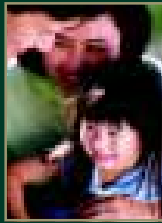


PLAIN TALK *about*
LIFE INSURANCE



THE
Great-West Life
ASSURANCE  COMPANY

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

PLAIN TALK *about*

LIFE INSURANCE

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The basics of life insurance in easily understood terms

Canadians generally agree that life insurance should be part of a sound financial security plan, but many aren't sure what type to buy or where 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 kind of life insurance should you buy?**

Your financial security advisor can assist you with all of your personal financial security needs and goals. A financial security plan should consider life insurance, savings, other assets such as your home, cottage or business and other forms of insurance. All of the pieces should fit together and be tailored specifically for you.

What life insurance does for you

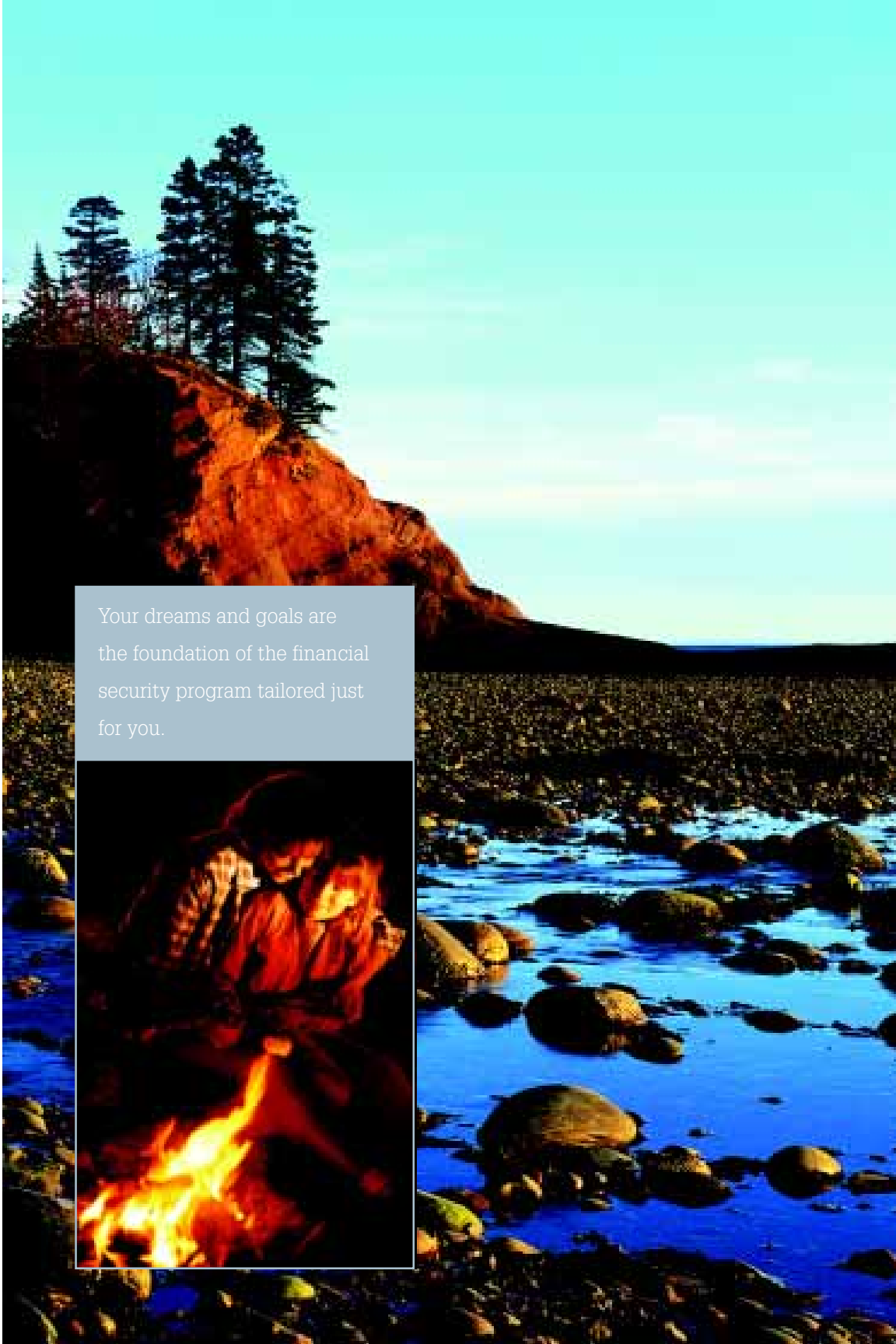
Life insurance helps to create security for you and your family. If you should die unexpectedly, it can be used to:

