

# 10 IMPORTANT TIPS AND TRAPS WHEN BUYING LIFE INSURANCE



Don't buy insurance without first reading this guide

## CONTENTS

1. **Don't let TV advertising drive your decision**
2. **Watch out for "nasty" exclusions**
3. **"No Medicals" usually mean higher premiums**
4. **Watch out for "Gimmicks"**
5. **You can have more than one life insurance policy**
6. **Accidental Death cover vs. full death cover**
7. **Save using Multi-policy discounts**
8. **Which is better - stepped or level premiums?**
9. **Future-proof your insurance**
10. **Know who you are dealing with**

### 1. DON'T LET TV ADVERTISING DRIVE YOUR DECISION

You shop around for your car insurance and for other major family purchases. So why not for life insurance? There is a huge variation in the premiums charged by life insurers. And if a company engages in heavy TV advertising they are most likely recouping the cost of this through your premiums! See the comparison below:

Insurance Watch	\$36.16 (Lowest 12 Insurers)
Medibank	\$49.78
Real Insurance	\$68.75
Insurance Line	\$70.00
Guardian Insurance	\$72.70
Aussie Life Insurance	\$74.17
Virgin Life Insurance	\$103.00

*Monthly premiums for \$500,000 life cover for a 40 year old male non-smoker. The above comparison is accurate as at 11th May 2011 and do not include membership, tailored or other discounts. The Insurance Watch quote is shown BEFORE our 20% discount offer. As quotes will vary depending on your individual situation, we recommend that you run your own quotes and seek professional advice before purchasing life insurance.*

So why pay more than double the price for the same level of insurance? Get shopping now. At [insurancewatch.com.au](http://insurancewatch.com.au) you can compare 12 of Australia's top insurers side by side and make an informed decision.

### 2. WATCH OUT FOR "NASTY" EXCLUSIONS

Life insurance policies usually come with only ONE exclusion - suicide in the first 13 months of the policy (after that suicide is also included).

However increasingly life insurance products are being offered with other exclusions which significantly water down the cover and/or create uncertainty as to whether you will be covered at claim time. Some of these exclusions are:

#### Exclusion for Pre-existing conditions

This one is particularly nasty. What exactly is a "pre-existing" condition? This usually includes anything you have seen a doctor for. But did you also know that if you are overweight and your "body mass index" exceeds a certain level set by the insurer a claim for a stroke or heart attack could be denied? The same applies if you have high cholesterol, high blood pressure or diabetes. What about the mole you had checked out last year? It was all OK then but what if it subsequently develops into skin cancer - will you be covered?

#### Exclusion when travelling to "hazardous" countries

Normally your life insurance covers you worldwide. But with this exclusion you may or may not be covered when you travel. The Australian Government releases warnings about travel to certain countries they considered hazardous from time to time but do you keep up with these? The insurer can avoid a claim if you die in one of these countries - even if it is from a car accident rather than war and terrorism. Think of the extra cost you will incur taking out travel insurance to cover against this!

#### Exclusion for "dangerous" pastimes or "dangerous" occupations

What is "dangerous"? If you work in the construction industry and work at heights above 20 metres you may not be covered. If you scuba dive at a depth greater than 30 metres you may not be covered. If you are normally a careful person but have received a one time "experience" gift which involves a joy-flight, skydiving or car racing - will you be covered?

#### Exclusion for "criminal" activities

Did you know that driving under the influence of alcohol is considered a criminal activity? So if you were to die in a car accident with a blood alcohol reading exceeding .05 would you be covered? Or would this be just another ground for the insurer to avoid a claim.

Life Insurance is a promise to pay on your death. If the promise is unclear or watered down because of the above exclusions you have to wonder about the value of that promise.

## 10 Important Tips and Traps when buying Life Insurance

Happily all of the life insurance products featured on the Insurance Watch website [insurancewatch.com.au](http://insurancewatch.com.au) only exclude suicide and cover you 24 hours a day worldwide - so you know exactly what you are covered for!

