Are you self-assured?

As the saying goes, two things in life are certain: death and taxes. There is no insurance against paying tax but you can insure your life.

AT A **GLANCE**

Term assurance.

Whole of life.

Reducing your premium.

Most people would probably rather not think about insurance. Death is another matter that we tend not to like spending time on (in thought or in deed!). Put these two subjects together and it is not surprising that the topic of life assurance tends not to figure too much in daily discourse.

However, if you have a mortgage, or a family that depends on you, then it is wise to consider how you want to leave your affairs after you are gone, and what your current options are for the best future outcome.

Why do you need it?

It is certainly true that should you die you will not be able to take the money paid by your life assurance policy with you – but it may go some way to replacing the financial contribution you make to your family. If you have young children they will still need to be looked after even if you are not around to do it. One of the best ways of ensuring that they don't face financial hardship because of your death is if you have taken out a life assurance policy. If you are the primary earner, a life assurance policy can become a source of replacement income for your dependents so that they can maintain their standard of living without you. Similarly, if you are the primary childcare provider, the money can be used to cover the costs of alternative arrangements.

If you have any outstanding loans or debts such as a mortgage then life assurance can meet these obligations in the event of your death. There will also be funeral expenses that will need to be paid, and in some cases your policy

FIVE TIPS TO REDUCE YOUR PREMIUM

- **Compare Quotes.** Once you have decided what type of life policy best meets your needs don't just go with the first quote that you find. It may be a cliché but as our survey shows it can pay to shop around. Obtaining quotations is easy. You can either contact companies directly or a good broker who specialises in life assurance will be able to recommend a policy that is best suited you. Also, look out for online deals where you may find a cheap quote.
- **Quit smoking.** Life assurance is all about the probability that you will die within a certain timeframe. One of the strongest indicators companies use to work out this probability will be whether or not you smoke. We all know that smokers die younger and have a much greater incidence of cancer and heart disease so it really is no surprise that the premium on a life assurance policy for a smoker will be much more than that of a non-smoker.
- **Lose weight.** It's not just smoking that life assurance companies will consider when setting your premium. Obesity also increases the risk of heart disease, cancer and diabetes and ultimately can lead to an early death. Life assurance companies will use the ratio of your height to your weight (known as your body mass index or BMI) to calculate your risk of early death. If your BMI falls outside average norms the higher your premium could be.
- **Change your pastime (or your job).** Many insurance companies will assess your chance of meeting an untimely end if you engage in dangerous hobbies or pastimes. So if you're the adventurous kind that likes to jump out of aeroplanes in your spare time then the chances are your life assurance premium will be higher. Similarly, insurance companies will have a list of what they consider to be high-risk occupations which could load up your monthly bill. Expect pilots, miners and steeplejacks to pay more for life cover.
- **Cancel your policy.** Life assurance is not for everyone. It may be that you are paying for life assurance that you do not need. If you are a single individual with no mortgage or dependents then life insurance is probably not be something you should be buying. Life assurance is designed to replace the financial loss that might be suffered by others after your death. If you only have to worry about yourself in life then there really isn't much point in paying what may be an expensive life assurance premium. After all, you won't be able to enjoy the lump sum after you are gone. Similarly, if you are contributing to a pension through your employment, you may already have some cover in the form of a death-in-service benefit. This will usually pay out a multiple of your annual salary and so may negate the need for a separate policy.

Useful contacts

Irish Insurance Federation
Insurance House
39 Molesworth Street
Dublin 2
tel (01) 676 1914
email iis@iif.ie
www.iif.ie

Financial Services Ombudsman
3rd Floor,
Lincoln House
Lincoln Place
Dublin 2
1890 882 090
email enquiries@financialombudsman.ie
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could be used to meet any inheritance tax liabilities that your dependents may need to settle. With today's property prices so high, this could mean the difference between your loved ones remaining in their home or being forced to sell it. Also, depending on the type of cover that you take out, your policy can supplement your retirement expenses or help to cover the costs of your children's education. There are two main types of life assurance: term assurance and whole of life.

Term assurance

Term assurance is an insurance policy that will pay out a tax-free lump sum in the event of your death within a certain timeframe. Term assurance is the simplest form of life cover, whereby premiums are based on the health and age of the insured. The older the insured or the longer the length of term that is required the higher the premium will be. Your general health also has a bearing on the size of your premium as does whether or not you smoke. The lump sum is only payable provided you continue to meet your premium payments as set out under the policy agreement. However, should you survive the length of the term no lump sum will be paid despite the accumulated payments (the good news is that you will still be alive). Within term assurance, there are two main types of cover.

- **Level term assurance:** With a level term assurance policy your premiums are fixed for the duration of the agreed term and payment is only made if you should die during this time. The lump sum is assured and remains unchanged throughout the term. If you have young children you might find this kind of life assurance attractive as it would ensure they are provided for until adulthood should you die before the term expires.
- **Decreasing term assurance:** Decreasing term policies are the most common forms of life cover taken out for the purposes of mortgage protection. With this kind of policy the premiums will decrease over the course of the agreed term as will the lump sum paid should the policy holder die. They are popular with mortgage holders because the cost of the insurance falls as the level of cover that is needed also reduces over the lifetime of a mortgage.