- pay final expenses and any debts you may have
- provide an income for your family
- ensure your family has the resources to maintain a comfortable standard of living
- leave a legacy to your favourite charity

While you are still living, some life insurance policies can:

- build a tax-advantaged savings fund which you can draw upon as needed for personal or business opportunities, to supplement your retirement income, or to provide for long term care or home care for a family member (ask your financial security advisor for a copy of *Options for gaining access to policy cash values* for all the options and tax considerations).

However you look at it, life insurance is a valuable part of your financial security plan.



Your dreams and goals are
the foundation of the financial
security program tailored just
for you.



The advantages of life insurance

An instant estate

Few individuals, particularly those with the responsibility of a young family, have sufficient savings to adequately protect their loved ones should the main income earner die. Life insurance can help create an estate at a time when funds may be needed most. This is a low-cost way to ensure your family's continued financial well being.

Money in hand – quickly

Your beneficiary, the person(s) you name to receive the insurance money, will be paid within a few days of the insurance company receiving the required information. By contrast, savings and other assets may be tied up legally for some time after death.

Financial benefits you enjoy

Some people have the impression that insurance pays only if you die. That's not the case. Many permanent insurance policies (i.e. participating and universal life) build cash values that you can access during your lifetime. The cash value is the equity you have built up in your policy. Cash values can accumulate within your policy on a tax-advantaged basis. The growth in the cash value is generally only subject to income tax when it is withdrawn from the policy. Your policy's cash surrender value can be used to:

- provide funds in an emergency
- finance a downpayment on a home or cottage
- launch or expand a business

- act as collateral for a loan from a third-party lending institution
- supplement your retirement income
- provide income for long-term care or home care for you or your spouse

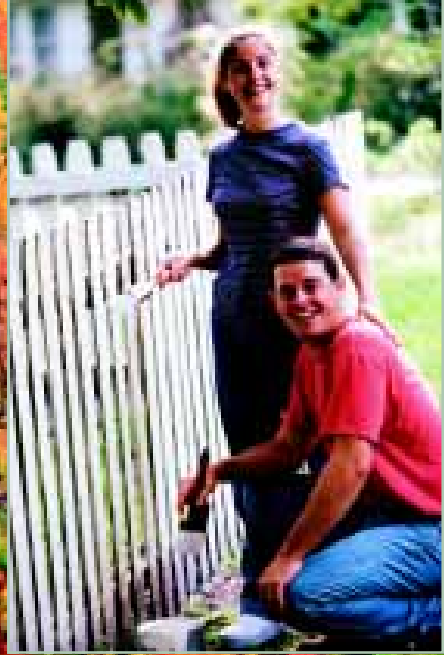
How you use the money is really up to you.

For more information on policies that build cash values, ask your financial security advisor for a copy of *What's the best life insurance*. It's customized for each of the following stages of your life: early career, concerned family, or empty nest. *What's the best life insurance* is also available in a customized format according to your needs as an affluent and established individual or your needs as a business owner.

