




Insurance

Common life insurance mistakes Canadians make,

and how to avoid them





Most Canadians don't ignore life insurance. They deal with it once, make what feels like a responsible decision, and move on.

That choice usually happens during a life change: getting married, buying a home, starting a family. The paperwork gets signed, there's a sense of relief, and an important box feels checked.

That relief makes sense. Life insurance isn't something people enjoy thinking about because it can raise uncomfortable questions. Once it's handled, the policy goes into a drawer, and life continues.

The issue isn't forgetfulness. It's that life keeps changing while the insurance stays the same.

Income shifts. Mortgages change. Kids grow up. Health evolves. But coverage often stays untouched, quietly drifting out of sync with real needs.

This guide covers some of the most common life insurance mistakes Canadians make, why they happen, and how to fix them before they become costly or irreversible. The examples are fictional, but they reflect patterns our advisors see every day across Canada.

INTRODUCTION

It's not you - the system is confusing

If life insurance feels hard to understand, that's because it is. Policies can be technical, pricing varies by age, health, product type, and timing, and small early decisions can shape outcomes decades later.

Many Canadians assume that having some coverage means they're fine. They rely on workplace insurance, or trust old policies to age well.

Those assumptions are understandable. They're also risky.

Life insurance rarely fails loudly. It fails quietly, often only showing its gaps when life changes or the policy is finally reviewed.



If you can't clearly explain what kind of life insurance you have, how long it lasts, and what it would pay out, that uncertainty itself is a reason to review it.

MISTAKE #1

Buying whole life when you only need term



Mistake explained

One of the most common and expensive mistakes Canadians make is buying whole life insurance when their actual need is temporary protection.

Whole life insurance is designed to last your entire lifetime. It's often positioned as a combination of insurance and investment, with promises of stability and long-term value. Term insurance, by contrast, is designed to provide coverage for a specific period, often 20 or 30 years.

For most families, the need for life insurance is not permanent. It peaks during specific years, usually when children depend on income, mortgages are large, and a loss of income would destabilize the household. Once those obligations shrink, the need for large amounts of coverage often shrinks as well.

The mistake is not choosing whole life. The mistake is choosing it without understanding the pros and cons, or how it fits into a broader financial plan.

This mistake often persists because whole life feels permanent and reassuring. Once it's set up, it rarely gets questioned, even as financial priorities shift and the original decision fades from memory.

Cost breakdown

The cost difference between whole life and term insurance can be substantial.

Over a 20-year period, choosing whole life when term would have met the need can result in:

➤ Tens or even hundreds of thousands in additional premiums



➤ Many years of higher costs before any meaningful cash value develops



➤ Missed investment growth if the premium difference is not invested elsewhere



Even when whole life policies accumulate cash value, the break-even point is often far in the future, long after the original need for insurance has passed.

Costly example*

Mark, software engineer in Toronto

Mark took out a \$500,000 whole life policy at age 34. The premium was \$4,500 a year, which felt manageable at the time and was framed as a long-term, set-it-and-forget-it decision.

A few years later, a friend walked him through an alternative. For the same amount of coverage, Mark could've bought a 20-year term policy for about \$450 a year. The protection would have been identical during the years he actually needed it.

Over the full 20-year period, that difference compounds. Instead of paying roughly \$9,000 in premiums, Mark will have paid close to \$90,000. Even if the whole life policy accumulates cash value, it can take 15 to 20 years before it meaningfully catches up to what he has put in.

In the meantime, the higher premiums came with a hidden cost. If Mark had paid only \$450 in premiums, and invested the remaining \$4000, this could have provided over \$100,000 in savings by retirement.

Taken together, the long-term cost of the decision lands in the range of six figures.

"If I had invested the difference each year instead, I'd likely be close to \$100,000 ahead by retirement."

Got it right*

Ashley, teacher in Ottawa

Ashley chose a 20-year term policy that matched the years her family was most financially vulnerable. She invested the monthly savings into her TFSA and kept insurance focused on protection rather than investment performance.



✓ The takeaway

Unless you have a clear estate planning or tax strategy that requires permanent insurance, term insurance paired with disciplined investing is often the more flexible and cost-effective approach.

MISTAKE #2

Underinsuring and leaving a financial minefield



Mistake explained

Another common mistake is underestimating how much coverage a family actually needs.

Many Canadians choose coverage amounts based on what feels reasonable rather than what would truly be required to replace income, pay off debts, and maintain stability. Round numbers feel comforting, but they are also often insufficient.