CAN LIFE ASSURANCE BE A GOOD INVESTMENT?

Whole of life assurance
This type of policy aims to combine elements of an investment product with the features of a life assurance policy. However, it is important to think of it as insurance as opposed to an investment. Whole life assurance should not be seen as an alternative to building up savings. These kinds of policies carry more expensive premiums than term assurance policies not only because a lump sum is paid regardless of when you die but also because the costs of managing your premium contributions as an investment are also significant. Annual management fees and handling charges will eat into the value of your policy fund and you may find that aside from the guaranteed lump sum after death your policy may have little or no inherent cash value.

Reviewable whole of life policies
These policies are particularly poor choices for investment. Within a reviewable whole of life policy the actual cost of life assurance cover is not fixed and will increase as you get older. For example, with a policy that has a premium of €100 per month the initial life assurance/savings ratio could be at 50/50. That is, €50 for life assurance and €50 as savings. As you get older the split will change in favour of the life assurance cost i.e. it might go 60/40 or even 90/10. This split will not be immediately obvious as you will still be paying €100 every month.

From an investment perspective, it may make more sense to take out a cheaper term assurance policy and invest the difference in the level of premiums of a whole life policy over the course of the term. Should you survive until the end of the agreed term, while you won't receive a lump sum from your policy, it is likely that if you have invested the savings in premium costs wisely you will still have a sizeable amount of money.

Whole of life assurance

Unlike term assurance, which will only pay out if you die within an agreed term, whole of life assurance will insure you for your whole life. In other words, provided you continue to pay the premiums on the policy your dependents or estate is guaranteed to be paid a lump sum when you die – regardless of when this may be.

The most common type of insurance of this kind is a unit-linked whole of life assurance policy which combines a mix between investment content and life cover. The premiums, which tend to be fixed for 10 year periods and are more expensive than those for term assurance cover, get invested in an investment fund which should accumulate over time. It may be that your fund grows by enough to cover the cost of your future premiums. However, this is not guaranteed and it is possible that the value of the fund has actually fallen, particularly if the ongoing fund charges and fees are high and/or fund performance is poor. In fact, your premiums may have to increase in order to maintain the size of the sum that is paid when you die.

Guaranteed whole of life policies are also available where the premium is fixed and the payout is guaranteed to be a certain level although these are the most expensive forms of life assurance. Whole of life policies tend to be used for settling large bills after a person has died – these could be funeral expenses or even inheritance tax bills.

Report by Mark Channing CC

Pension term assurance

Pension term assurance is the same as a standard term assurance policy in that it will pay your dependents a guaranteed lump sum if you die during the agreed term. Where it differs is that it is eligible for the same tax relief that is available to people making pension contributions so the net cost should be cheaper. This relief represents particularly good value if you are paying tax at the higher rate of 41% because it means that a pension term contribution of €100 will actually cost you €59 and gain you tax relief of €41. You do not need a pension or have to start one in order to take advantage of pension term assurance and the tax relief associated with it. However, as with a standard term assurance policy, there is no investment element in this kind of insurance and so if no claim has been made during the course of the term then no lump sum will be paid.

Endowment policies

An endowment policy is another form of whole of life product. As with a regular whole of life plan, part of the

TERM ASSURANCE COMPARISON [1]

Policy Provider [2]	Single term of €300,000 over 30 years at age 30				Single term of €200,000 over 20 years at age 45				Joint term of €400,000 over 25 years for couple aged 25	
	Male		Female		Male		Female			
	smoker	non-smoker	smoker	non-smoker	smoker	non-smoker	smoker	non-smoker	smoker	non-smoker
Hibernian / Ark Life	49.59	27.10	32.46	21.53	88.51	45.05	60.53	31.90	53.32	28.78
Caledonian Life	53.73	29.03	40.47	22.79	105.47	48.44	74.27	36.13	62.08	37.45
Canada Life	59.35	29.95	41.65	24.95	111.25	55.05	73.25	38.85	49.85	30.25
Eagle Star	45.33	25.77	31.54	20.42	83.61	40.79	56.65	30.22	59.87	35.86
Friends First	55.80	31.46	41.50	24.66	111.44	54.34	75.81	39.25	77.68	46.63
Irish Life	53.89	29.77	41.78	22.26	95.16	49.95	65.21	36.83	62.49 [3]	34.30 [3]
New Ireland	46.93	27.18	33.29	21.26	86.51	44.44	61.25	33.25	66.32	36.40

[1] Amounts refer to monthly repayments (€). [2] Quotes were obtained by contacting providers directly. Quotes can also be obtained through a broker. [3] Quote is for a dual cover policy.

premium is used to build up the cash value of the investment fund. This premium tends to be higher than those you would pay with a normal whole of life policy. The endowment policy is payable at the death of the insured or on a specified maturity date if the insured is alive. Although endowment life assurance carries higher premiums than standard whole of life policies they are attractive to people who wish to ensure both a lump sum should they die and also a payment should they survive. This can then be used to pay third level education fees for dependent children, go towards an outstanding mortgage or help to fund retirement. However, if you cash in your endowment policy early you will be penalised.