Other advantages

- the death benefit is not subject to income taxes
- probate costs can be avoided if you name a beneficiary other than your estate
- unlike a will, information regarding your life insurance can remain private
- in many instances, life insurance may be protected against creditors.

An insurance policy can play a key role in providing a lifetime of financial security for your family.



Who needs life insurance?

People with responsibility for others

For people who depend on you for support, a spouse, children or dependent adults, life insurance can play a fundamental role in their continued financial well being. In addition to making up for the loss of your income, the proceeds from a life insurance policy can be used to take care of funeral expenses and other costs such as a mortgage, loans or credit card payments. If you're a stay-at-home parent, the role you play also needs to be covered because of the additional expenses associated with childcare if something happens to you.

People without family ties

Over the course of a lifetime, situations and responsibilities change. You've probably imagined how your life will look as you go through the many life transitions. Are you prepared financially for the changes? Have you considered how life insurance can help keep your life plans intact? Life insurance protection offers considerable flexibility and options during your life. Even if you are single, or you and your partner both work but don't have a family, life insurance can still play an important role in your financial security plans.

A life insurance policy can provide an efficient and cost-effective way to take care of any expenses or unpaid bills you might leave behind, such as legal fees and taxes, medical expenses, funeral costs, mortgage debt or car loans. It can also be used to leave a gift to a loved one or a

favourite charity or to provide a supplemental income while you are alive.

People with estates to protect

Many people believe as they get older and become more financially independent, their need for life insurance decreases. However, over a lifetime, estate values tend to rise. Life insurance can help pay the inevitable taxes that are due on an estate upon death. This can ensure as much of your estate as possible is passed on to your beneficiaries. Ask your financial security advisor for a copy of *Protecting your estate*.

Business owners

If you're a business owner, either on your own or with a partner, you probably have personal liability for the debts of your business. In fact, the vast majority of your wealth is likely tied up in the business. You have a greater need to protect what you have built against unforeseen circumstances such as death and disability or to ensure liquidity for a variety of reasons including funds for retirement.

In case of death, it is important that you have adequate insurance. Otherwise, the claims of business creditors could significantly reduce your personal estate and leave your beneficiaries without the financial security you had intended.

Equally important is the smooth transition of ownership of the business to a family member, partners or a key employee. A life insurance policy can make this possible.

Your business is an asset that provides income for your family, both while you are alive and after your death. It is also likely your largest asset

If you are in business, either on your own or with a partner, you will have unique life insurance needs that depend on your immediate priorities and at which stage of growth your business is in today as well as your long-term goals for yourself, your family and your business.



and will provide you with a retirement income. Life insurance can ensure your family receives fair value for this asset at your death.

People who want to leave a legacy

You may wish to leave money to a favourite charity. Life insurance coverage allows you to leave a lasting personal legacy and provide your favourite charity with stable funding over the long term without reducing the estate available to your family or jeopardizing your future financial independence. A carefully arranged planned gift can be tax effective, and at the same time balance your final needs and the needs of your family. Ask your financial security advisor for a copy of *Bring planned giving into focus*.

People starting a child's or grandchild's insurance program

Life insurance provides a powerful foundation for building your child's or grandchild's financial security plan. Insurance can work as a flexible asset that grows along with your child.

Premiums are relatively low for children and this low premium can be maintained throughout their lives.

When should you buy life insurance?

The best way to buy insurance at a reasonable price is to buy it when you don't appear to need it; that is, when you're healthy. However, it is seldom too late, or the wrong time to buy life insurance.

You should review your life insurance protection with a financial security advisor annually or whenever there are changes in your life, such as the birth or adoption of a child or a change in marital status. The purchase of a home or cottage, or a new job or launching your own business are also circumstances which should prompt a review of your insurance protection.

How much life insurance do you need?

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

How much coverage you need, combined with your cash flow, and the length of time you need the coverage, are all used to determine the type and how much life insurance you should buy.



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

What type of insurance can you buy?

