



## February 2020

Welcome to the latest edition of our client newsletter! We've included a mix of articles designed to share our insights and experiences, we hope you enjoy reading them.

If you would like to discuss any of the issues raised in this newsletter, please don't hesitate to contact us.

In the meantime, we hope you enjoy the read.

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# Stepped and Level Premiums: What's the difference?

When it comes to protecting your family, knowledge is not just power – it's security.

You have a choice when it comes to paying premiums: stepped or level. But what does that mean and which one is right for you? There is no one-size-fits-all answer as both policies will be suitable for different types of policyholders.

We aim to lay out both the benefits and drawbacks to stepped and level premiums, that proves the question is not complicated; in fact, it offers consumers greater choice in protecting their loved ones. Use this guide to help you make a more informed decision about which option is the best fit for your unique lifestyle, needs, and circumstances from now and into the future.

## Level premiums

Level premiums will cost more to begin with, but the premium you are charged will be based on your age at the time you took out that cover. You can still have the cover adjusted to keep pace with inflation – the cost of that new cover will be added to the premium each time inflation is applied. Because level premiums don't increase each year with your age, they can give you more certainty on cost when planning ahead for the future.

Depending on how long you hold the cover – and as long as you can afford them – level premiums can save you money in the long-term.

## Stepped premiums

As the name suggests, stepped premiums start off at a cheaper point and rise from there. Premiums are recalculated each year as you get older and/or with changes to the Consumer Price Index (CPI). With stepped premiums, you can save money in the short-term, while resting safely in the knowledge that loved ones are protected.

One drawback to a stepped premium is the inability to accurately predict and properly plan for the increasing premiums. In some cases, stepped premiums may be reduced if, for example, you change from a high-risk to a low-risk occupation.

According to RiskInfo, stepped premiums are the "dominant choice in the Australian marketplace", but is this a lack of foresight? Policyholders with stepped premiums need to look ahead to think about whether they will have the funds required for higher premiums as they enter their fifties and sixties.

## How long will I hold the policy?

A major consideration when choosing between stepped and level premiums: How long do you intend to hold the policy? While nobody can predict the future, life insurance policies are generally a long-term purchase, and thus a level premium may be the way to go.

Let's not imagine that your life is cut short, but think about your circumstances. Maybe you only plan on

keeping it for the short-term, and not for several decades? You may also plan on keeping it for a shorter length of time if you are on a work contract from overseas and only planning on living in Australia for a few years. In both these unique cases, a stepped premium may be a better fit.

## Keeping up with inflation

If you have Inflation Protection selected on your policy, both stepped and level premiums will increase with inflation so that your cover stays relevant to the rising costs of living. Inflation protection adds incremental increases (usually 5 percent)<sup>i</sup> to premiums, but your family's future is safeguarded at the same value of cover you began with. Check your policy for more information on this. If keeping out-of-pocket costs as low as possible is essential for you, there is always the option to remove inflation protection from your policy.

## When are you taking out cover?

Another important thing to remember when deciding between policies is how old you are. Once you reach a certain age, due to ever-increasing risk of illness and death, Level policies will generally revert to being stepped.

*If you're unsure about which option is best for you, we can help.*

<sup>i</sup> <http://riskinfo.com.au/news/2013/05/28/latest-poll-stepped-versus-level-premium/>

<sup>ii</sup> <https://www.finder.com.au/life-insurance-stepped-vs-level-premiums>





# Be different today so you can be different tomorrow

Every generation thinks life will be different – and of course, each one is right - but when it comes to planning for the future, while we're young we have a habit of thinking there is still plenty of time. After all, when you're in your mid-thirties or even early forties, retirement is still decades away; later if the government decides so!

However, like anything forgotten too long, the years pass quickly and the time we could have used constructively has disappeared. For example, early Generation X is now on the countdown to retirement.

*If you want to be different today, **plan** to be different tomorrow.*

## Start with your grandparents...

What did their working life and retirement look like?

