What I Wish I'd Known … Financial Advice for my Younger Self

#2 How to Pay for Insurance

by James Marshall, Financial Adviser

We tend to feel pretty invincible when we're young. We're optimistic about the future and not ready to consider the 'what ifs': stroke, heart attack, melanomas, other chronic illnesses or injury and even death.

I'm lucky not to have experienced any of these, but I've known many people 'just like me' who have and weren't prepared. The good news is there is a range of insurance policies available to protect our wealth, our business and our families in the event of our death or disability or the loss of a business partner. But one thing I wish I'd known is that there's a significant benefit in taking out insurance when you're relatively young. Here's why…

When you purchase life, total and permanent disability (TPD), income protection or trauma insurance, you can choose whether to pay for it in 'stepped' premiums or 'level' premiums. My advice, in summary, is to **consider paying level premiums** if you're under 40. This short video provides a helpful overview.

Most policies are paid for in **stepped premiums**. These are calculated according to your age and recalculated each year when you renew the policy. You pay for the risk associated with your current age, which means that your premium increases as you age as the likelihood of a claim increases. So the older you get, the more you can expect to pay.

- A disadvantage of paying stepped premiums is that some people may no longer be able to afford the same level of cover as they age (and potentially have more need for the cover) and the premiums increase.
- An advantage of paying stepped premiums is that they are generally cheaper at the start of the policy, making it more affordable to hold insurance in the short term.

In contrast, **level premiums** are calculated according to your age *when you open the policy*, and usually don't change (other than to reflect CPI and the insurer's fee) until you are 65 (at which time they revert to stepped premiums).

- A disadvantage of paying a level premium is that it usually costs more than a stepped premium in the very short term, although you'll generally get pay-back after seven to eight years.
- An advantage of paying a level premium is that you know in advance what your premiums will be and can plan accordingly.

Further considerations:

- **If you're under 40**, it's definitely worth considering level premiums as, by the time you are 65, the total cost of your insurance policy will usually be significantly less than if you had chosen stepped premiums.
- **As a young professional**, you are likely to be able to afford the initially higher level premium given that you have fewer financial commitments. And later, as your expenses and financial obligations increase, you will be able to enjoy the fact that your insurance premium won't.

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Get financial advice early

You should discuss the advantages and disadvantages of stepped and level insurance premiums for your particular circumstances with your financial adviser. Seeking the right advice early is key, but do your homework and choose a professional who feels like a good fit.

Here are some tips on how to choose a firm to advise you:

- Ask for recommendations from your peers.
- Check out a firm's and advisers' credentials and read their client testimonials.
- Make sure their website looks professional and is active, with blogs and articles that are regular, relevant and easy to understand.
- Enquire about their specialisations.
- Contact them by phone or email and start asking questions.

If you (or a young person in your life) would like to talk to a financial adviser at Stratus Financial Group about cash flow, super, insurance or any other financial matter, please contact us. It will be our pleasure to help. Phone (07) 3007 2007 or email info@stratusfinancialgroup.com.au

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