There are two types of life insurance: permanent and term. They are two different types of protection that satisfy many different life insurance needs. Term may be all the life insurance you'll ever need, or it may be used as an interim step before purchasing permanent insurance. Possibly, a combination of term and permanent in the same policy may be the best solution for you. Your financial security advisor can show you the strengths of each and their differences.

Permanent life insurance

Permanent life insurance – as the name implies – protects you for your lifetime. It can build cash surrender values and provide a death benefit. Some permanent policies pay policyowner dividends (participating or *par*), and others don't (non-participating). If the permanent policy you are considering has a cash surrender value, you should review the product guide provided by the insurance company to better understand how the assets backing the policy are managed and how these assets are used to accumulate value within the policy.

Universal life

Universal life provides permanent life insurance with a tax-advantaged investment component. As cash values accumulate, they can be used to pay part or all of the cost of your insurance or to increase the death benefit. You select an investment mix that is as individual as you are – taking into account the

amount of investment risk you are comfortable with, and your financial goals and circumstances. This type of policy is generally non-participating and is attractive for people who want to actively manage their life insurance policy.

Permanent participating insurance

Permanent participating insurance policies have potential for earning policyowner dividends. Favourable investment returns, mortality and expense experience generate earnings in the par account – a portion of which can then be paid to policyowners in the form of dividends. (See the glossary for a detailed definition of *policyowner dividends*.)

You choose how you want your dividends to be used. The most popular dividend options are either to use dividends to buy additional permanent coverage each year or to buy a combination of term and permanent insurance, which can make a larger amount of coverage more affordable. The first option provides an increasing death benefit that can offset the effect of inflation over the longer term. Higher premium options generally provide higher long-term growth (i.e. paying a high premium may mean you will receive higher values over the longer term). The insurance company manages the investment portion of a participating policy, so it doesn't require hands-on management by the policyowner. Assets in the participating account are managed in a diversified portfolio and are invested primarily in bonds, mortgages, equities and real estate.

For more information about universal life or participating insurance products from various companies, ask for their product guides. The guide should explain how the insurance product works and the company's record for providing value to policyowners.

Term life insurance

Term life insurance is well suited to meeting high, short-term protection needs for the lowest initial cost. For example, a couple with young children and/or a mortgage might select term insurance as an affordable way to obtain the full coverage they need today. Many term insurance plans do a good job of meeting immediate needs and provide the freedom to later move, or convert to a permanent product without providing proof of health. However, this ability to convert to permanent insurance often expires around age 65 or 70. When purchasing term insurance, it's important to understand what conversion options you have. Some companies impose significant restrictions or have a very limited choice of permanent plans for conversion.

Many term plans are renewable after five, 10 or 20 years without providing proof of health. The price will increase to be appropriate for your age at renewal, and the increase in premium can become substantial in later years. Coverage ceases for the majority of term contracts once you reach the age of 75 or 80.

When reflecting on the cost of term insurance, be sure to consider the following factors impacting your total cost:

- the initial premium,
- the renewal rate and whether evidence of insurability is required at time of renewal,
- how long you'll need the protection, and
- how much flexibility you want in case your needs change in the future.

A combination of permanent and term life in one policy

Many people have both short- and long-term insurance needs and require varying amounts of coverage over different periods of time. A combination of permanent and term life insurance features can be available in one policy. Most permanent policies allow for the addition of low-cost term coverage without an additional policy fee. This provides a way to obtain the right amount of coverage at a more economical price, giving you a base of permanent coverage that won't increase in cost.

Other types of term insurance

Decreasing term (*also known as creditor insurance or mortgage life insurance*)

Most lending institutions offer creditor or mortgage life insurance as part of their lending or mortgage packaging. Its primary purpose is to protect the lender. Creditor or mortgage insurance from a lending institution is generally non-convertible term insurance (you can't move to a permanent insurance plan if your needs change) – there are no cash surrender values and no premium flexibility. A personal life insurance policy has distinct advantages over typical creditor or mortgage insurance such as:

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

It pays to compare. Insure yourself, not the lender.