Let's imagine your grandparents are both in their eighties. It's likely that Grandad started working in his teens and stayed with one employer for most of his life. Structured superannuation was available to the very few. He retired at 55. Grandma may not have had much paid employment, if any. Their lives can be broken into three phases – education, work and leisure.

But they didn't anticipate retirement being as long as it's turned out to be. They're still healthy, have outlived their savings and are relying solely on the age pension to fund their frugal lifestyle.

## Then your parents...

What did their working life look like?  
How will their retirement be different?

We'll envisage your parents are aged in their sixties – typical baby boomers. They were better educated than their parents and both worked; though Mum took years off to raise the kids. They accumulated quite a bit of superannuation; Dad has more than Mum.

Their lives can be broken into the same three phases. Education may have extended into their early twenties or they studied later during their working lives. They worked for a couple of employers and, thanks to technology, ended up in careers they never imagined in their youth.

Whilst they have long talked about retirement, now that it's almost here they face it with some trepidation. They may consider moving to part-time work that will give them more freedom, keep their minds stimulated and still have enough to pay the bills. After all, now they are independent and the mortgage is paid off, life is cheaper.

It would be nice to have more time to travel and do the things they would like to do. They're both fit and healthy and if they live as long as their parents that will be 20 or 25 years of leisure.

Will Mum and Dad have enough money to live a comfortable lifestyle for that long?

## And what about you?

You and your siblings are not going to rely on one employer or one lifetime career. Balancing life and work is more important as you take time off to travel, do volunteer work or try new adventures earlier in life. And being so versatile, when you resume your career you simply re-train.

What this means is that you will have multiple periods of education-work-leisure in your life, and as you will probably be much healthier than previous generations you don't see working longer as a problem.

But will you be able to afford 20 or 30 years with no income? That's a sobering thought at any age.

## It's time to be different now

Many social commentators class Generation X as stuck in between the two "noisier" and more well-known generations – Baby Boomers and Gen Y – but that doesn't mean you should fade into insignificance. Be the first generation to truly take control of your retirement at a younger age. Stop the trend and talk to us about the many strategies available to give your retirement savings the boost it needs.

*Be different today so you can be different tomorrow.*





# Four things to remember when choosing a beneficiary

Choosing a beneficiary is usually a simple task, but there are a few things you should keep in mind when you decide.

A beneficiary is the person who will receive your life insurance payment should you pass away.

When choosing yours, it's important to think about who would be most financially vulnerable without you in their life. For most people, this is their spouse or children.

If you're yet to nominate your beneficiary for your Life Insurance, you can easily do so.

Nominating a beneficiary may seem straightforward, but there are a number of things to be aware of and plan for.

## 1. If you don't have a beneficiary

If you hold the policy in your name, your benefit will go to your estate and be managed as part of your will.

If you have outstanding debts when you pass away, your benefit may be used to pay them before it is distributed to the people named in your will – this means your loved ones could miss out on the payment.

## 2. Naming a beneficiary

Naming a beneficiary ensures your benefit is not paid to your estate and goes directly to the person you nominate.

It's important to consider that if your beneficiary has any debts the proceeds might be used to pay them off. As well as this, keep in mind that if you nominate your children, they will only receive the full amount once they turn 18.

## 3. Having multiple beneficiaries

You can easily name multiple people as beneficiaries to your policy – you can check with your insurer as to how many beneficiaries can be named on your policy.

If you do decide to choose several people, it's useful to designate a percentage of the payment to each person, as opposed to a specific amount (as this may change).

You should also consider having a contingency beneficiary, should a primary beneficiary pass away before or around the time of your passing (for example, in an accident).

## 4. Keeping your beneficiary up to date

You should evaluate your beneficiary and policy at any major life event – for example, purchasing a home, having children, getting married, or at the death of a loved one.

*Remember, you can easily update your policy and beneficiary. And if you have any further questions concerning beneficiaries, feel free to contact us.*