The fine print of your life cover policy

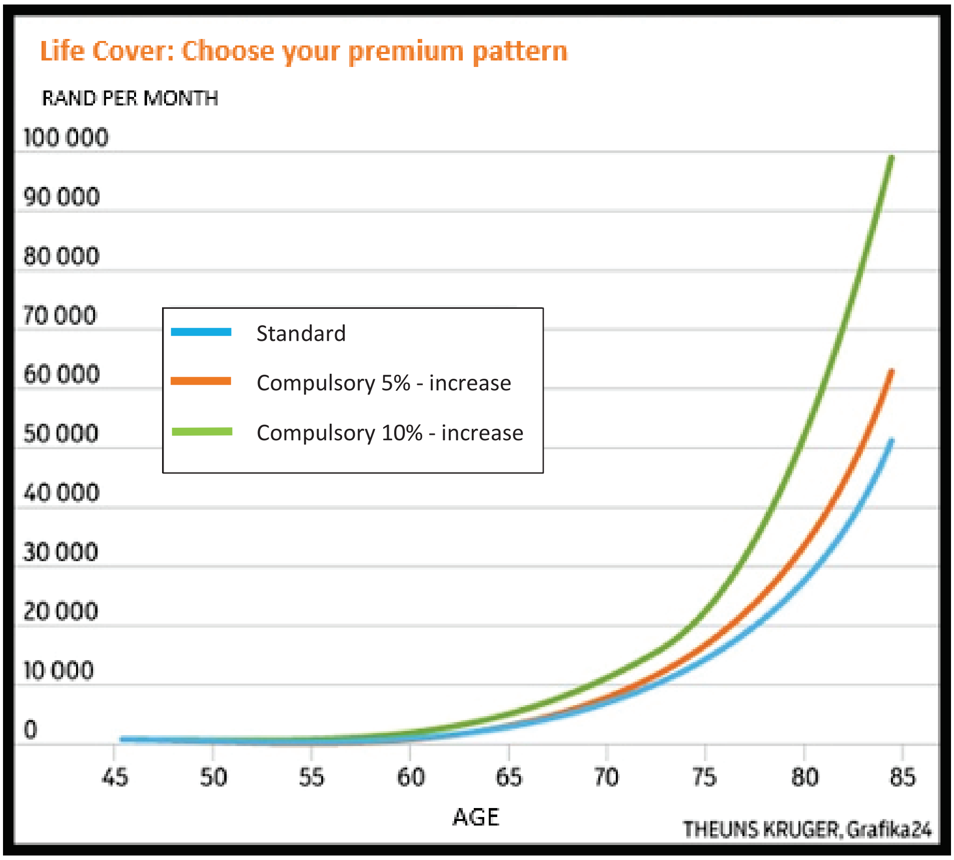
Most people would rather count the hair on their Jack Russel than read an article about life cover and the relevance thereof. My plea is that you read this article and leave your dog's coat for a rainy day.

We find that most people prefer to spend as little as possible on life cover, but not having a plan around this cover, can leave the remaining spouse in uncomfortable waters. This fact is however seldom a catalyst for renewed enthusiasm, but the following few aspects can definitely add value to an often neglected field.

1. Premium Patterns

When you take out life cover you have different payment options, so called **premium patterns**. The graph below illustrates these different funding patterns for a 45-year-old, non-smoking male.

It is difficult to read the exact figures from the graph, but the green line (compulsory premium growth of 10%) starts with an initial premium of R 213 per month and the blue line (standard premium pattern) with R 406 per month, initially, nearly double that of the compulsory pattern.



At the age of 83 (if you still have the same policies in place), the compulsory premium would have increased to R 98 129 per month (or R 10 113 per month if adjusted for inflation). The standard premium pattern would "only" have grown to R 50 421 per month (or R 5 196 pm in today's monetary terms).

Over the life time of the policy you would have paid R4 696 564 on premiums on the standard pattern and a whopping R8 155 661 on the compulsory premium pattern that increased every year by 10%. The cover that would pay out at age 83 would be around R6 704 751.

The 3 most important points to take out of the above is:

1. Opting for the cheapest initial premium (compulsory premium pattern) can hurt you in the long run if you don't have a proper strategy;
2. Life cover is not an investment; and
3. If you plan, for whatever reason, to keep the life cover "forever", stay well clear of compulsory premium patterns.

Don't get me wrong, I'm not advocating that compulsory premium patterns are a rip-off. I'm merely pointing out the fact that this type of funding method is more effective over the short term. If you only plan to have life cover whilst your children are still at school or until your mortgage is paid-off, or if you have a temporary cash flow problem but cannot afford to reduce your cover, this pattern should be considered. Unfortunately, these patterns are often sold to clients under the (false) illusion that it is "cheaper". As pointed out, this is only in the short term, and the long-term implications are often not explained.

2. Suicide and dangerous activities.

There is still a lot of confusion regarding the suicide clause on policies. The usual clause (on most insurance contracts) is that suicide will not lead to a successful claim if the suicidal event took place within 2 years after the inception of the policy. However, if you have a history of depression or psychological disturbances, the specific insurance company may impose a permanent exclusion on suicide. This exclusion will be clearly pointed out on your policy schedule.

Misconceptions regarding claims that result from dangerous activities are also quite common. It is not so much the dangerous activity that is excluded but rather the frequency that a specific activity is being practiced. Once-off excursions that lead to injuries will generally be covered, but if you practice bungee-jumping or drag racing as sport or career, you should let your insurer know and make sure you are covered for these events. The insurer may place a loading on the policy, or exclude these activities from valid claims. Some insurers also provide specific cover for dangerous activities.

If you suspect that your hobbies or occupation may lean towards the dangerous side, be sure to let the insurer know. Incomplete information can lead to claims being reduced or totally rejected.

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3. Smoker status and your occupation.

Most insurers, except one that I can think of, require that you inform them if your smoker status or occupation has changed. They will then, if applicable, adjust your premium accordingly. If you endeavour to take up an occupation that requires more travel or physical activities, your risk (and premium) will increase. Smokers, for example, generally also pay around 30-40% more for life cover than non-smokers.

Insurers can reduce the amount of the claim if they discover that the insured life made himself guilty of misrepresentation or non-disclosure. If these non-disclosures are material, they can even reject the whole claim.

When completing information regarding your daily activities, make sure that you know what the definition is of each activity listed (like admin, travel, physical activity, etc.)

Travel usually refers to driving FOR your work, during normal office hours and does not include the time spent in your car to get to or from work. If you indicate that you spend 20% of you work on travel this implies that you spend on average, during a normal workweek, 90 minutes per day travelling which excludes the time you took to get to work and back home.

When it comes to manual labour, it usually refers to physical labour, like laying bricks or doing handy man jobs like plumbing. Physical activities do not include typing on a computer or directing traffic.

A change of employer does not necessarily mean that you should inform the insurer. It is only when your occupation, especially the risks involved thereof, changes. For example, when you used to be a manager at a fast food restaurant and accept a position as a manager of a nightclub, you might have to consider informing the insurer.

If you are uncertain whether your new position will be viewed by the insurer as a change in the risk of your policy, rather act on the side of caution and complete an occupational questionnaire and submit it to the insurer. They will then be in a better position to evaluate your risk and will ask for more information if necessary.

If you consider that most professional people spend quite a lot of money on risk cover, it makes sense to ensure that the information your insurer holds is correct, avoiding a situation where claims aren't paid.

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