Group insurance

If you're working, there is a good chance your employer offers group life insurance. You may also obtain life insurance coverage as a member of an association, professional body, union or club.

Group coverage provides simple, low-cost insurance protection; however, it can have some drawbacks when compared to an individual life insurance policy.

Group coverage doesn't offer the level of control, portability or choices that can be obtained with your personal life insurance policy. With many group or association plans, you are insured only as long as you remain part of the group. Employment-related group coverage is owned by your employer and is subject to change at their discretion based on an annual review. With a group life insurance plan, you have the right to convert to an individual plan when you leave the group or retire, but this is not always practical. Depending on your age when you retire or leave the company, converting to personally-owned permanent life insurance could be expensive or may not be possible.



Life insurance – an asset which can play a variety of key financial security roles throughout your lifetime.

The right insurance for your needs – value for your money

Life insurance is one of your most personal and important buying decisions. A carefully considered purchase today can benefit you and those you care about for the rest of your life. There are several variables affecting the cost of life insurance and that's why value doesn't necessarily rest with the lowest-priced policy. It's important to understand the factors that affect the cost of your life insurance policy.

- Gender – women pay less than men because statistics show that on average they live longer
- Age – the younger you are, the lower the premium you'll pay
- Health and lifestyle – good health and sound lifestyle habits usually mean you qualify for the best rates. Non-smokers get a discount.
- Type of policy
 - you pay less initially for term insurance
 - you pay more for a policy that builds cash surrender values because it provides benefits beyond the basic insurance protection
- Method of payment – you'll pay less if you choose to pay your premium on an annual basis rather than monthly

Other factors that may impact the premium you'll pay

- Occupation or avocation – some occupations or hobbies/sports are riskier than others from both a health and accident standpoint which may impact the premium you'll pay
- Foreign residence – Canadian insurance policies are based on Canadian mortality experience. If you live outside of Canada, you may be exposed to an increased mortality risk which may impact the premium you'll pay

Your best buy is a policy with features that suit your situation today with flexibility to meet changing needs in the future.

Get professional advice

Purchasing life insurance that meets your needs now and in the future can be complex. That's why it's essential to get professional advice from a knowledgeable financial security advisor, supported by a team of experts.

Life insurance is definitely not a one-size-fits-all product. Your financial security advisor will take the time to understand your financial goals and insurance needs, your risk tolerance, and the control you want in managing your policy. Then he or she will help you to consider your options and ensure your life insurance is a good fit for you now, and in the future.

Finally, you need to be certain your policy is backed by an insurance company that is established, reputable and secure.

New isn't always better

Your life insurance policy represents an important part of your financial security. If anyone suggests canceling your policy, ask for a written proposal to provide you with complete and accurate information. Most provinces have regulations or guidelines under the Office of Superintendent of Financial Institutions that require advisors to provide a written comparison statement when they replace an existing life insurance policy.

Get in touch with the company that issued your existing policy to confirm and double-check the details presented in the comparison statement to enable you to make your decision based on all the facts.

Factors to compare when considering replacing your current life insurance policy with a new one:

- death benefit
- cash surrender values
- premiums
- tax considerations
- guarantees, and
- any extra contract benefits or riders in the policies

Always compare the entire policy and not just one or two features. Also, be sure to compare it over the long term as well as the short term.

Remember that the policy originally recommended to you was probably designed to be flexible. If your needs have altered, your existing policy may be adaptable to suit your new requirements.

If you do decide to give up an existing policy, don't leave yourself unprotected. Keep your present coverage in place until you have a new policy safely in hand.

Tailoring your life insurance

Here are some of the ways you can tailor your life insurance policy.