This mistake often happens because people anchor on a single expense, like a mortgage, and overlook everything else that income supports. Things like day-to-day living costs, childcare, education and even the ability to take time off work to grieve or regroup after an illness get left out.

Life insurance isn't meant to make survivors wealthy. It's meant to preserve choice and prevent people from feeling forced to make decisions during an already destabilizing time.

Underinsurance often goes unnoticed because nothing breaks right away. The policy exists, premiums are paid, and the shortfall only becomes visible when someone is forced to rely on it.

Cost breakdown

When coverage is too low, families often face:

- ① RRSP withdrawals that trigger taxes and permanently reduce retirement security
- ② High-interest debt used to cover everyday expenses and shortfalls
- ③ The need to sell the family home or downsize earlier than planned

The long-term financial impact can easily reach five or six figures or more, even before accounting for emotional strain and lost opportunity.

Costly example*

Priya and David, Mississauga

Priya's husband, David bought a \$200,000 term life insurance policy, confident it'd be enough to protect his family. In his mind, it would at least take care of the mortgage if something happened.

When David passed away unexpectedly, Priya quickly learned how incomplete that assumption was. The mortgage balance alone was still about \$280,000. On top of that came roughly \$15,000 in funeral and immediate expenses, along with the loss of close to \$40,000 a year in David's income.

The insurance payout helped, but it didn't come close to stabilizing their finances. To keep up, Priya withdrew about \$50,000 from her RRSP, took on credit card debt, and tried to make the numbers work. Within a year, she had no choice but to sell the family home.

By the time things settled, the financial fallout was well into six figures.

*"We thought we were covered.
But I had to sell the house
within a year."*

Got it right*

Emma and Alex, Calgary

Emma and Alex took the time to do a proper needs-based review and chose a \$1 million term policy. The coverage was designed to handle the big risks at once, paying off the mortgage, replacing income, and covering future education costs.



When Alex died suddenly at 44, the insurance did exactly what it was meant to do. Emma paid off the house, fully funded the kids' RESPs, and gave herself the space to step away from work for nearly a year.

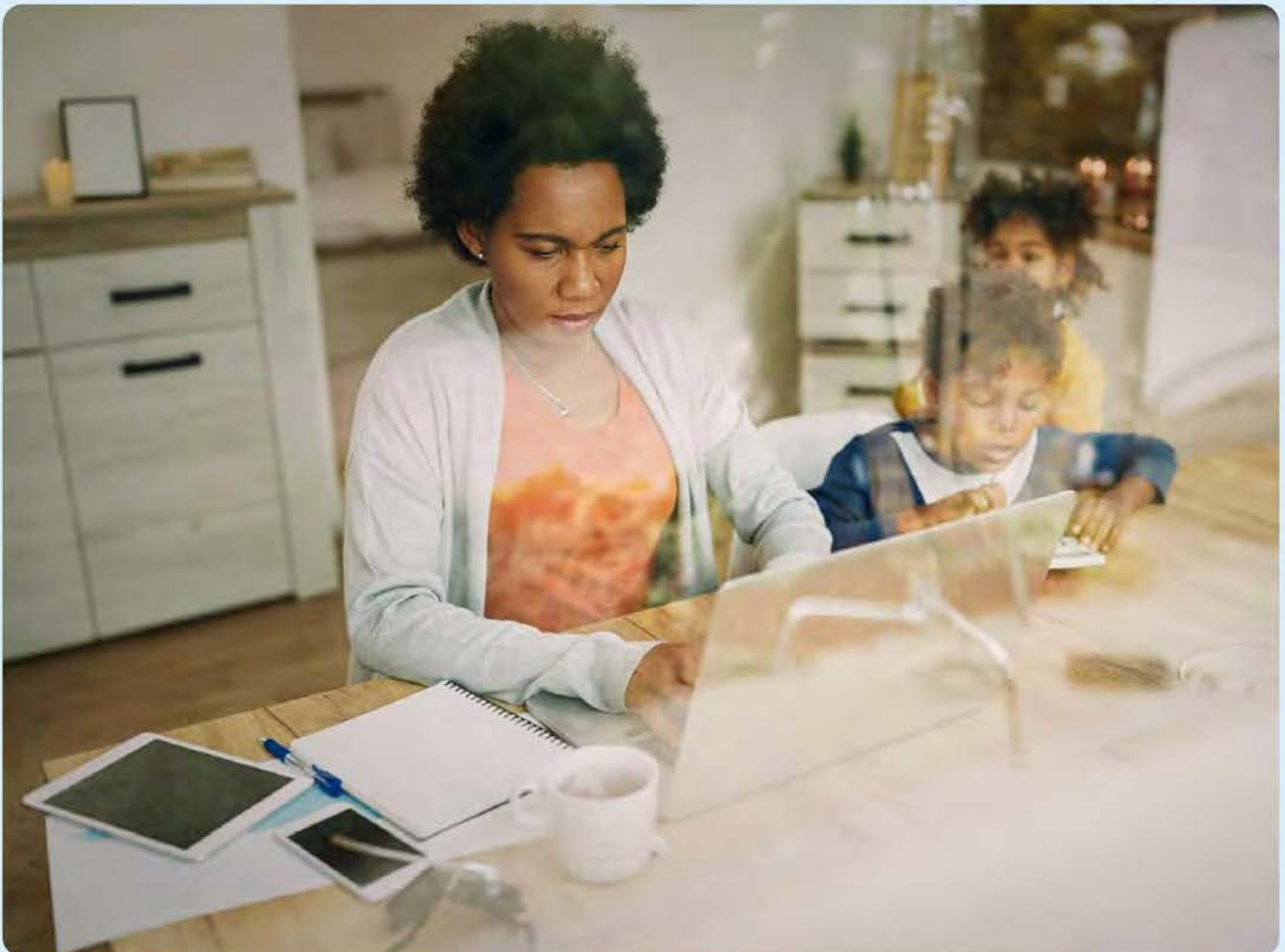
Instead of scrambling to make short-term financial decisions during a crisis, she was able to focus on her children and rebuild at her own pace. The coverage created stability when everything else felt uncertain.