### 3. "NO MEDICALS" POLICIES USUALLY MEAN HIGHER PREMIUMS

Over the years insurers have reduced the medicals they require as part of a life insurance application. For example if you do not have any pre-existing conditions and you are under 45 most insurers would offer you cover up to \$2.5M without requiring blood tests or medical exams.

So what does it mean when a product is advertised as "No Medicals"?

Firstly it is clever marketing because in most cases the amount of cover being offered is below \$2.5M so medicals would not be required anyway.

Secondly it usually means that if you disclose any past medical issues you will be automatically knocked out i.e. the insurer will simply refuse you cover.

Thirdly because this type of cover typically attracts those applicants with something to hide, the premiums are usually higher. If you are a healthy individual you can usually obtain your cover cheaper by being willing to undertake medicals if required.

The products on Insurance Watch are fully underwritten but there are only a small number of cases where medicals are requested. Even when medicals are requested they are fully paid for by the insurer and organized to cause minimal inconvenience by utilizing mobile nurses and doctors who will come to your home or work. To find out if you may need medicals for your application please contact us at Insurance Watch.

### 4. WATCH OUT FOR "GIMMICKS"

Clever marketing means that a number of "gimmicks" are now used in offering life insurance.

Giving purchasers "Cash back" after they have had their policy for a number of years claim free sounds attractive. But these offers have to be paid for - usually by you! For example would you pay 20% more each year than another equivalent policy so that you could receive 10% back in three years? That doesn't make financial sense.

Advertising the premiums in weekly or fortnightly amounts when in most cases premiums are paid monthly are designed to make the cost appear less and compare more favourably to others.

These "gimmicks" are to be distinguished from genuine discount offers. When you apply for a product online there are real cost savings to the distributor from you completing an online application and these can be shared with you.

For example, Insurance Watch receives payments from insurers for policies sold on its website and because it has low operating costs is able to offer you a 20% refund of your first year's premium. You pay the same retail premium you would if you went direct to an insurer but you are sharing in the savings from using the Internet. Find out more about getting 20% off your policy at [insurancewatch.com.au](http://insurancewatch.com.au)

### 5. YOU CAN HAVE MORE THAN ONE LIFE INSURANCE POLICY

You may think you already have cover through your super fund but this amount is rarely enough. The cover amount automatically provided by super funds is usually set at a minimum level. Research has indicated that the life insurance held in super funds represents only 20% of the cover actually required. Do you have enough to pay off your debts and leave your family with a large enough sum to live comfortably without your ongoing income?

How much insurance should you have? Insurance Watch provides an Insurance Needs Calculator to help you calculate an amount given your circumstances and preferences.

While you may be able to increase the cover available from your super fund there are also good reasons to consider a separate life insurance policy outside of super including:

- the premium won't drain your super funds needed for retirement
- no tax will be payable by your beneficiaries
- faster payout because doesn't need to go through Superannuation Trustees
- additional benefits e.g. an advancement to your family for funeral costs
- level premiums to keep the cost of insurance steady over the longer term

## 10 Important Tips and Traps when buying Life Insurance

### 6. ACCIDENTAL DEATH COVER VS FULL DEATH COVER

Accidental death policies should not be confused with full life insurance policies. They only cover death caused by an accident and not death caused by a sickness or illness. Sometimes accidental death policies are advertised at extremely cheap premiums or the death benefit on a life policy is multiplied by 2 to 3 times if the cause of death is an accident.

But how many deaths actually occur due to accidents? AMP recently reported that only around 10% of all its death claims were as a result of accident. Which means if you only have an accidental death policy you may not be covered for around 90% of the causes of death.

Who might be interested in an accidental death policy? If you have a serious illness or condition and have been refused full life insurance you can still usually obtain accidental death cover. However this should be viewed as a last resort only as in many cases full cover may be available with a premium loading to reflect your pre-existing condition. Please contact Insurance Watch to Get Advice and have one of our advisers discuss the options available to you.