Protection in the event of disability

The insurance company will pay your premiums if an accident or illness prevents you from working. Ensure you understand a few things: the insurance company's definition of disability, the waiting period before premiums are paid, and any additional benefits you will receive while disabled.

Reserve the right to buy more insurance

This is a valuable feature if sickness or an accident means you can't buy more insurance, or to do so you must pay a higher premium because you don't qualify for standard rates. The cost of this benefit is minimal and it guarantees the right to buy more insurance without a medical examination.

Accidental death benefit (ADB)

For a small premium, you can have an additional death benefit that pays in the case of a fatal accident. Occasionally, you may receive an offer to buy accidental death coverage through the mail. While this may appear to provide high coverage at a very low cost, it's important to understand that if you die from any other means there would be no

payment. (A recent report by Statistics Canada showed that only 28 out of 100,000 died of unintentional injuries in 1996.) We don't recommend relying on accidental death benefit coverage to protect your family or business.

Talk to your financial security advisor to learn about other ways to tailor your life insurance policy.

Choosing the right company

When it comes to choosing a company to meet your personal life insurance needs, there are several considerations:

- highly trained and qualified professionals
- known reputation for customer service – when you need help, they're very accessible – with answers at their fingertips
- be sure to check the company's financial security rating and its track record for providing value

Let us help you

Through this booklet, we've outlined the basics of life insurance.

You may want to know more about the other financial products and services we offer:

- Individual life insurance
- Segregated funds, RRSPs
- Annuities, RRIFs, LIFs
- Individual disability insurance
- Individual critical illness insurance
- Individual health and dental insurance
- Business insurance
- Group insurance
- Group retirement plans

Perhaps you now need specific information about what life insurance can do for you and how you can benefit from owning a policy. Call your nearest Great-West Life office. You'll find a listing in your telephone directory, or you can visit our Web site, <http://www.gwl.ca> to locate the Great-West office nearest you.



Take advantage of our experience to achieve a secure financial future for yourself and your family.

Glossary of life insurance terms

Beneficiary

The person named in the policy to receive the insurance proceeds upon the death of the insured.

Cash surrender value (CSV)

The cash value paid to the policyowner if he or she cancels the policy or withdraws some funds from the policy (partial surrender). For example, the cash surrender value for a universal life policy is the total account value less current applicable surrender charges, any market value adjustments, withdrawal fees and outstanding loans. If the policy is surrendered or partially surrendered for its cash value, there may be tax implications.

Convertible term insurance

A type of term insurance that allows the policyowner to change the term insurance policy to a permanent life policy without providing evidence of insurability. The premium amount for the new permanent policy is usually based on the age of the insured at the time of the conversion.

Cost of insurance (COI)

COI is the insurance charge within a universal life policy (usually deducted monthly). These charges are typically based on guaranteed rates per \$1,000 of insurance and vary by age, sex, smoking status, medical rating and the amount of insurance.

Death benefit

The amount of money paid or due to be paid when a person insured under a life insurance policy dies.

Decreasing term insurance

A type of term life insurance in which the amount of coverage decreases during the term of coverage.

Dividends

See policyowner dividends.

Evidence of insurability

Medical, financial and lifestyle information that is needed as part of the underwriting process to assess the applicant's risk in approving the life insurance application. The policyowner, the insured person or both may be asked to provide this information depending on the coverages selected.

Increasing death benefit

A death benefit option within a universal life policy where the total (investment) account value is added to the basic coverage to determine the basic death benefit.

Insured person

The person on whom the premium and coverage is based. The application for coverage is filled out based on this person. This person may or may not be the policyowner.

Investment options

Universal life policies typically offer a range of investment account options based on short-term, long-term and index-linked investments. Index-linked investment options are determined in relation to the changes in the values of the underlying index and may be either positive or negative depending on actual performance. Generally, you can change from one investment option to another when you want, but you may be subject to a cost for transferring the funds.

