

JUST MONEY

Your guide to life insurance

Nobody likes to think about life insurance, as it is planning for when you are no longer here, if you have a debilitating accident, or if you are simply no longer able to work and provide for your family. However, it is essential to take your head out of the sand and think about the impact of your death on your loved ones.

Why should you take out life insurance?

Accidents happen every day, we are all exposed to them and exposed to the financial loss that they incur. It is up to you as an individual to decide how to handle the risks you are exposed to.

- You can try to avoid risks by not exposing yourself to activities that expose you to risk – like mountain climbing or riding a motorbike.
- You can reduce the risk of loss of life by installing better security in your home.
- You can accept the risk and set aside funds every month in case the eventuality occurs.
- Or, you can simply transfer the risk by purchasing life insurance. Protection from financial loss is provided by a life insurance company in return for the contribution you pay for the cover.

How does life insurance work?

Life insurance works on the principal that a group of people have the same concern about a potential loss. However, since it is unlikely that each individual will experience the same loss at the same time, each person pays a sum of money (the life insurance contribution) so that if the loss occurs, it will be covered. Because only a percentage of the group will actually experience the loss, sufficient funds will always be available to cover the losses when they occur.

There are a number of factors considered when you apply for life cover, which can include the type of cover, as well as how much you will pay for cover. These are:

- The amount you choose to insure for
- Your current health
- Age
- Sex
- If you are a smoker or not
- Occupation
- Qualifications
- Current and future earnings
- Annual benefits increase, and annual contribution increase
- Income escalation
- Waiting period

The income bands are renewed annually and rating categories are reassessed upon the submission of evidence by the contract holder that his/her individual taxable income has increased sufficiently to place them in a higher category.

Life insurance contributions can be paid annually, quarterly or monthly. Remember that you may get a discount of approximately half a month if you pay annually upfront. All life insurers differ so please check with your advisor.

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Things to inform your insurer about

There are several things that your insurance company will need to be made aware of when taking out life insurance. One of these is depression. The insurer will look at a variety of things, including:

- Date of diagnosis
- Method of treatment
- Past methods of treatment
- Your doctor's details
- Symptoms and dates of last symptoms
- Details of any previous hospitalisations
- Details of any suicide attempts
- Specifics of time taken off work as a result of the condition

Your insurer will also need to be informed of any other medical conditions you may have, as well as if you smoke, your alcohol intake, and any other factors that may affect your health and life expectancy.

What should you insure?

To decide what type of life insurance you should purchase, you need to consider the risks that you are exposed to and how best to manage each one. Risks change, so you should evaluate your situation at least once a year so that you can make appropriate changes when necessary.

The main risks for life insurance are as follows:

- The risk of dying and the financial impact this will have on your surviving family.
- The risk of losing your income through some form of disability or impairment that prevents you from being able to earn a living.
- The risk of contracting a dread disease and being burdened with the associated costs.
- The risk of losing or being denied insurance cover in the future, either because of a temporary inability to make the contribution payments for some reason, or because of your health circumstances changing.

How much should you insure for?

The amount of insurance that you take out will be dependent on a variety of factors, including your life stage, your marital status, and any children or other dependents that you may be responsible for.

When taking out life cover it is essential that you have a holistic financial plan, and factor in the priorities depending on your situation. For example, as a married person, your priorities would most likely include healthcare planning, estate, death and disability planning, investments and savings and retirement planning.

When can insurance claims be rejected?

There are a number of instances where an insurance claim can be rejected, these apply for all the different types of insurance available, from life insurance, to home and car insurance. Just because you pay your premiums, does not guarantee that your insurance company will pay out in the event of a claim.

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Here are some common reasons why a life insurance claim might be rejected:

- If it is found that you were deliberately negligent or if you are at fault then your claim could be rejected.
- You don't pay your insurance premiums, or pay them late.
- Non-disclosure of information that is relevant or related to the claim.
- If you are involved in a drunk driving incident where you were the responsible party that caused the accident as you were driving under the influence of alcohol.
- Not reading the exclusion causes properly.

Tips for policy holders

- Always read your life insurance contract documents carefully to understand the basic provisions and benefits. Do not hesitate in asking your financial advisor any questions about the life insurance contract.
- Keep your life insurance contracts in a safe place and let your beneficiaries know where they are.
- Discuss your life insurance with your family and other beneficiaries. It is a good idea to write a letter explaining all your policies and put it with the policy documents.
- Review your life insurance regularly, particularly when there is a change in your family situation, for example if you have more children, or when your children are grown up.
- Keep your life insurance company informed of your current address. This is essential so that you receive correspondence from your life insurer.