### 7. SAVE USING MULTI-POLICY DISCOUNTS

You can reduce the cost of your insurance by taking advantage of the multi-life and multi-policy discounts offered by insurers.

A multi-life discount applies when related parties e.g. a husband and wife take out their policies with the same insurer. The discount may be a percentage off both policies e.g. 5%, or a policy fee may be waived on one of the policies saving \$50 to \$90 a year.

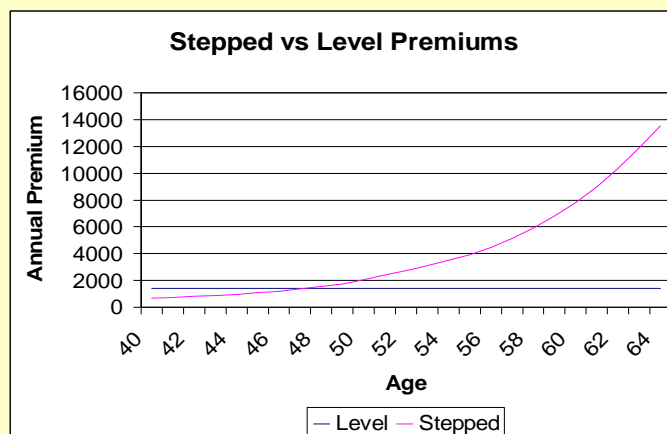
A multi-policy discount applies when you take out a life insurance policy along with another type of cover e.g. Trauma or Income Protection insurance with the same insurer. These discounts can be quite generous involving a percentage of 5% or more off and/or a policy fee saving.

Not all insurers offer these discounts. If quotes are being compared on the Insurance Watch website these discounts are not shown. But if you select more than one product from the same insurer Insurance Watch will incorporate any applicable multi-life or multi-policy discount into the official quote we send you as part of your application. You could find that this shaves 5% to 10% off the cost of your insurance!

### 8. WHICH IS BETTER - STEPPED OR LEVEL PREMIUMS?

Life insurance premiums have traditionally had a "stepped" premium structure meaning that your premium steps up with your age to reflect your increased risk of dying as you get older. In recent years "level" premium structures, where your premium is held at the same level until age 65, have been growing in popularity.

Below is a graph showing projected stepped and level premiums for a 40 year old non smoker for \$1M life cover. At the inception of the policy he has a choice between a stepped premium of \$672 or a level premium of \$1406. The stepped premium will remain cheaper than the level premium until age 48 and it is not until age 53 that the cumulative premiums paid under a level premium are cheaper than a stepped premium. However after age 53 a level premium works out to be significantly cheaper with the total premiums paid up to age 65 being \$35,154 for a level premium compared to \$103,602 for a stepped premium.



Whether a stepped or a level premium will best suit you will depend upon your circumstances. You need to ask yourself the following questions:

#### How long will you hold your policy?

Are you going to hold your policy long term? Is the insurance just to cover a short term debt or while the children are at school. In the example given if you only intended to keep your policy for 10 years you would have been better off paying the stepped premium. However if you intend to have your policy till age 65 then there will be significant savings over this term from a level premium.

### What pattern of cash flows suits you best?

You may prefer to pay the lower stepped premium now because cash flow is tight and/or you expect to have a higher income in the future out of which to meet stepped premium increases. Or if you can comfortably afford a level premium now you may prefer to pay the higher level premium now to ensure that future payments are not a burden. A common reason for people discontinuing their stepped premium policies is the increasing premiums as they get older, even though the likelihood of making a claim is also increasing. Level premiums can help keep the cost of insurance affordable long term.