Lapse

The termination of an insurance policy because premiums were not paid when they came due and there were insufficient funds available within the policy to keep the policy in force. Therefore, the policy coverage is suspended and could be permanently terminated if unpaid premiums are not paid within an allotted time.

Level death benefit

A universal life insurance death benefit option in which the death benefit of the policy remains level. The insurance amount decreases as the total account value in the policy increases. The account value in the policy is used to reduce the cost of insurance.

Non-participating (non-par)

A type of life insurance policy or annuity in which the policyowner does not receive policyowner dividends. Also called a non-par policy.

Participating life insurance:

A type of permanent life insurance that is eligible for dividends which are dependent on a variety of factors, including investment returns, mortality and expense experience.

Permanent insurance

Type of life insurance product intended to provide protection for the lifetime of the insured and may be participating or non-participating. Most permanent products have a cash surrender value at some point.

Policyowner

The person who owns the policy. Unless the policy is assigned or has an irrevocable beneficiary, this person has the ability to request changes to the policy.

Policyowner dividends

If the actual investment returns, mortality and expense experience in the par account are collectively more favourable than the assumptions supporting the guaranteed values, earnings are generated in the par account that become part of the par account surplus (retained earnings). Each year, the company distributes a portion of the earnings to policyowner as approved by the Board of Directors.

Policy illustration

A presentation which is used to help explain how an insurance product works and should clearly show what is guaranteed and what is not guaranteed.

Policy loan

A loan from an insurance company to a policyowner that is secured by the cash surrender value of a life insurance policy. You pay an interest charge for the use of this money. The net cost of the loan is the difference between what your policy is earning compared to the loan interest charged. Taking a policy loan may create taxable income and repaying a loan may create a tax credit.

Premium amount

The payment you pay in exchange for insurance coverage.

Premium loan

This is often the standard default option to prevent a policy from lapsing in a permanent, participating policy that has a cash surrender value. It is initiated when a premium payment is missed and there is a cash surrender value to cover the amount of the premium. It is intended to keep a policy in force as long as the policy cash surrender value is adequate to cover the cost of the loan.

Premium schedule

This is the amount of premium that you elect to pay within the parameters specified in the contract. Some policies provide considerable flexibility in selecting a premium schedule. For others, the premium schedule is specified in the contract – guaranteed premium levels are generally specified in the contract.

Renewable

Most term policies are renewable or can be continued without providing evidence of insurability until the expiry date of the policy. There are non-renewable and non-convertible term policies sold in the marketplace, so these features should be verified.

Risk tolerance

Your ability or willingness to endure declines in the value of your policy investments or increases in premiums. A financial security advisor should assess your risk tolerance prior to recommending a life insurance product.

Term insurance

Life insurance that provides coverage for a specified period of time. The premium will generally increase at each renewal. There is generally no cash surrender value associated with term insurance.

Total account value

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

Universal life

A type of permanent insurance protection that has two components: insurance, also called the insurance amount, and an investment component which provides the cash or total account value. It offers greater choice and flexibility than traditional permanent insurance in terms of paying premiums and changing the amount of the basic death benefit. However, it also requires more decision making on the part of the policyowner and there are more fluctuation in the returns on the investment component. Universal life also offers choices in type of death benefit and cost of insurance.

Whole life insurance

See permanent insurance.

Withdrawals

Withdrawals may be made from the cash surrender values of the policy, but are subject to tax under the rules set out by the Canada Customs and Revenue Agency. Cash withdrawals will generally reduce the total death benefit. A cash withdrawal is different from a policy loan in that no interest is charged on the amount withdrawn and the growth of the cash surrender value is hindered by the amount withdrawn.

Yearly renewable term (YRT) insurance

Term life insurance that gives the policyowner the right to continue the coverage at the end of each year. This renewal right continues for a specified number of years or until the insured reaches the age specified in the contract. Also called annually renewable term (ART) insurance. The premium will generally increase every year.



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