✓ The takeaway

A common guideline many advisors use is 10 to 15 times after-tax income, plus major debts. Guessing often leads to expensive consequences.

MISTAKE #3

Letting term policies auto-renew at jaw-dropping rates



Mistake explained

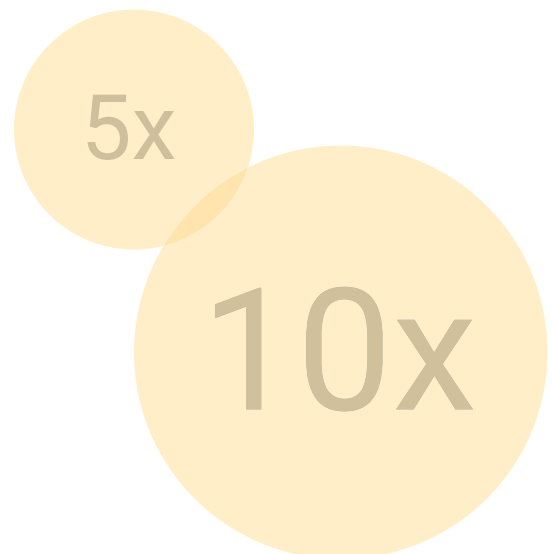
Term insurance premiums are usually level for the duration of the term, then increase sharply at renewal. Many people are unaware of this until the premium changes.

Because life insurance is rarely revisited, renewal often happens by default rather than by choice. The increase arrives quietly, buried in paperwork or automated payments.

Auto-renewal is especially costly because it feels passive and administrative. Many people assume the increase is unavoidable, rather than a signal to reassess their coverage.

Cost breakdown

Renewal premiums can be five to ten times higher than the original rate. Over a few years, this can translate into tens of thousands in unnecessary costs.



Costly example*

Nina, marketing director in Calgary

Nina bought a \$250,000, 20-year term policy at age 34 for \$23 per month. She set it up, paid the premiums, and didn't think much about it again.

What she didn't realize was that the policy would automatically renew at age 54. When it did, the premium jumped to \$280 a month. Nina assumed that was simply how renewals worked and kept paying.

Over the next four years, she spent about \$3,360 a year on the renewed policy, even though she could've replaced it with a new one for roughly \$55 a month. By the time she reviewed her coverage, she'd paid more than \$13,000 in unnecessary premiums, and the cost was still climbing.

"I assumed the premium stayed the same. It never occurred to me to shop again."

Got it right*

Trevor, small business owner in Halifax

Trevor had a similar policy, but he handled renewal differently. In the 19th year of his term, he set a calendar reminder to review his coverage before it expired.

That gave him time to shop around and replace the policy with a new 10-year term for about \$48 a month. By acting early, Trevor avoided the renewal spike altogether and saved more than \$10,000 over the life of the new term.

