be costs and restrictions if you want to put the money back into the policy.

Yearly renewable term life insurance (annually increasing)

Life insurance that the policyowner can continue at the end of each year, for a specified number of years or until a specified age. The premium generally increases every year.

For more information

Great-West Life has offices across Canada. You can find out more about life insurance and other products and services by calling your financial security advisor or local office.

You can also visit **www.greatwestlife.com** to find an office and financial security advisor near you. To inquire about a specific policy, call **1-800-665-0551**.

The information provided is accurate to the best of our knowledge as of January 2011, but laws and interpretations may change. This booklet is for information purposes only and should not be construed as legal or tax advice. Every effort has been made to ensure its accuracy, but errors and omissions are possible. All comments related to taxation are general in nature, apply to Canadian residents, and are based on current Canadian tax legislation, which is subject to change. For the implications as they relate to individual circumstances, consult the appropriate legal, accounting or tax advisor.

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