### Will you need the same level of cover in the future?

While your current level of cover might suit your present situation are you likely to need more or less cover in the future? Will you be reducing debts and increasing assets as you get older and approach retirement and therefore have a reduced need for insurance? If so, as the stepped premiums rise you can gradually reduce your cover to keep the costs affordable.

### Do you want the flexibility to change insurers in the future?

Once you have taken out a level premium policy you will be committed to that insurer for the long term if you are to reap the benefits of your level premium. This will limit your ability to look for a better deal from other insurers or to take advantage of special offers. Should life insurance premiums continue to fall in response to reducing mortality rates you will not be able to take advantage of this.

While the Insurance Watch website only displays stepped premiums, we can provide you with a level premium comparison across all 12 of our insurers on request. We can also provide you with a graph showing projected stepped and level premiums over the life of the policy so you can see your breakeven points.

## 9. FUTUREPROOF YOUR INSURANCE

Your insurance needs will change over time. What may be enough when you initially take out your cover may not be enough when you marry, take out a mortgage, have children or your children start school. Most policies provide automatic indexation to inflation each year but this is unlikely to be enough.

To increase your cover the insurer will normally require you to fill out an Increase Application. This is similar to your initial application and will require you to provide updated details about your occupation, pastimes and health. If nothing has changed your increase will be approved but if, for example, your health has deteriorated (e.g. you have been diagnosed with high blood pressure, high cholesterol, diabetes) the insurer can refuse the increase or charge a premium loading.

How do you ensure that you can increase your cover when you need it even if your situation has changed? Many life insurance policies offer an option called "Guaranteed Future Insurability" which guarantees that you can increase your policy on the occurrence of a significant life event. If you have this option you do not need to provide any evidence of your continued good health or insurability. There will normally be limits on the amount of increased cover which can be applied for on this basis e.g. 25% or 50% of your sum insured and a dollar limit may also apply.

This option can be particularly valuable for those in younger age groups taking out their first insurance. Some insurers charge extra for this option while others include it at no cost. By using the Insurance Watch "Compare" function you can see which policies include this option and future-proof your insurance.

## 10. KNOW WHO YOU ARE DEALING WITH

### Insurance Companies

When you pay your life insurance premium you are paying for the promise that your family will receive financial assistance if something unexpected happens to you. It is important that if this promise is called upon your insurer is able to deliver. For this reason it is important to know about the insurer who is providing the insurance and their financial strength.

Financial strength can be measured in a number of ways: number of years in business, market size, ownership by a strong parent company, credit rating etc. Having a long claims history and large pools of existing business in the Australian market is important for future premium stability.

Strict APRA requirements ensure that all Australian insurers have to maintain a strong capital backing for all policies written. However this does not prevent policyholders being affected by premium hikes if the insurer is under financial pressure or its claims experience is different to anticipated.



Insurance Watch only features on its website the largest Australian insurers (measured by premiums in force) with most of these having the backing of an Australian bank or a large multinational insurance company.

### Insurance Advisers

While increasingly insurance companies are marketing their policies directly to the public there are good reasons to still use an insurance adviser:

- No fees - in most cases the adviser receives payment from the insurer not you
- Clear explanations of what you are buying
- Comparison of a wide range of insurers
- Advice on your situation if required
- Help with claims and dealing with the insurer

If you are looking for help on the internet there are some important things to look for:

- Is the website operator qualified to advise on insurance? i.e. an AFSL Licenceholder or Authorised Representative?
- Is the website interactive i.e. does it compare quotes or policies online?
- Does the website just collect your details so that they can be sold as a lead?
- How long has the website operator been around?

Since 1999 Insurance Watch has been helping consumers find the best insurance deal. By accessing quotes and product information online consumers can research the offerings from 12 different insurers in a no pressure environment.

### Disclaimer

The contents of this guide is provided for the purpose of general information only and should not be taken as advice. It has been prepared without taking into account your particular objectives, financial situation or needs. You should seek professional advice when purchasing life insurance.

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### FURTHER ENQUIRIES CONTACT

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