The takeaway

Renewal should be an intentional decision. Review your options well before the term ends.

MISTAKE #4

Buying too late, or not at all



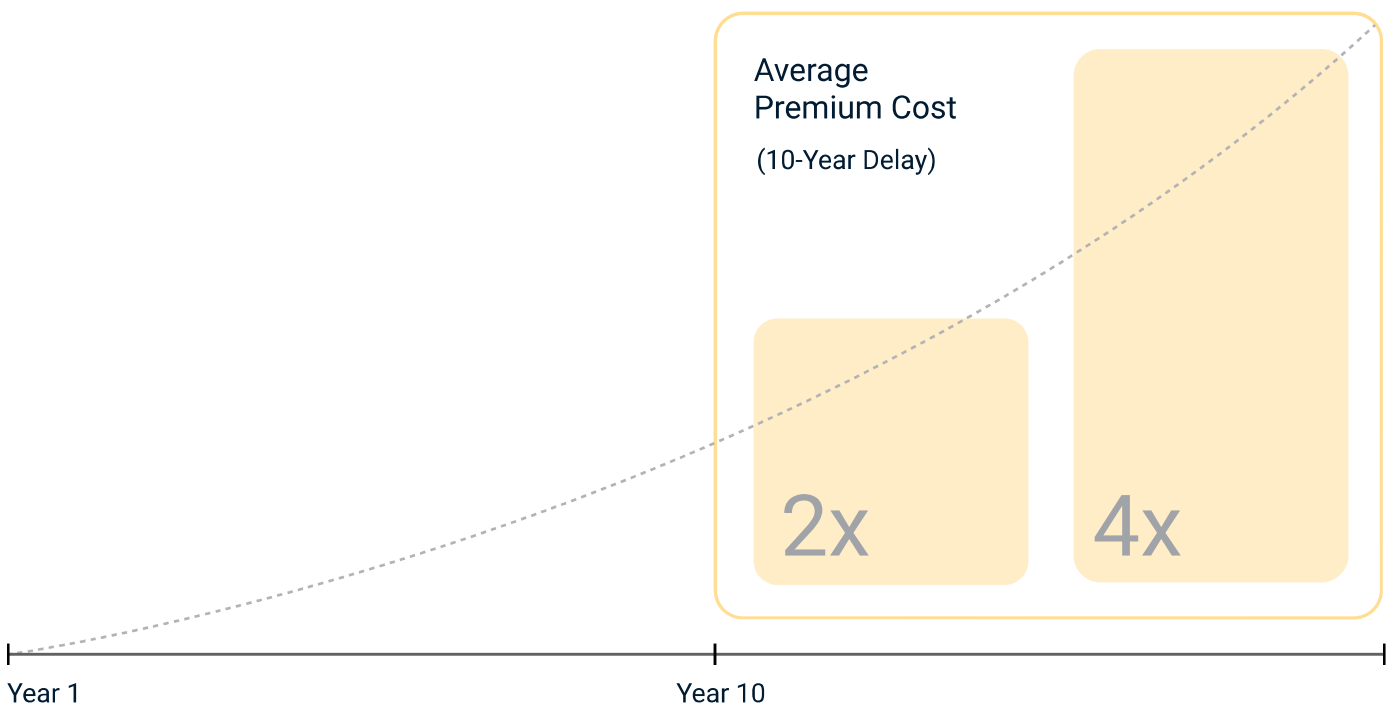
Mistake explained

**Health changes can be unpredictable.
Delaying coverage often means paying more
or losing access altogether.**

Many people wait until insurance feels urgent. By then, the cost has already increased and options may be limited.

Cost breakdown

A ten-year delay can result in premiums two to four times higher, adding significant lifetime costs.



Costly example*

Samir, self-employed in Vancouver

Samir put off buying life insurance, figuring he was healthy and could deal with it later. That changed after a routine check-up flagged high blood pressure and prediabetes.

When he finally applied, the quote for a \$500,000, 20-year term policy came back at about \$320 a month. A decade earlier, when he was 42 and in good health, that same coverage would've cost roughly \$82 a month.

Over the full 20-year term, that difference adds up fast. By waiting, Samir is on track to pay close to \$57,000 more in premiums for the same amount of coverage, and that's assuming nothing else changes.

"I thought I'd wait until I really needed it. Now I can barely afford it."

Got it right*

Lina, accountant in Edmonton

Lina bought a \$500,000 term policy in her 30s, when her monthly premium was about \$41. At the time, it felt like a precaution more than a priority.

