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Q 1: It had been announced during the 2008/2009 financial year that those people drawing account based pension payments would be able to reduce the minimum amount drawn by 50%, in recognition of fallen asset values during the global financial crisis. Is this reduction likely to continue during the 2009/2010 financial year?

D.K., Macarthur

A 1: While flagged in the May 2009 Federal Budget it has recently been announced and confirmed that the reduced minimum drawdown by 50%, will be extended for the 2009/2010 financial year. This is recognition that asset values are still low. It is important to know though that if you are in receipt of an account based pension, will need to speak with your provider as the application of the reduced minimum is not normally automatic and will likely need to be elected to take effect.

Q 2: I am considering taking out some life insurances and understand that you can take out a policy with premiums based on either a "stepped" or "level" premium basis. Can you tell me what the difference is in how premium is calculated and the cost?

A.W., Kambah

A 2: Typically, insurance premiums were calculated on a "stepped" basis, which meant that when you are younger your premiums are low, but as you get older, the premium increases at a quickening rate. The problem for the insurance industry is that as premiums get more expensive, policy holders find it harder to retain their policies and eventually let them lapse (ie don't keep paying premiums so policy and cover finishes).

Many years ago the option of "level" premiums was introduced by many insurance providers. The idea here is to have the premium stay relatively flat for the life of the policy, to make premium payments more affordable and hopefully to help policy holders keep their cover later in life when they statistically are likely to need the cover more. So level premiums should be more expensive than stepped premiums in the earlier years, and less expensive in later years. For someone taking a policy from age 25 to 65 then the cross over point is expected to be around age 40.

Insurance provider MLC states an example for a 38 year old male taking Life Cover of \$1 million, Trauma cover of \$500,000 and Total and Permanent Disability cover of \$500,000. Results for total premiums paid to age 65 – \$338,910 (Stepped), \$107,394 (Level), \$231,516 (Savings).

The idea of a policy based on "level" premiums is a good one however you need to be aware that you will only be better off should you plan to keep your policy for a long time. Should your circumstances change in the years after taking out the policy, and you do not need the cover anymore, then there is a risk you have paid more than you could have.

Note that level premiums do not mean that premiums will not go up at all, rather they will be calculated based upon your age at the time of taking out the policy. Should premiums

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increase for all age and risk categories, then this premium increase will flow through to your level premium policy as well, however at a lower rate than a “stepped” premium policy.

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