Single, joint or dual cover?

For couples, a choice will have to be made whether to take out single or joint cover policies. However, being married or in a long-term relationship doesn't necessarily mean that joint cover is the best option. In fact, two single cover policies will often be better. Joint cover life assurance is generally only considered suitable for the purposes of paying off a mortgage if one person dies. The amount of money required to cover the mortgage will be the same for either partner, so in the event of one person's death the mortgage will get fully repaid so there is no need for continuing insurance. If a couple is taking out life assurance for other reasons such as providing for their dependent children then it is generally better to take out a single policy for each individual. Two single policies will not be hugely dearer than the joint option and will be more flexible as well as providing double the coverage should both policy holders die. What's more, one partner may be younger or healthier than the other and secure life assurance at a lower premium. And if one person should die first the remaining individual still has a separate policy in the event of their own death. Another alternative is dual life cover which is similar to having two separate policies in that should one partner die the remaining person remains covered for a reduced premium. Dual cover tends to be marginally cheaper than two separate policies.

OTHER LIFE CRISES

Life assurance is all about providing for your loved ones should you die, but what if you are hit with a non-fatal illness that renders you unable to work? Many people take out income protection insurance or serious illness cover against such a possibility. Income protection insurance pays out a regular income as long as the claimant suffers a loss of earned income and is deemed unfit to work. Serious illness cover on the other hand will pay out a lump sum in the event of a being diagnosed with an illness covered by the terms of the policy, and is often sold as an extra benefit on a life assurance policy. As with all insurance, the need for income protection or serious illness cover depends on your circumstances. If you have a mortgage or other large loans to pay then it may interest you, as in the event of illness or loss of earned income you will still have funds to help meet your repayments. Similarly, if you have children or other dependents you will be able to provide for them. Self employed people should consider taking out these kinds of policies as they are not eligible for the State disability benefit or employer sick pay should something happen to them. Many of the same criteria associated with calculating the cost of life assurance premiums are also used in pricing income protection and serious illness policies i.e. your age, gender, occupation, your medical history, and the amount of cover that you want. Tax relief is available on income protection premiums only. For more on income protection and serious illness cover see *Consumer Choice*, February 2007, p45.

WHOLE OF LIFE ASSURANCE: COVER COMPARED

Monthly cost (€) of a whole of life policy valued at €100,000 for a male and female at ages 65 yrs and 75 yrs

Policy Provider [1]	Male 65 years		Male 75 years		Female 65 years		Female 75 years	
	smoker	non-smoker	smoker	non-smoker	smoker	non-smoker	smoker	non-smoker
Hibernian / Ark Life	495.79	377.84	921.08	718.35	446.42	319.88	814.60	588.22
Canada Life	519.53	293.05	-	-	388.92	208.33	-	-
Eagle Star	481.84	290.40	917.79	623.85	353.51	254.70	658.02	525.36
Friends First	581.43	439.10	1,238.51	974.29	493.20	391.68	1,067.72	887.17
Irish Life	765.26	504.24	1,436.71	1,039.33	570.97	347.36	1,115.37	654.38
New Ireland	766.71	398.68	-	-	511.17	288.55	-	-

[1] Quotes were obtained by contacting providers directly. Life assurance quotes can also be obtained through a broker. - not available

choice comment

Deciding what kind of life assurance is right for you is not an easy business. Firstly you have to be sure that you need cover in the first place. If you have no dependents or large loans then there really isn't much point in paying a big life premium every month. However, if you have young children or other dependents you should consider taking out a life policy so that they don't suffer financially if the worst happens. Even if your family is not financially dependent upon you, the right life assurance policy may help preserve your estate by covering any inheritance tax bills that may be owed on your property not to mention meeting expensive funeral costs. Endowment policies can be useful tools if you want the security of life cover but also the knowledge that you can exchange your policy for a lump sum – whether it is to fund your children's education or supplement your retirement. However, rarely is life assurance the smartest way to invest or save. Unit Linked Whole of Life policies are a particular area of concern where fund performance can be poor and premiums can increase dramatically at the end of a fixed term period. The Financial Services Ombudsman recently awarded €50,000 to a couple in their late 60s who saw their monthly premiums jump from €780 to €2,000. The problem appears to be systemic, having been identified by the Ombudsman in 1,800 other cases. If you really want to be smart when it comes to life assurance then you need to sit down and carefully consider why you think you need it, how much it will cost and ask yourself if there are better alternatives. Because after all, you're worth it.