A few years later, at 45, Lina was diagnosed with cancer. Because she'd already secured coverage, her policy stayed in place at the same low rate, with no requalification and no premium increases until her policy term expired.

Instead of worrying about eligibility or rising costs during an already difficult time, Lina knew her coverage was locked in and dependable.

The takeaway

You buy insurance with health, not money. Earlier decisions give you choices later.

MISTAKE #5

Relying on group insurance that vanishes when you quit



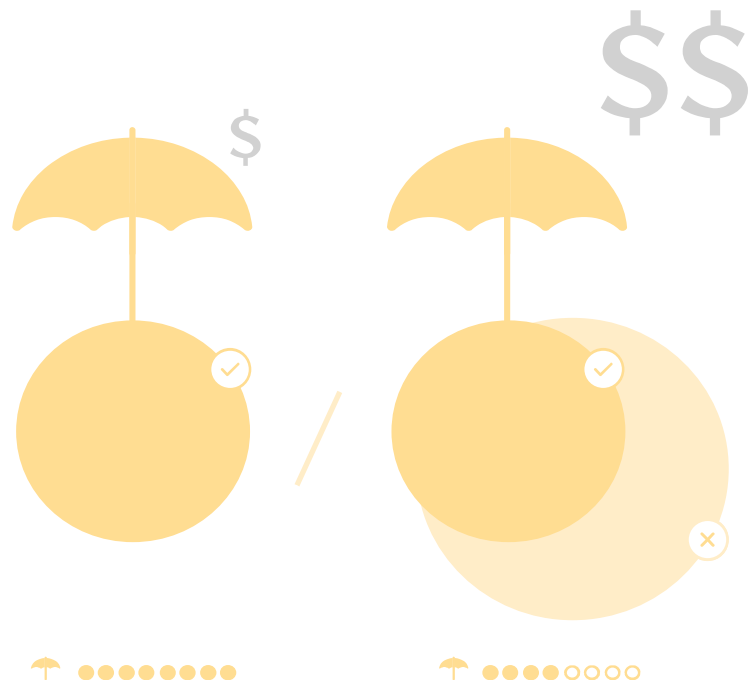
Mistake explained

Workplace insurance is often limited and not portable. Many people wrongly assume it will always be there.

This assumption can hold for years, until a layoff, career change, or early retirement suddenly exposes how fragile that coverage really is.

Cost breakdown

Relying on group insurance alone can leave families underinsured by hundreds of thousands of dollars and increase long-term costs when it's time to find alternate options.



Costly example*

Jessica, tech project manager in Waterloo

Jessica relied on the life insurance that came with her job, a group policy worth about one times her salary, roughly \$90,000. She assumed it would always be there.

That changed during a merger, when she was laid off and lost her entire life insurance benefit overnight. Her new employer didn't offer coverage, which meant she had to apply for her own policy at 38, not at 30 when she'd first started working.

By then, the cost was higher. Jessica now pays about \$65 a month for term insurance. If she'd locked in her own policy earlier, she could've secured similar coverage for closer to \$35 a month. Over 20 years, that difference adds up to roughly \$7,200, not including the period when she had no coverage at all during a critical transition.

"I didn't know my insurance disappeared when I left the company. I thought it stayed with me forever."

Got it right*

Marcus, engineer in Vancouver


Marcus also had life insurance through work, but he didn't rely on it alone. In his early 30s, he bought a \$750,000 personal policy to make sure his coverage wasn't tied to his job.

Two years later, Marcus was laid off. While his group benefits ended, his personal coverage stayed in place at the same rate. He didn't have to reapply, renegotiate, or worry about a lapse in protection.

The decision gave him uninterrupted coverage and predictable costs, even during a period of uncertainty.

The takeaway

Group insurance is a supplement. Personal insurance is the foundation.



Recap: The wake-up call

**These mistakes are common,
quiet, and expensive.**

Most people make them not because they are careless, but because they don't think to revisit decisions that quietly age in the background.

Life insurance works best when it's reviewed periodically and adjusted as life changes. Without those check-ins, even well-intentioned decisions can become liabilities.

What to do: Fix it before it costs you

A policy review doesn't mean simply buying more insurance. It means understanding what you already have and whether it still fits your life today.

An RBC Insurance advisor can help you review coverage, identify gaps, and explain your options clearly.

Talk to an RBC Insurance advisor to get clarity, quotes, and the reassurance that you have the right coverage for you and your loved ones.



[Request a call](#)

*The people, examples, and data in this guide are fictional and are provided for illustrative purposes only.