Smart Wealth Protection Strategies
Reduce the long term cost of your insurance

Case study

Jack and Claire (from Strategy 7) have spoken to a financial adviser about their insurance needs.

After assessing their goals and financial situation, their adviser has recommended Jack take out $700,000 of Life insurance in his super fund, where he could make an after-tax saving of $310 on the first year's premium and $35,489 over a 20 year period.

Their adviser also explains it will be even more cost-effective over the longer term if Jack pays level rather than stepped premiums. This is because, over the next 20 years, he'll pay level premiums totalling $103,429 compared to a total of $141,373 if he chooses stepped premiums.

Level premiums could therefore save Jack a total of $37,944 over the next 20 years (or $21,272 in today's dollars1). This is in addition to the savings he could make by holding the insurance in super.

However, if Jack only needed insurance for a shorter time period (eg five years), it may be more cost-effective if he opts for stepped rather than level premiums.

	Level premiums	Stepped premiums	Difference
Total premiums over 20 years	$103,429	$141,373	$37,944
Saving (in today's dollars)[1]			$27,791

Furthermore, if Jack pays level premiums, the cost in year 20 (for example) will be $11,748 compared to $23,980 with stepped premiums. In other words, level premiums could be significantly lower in the later years, when the cover is needed most.

Insurance assumptions: Age 45, male, non-smoker, $700,000 in Life Cover increased by 5% each year. Based on MLC Limited's standard premium rates as at 27/6/2012 and includes a policy fee.

Note: This case study highlights the importance of speaking to a financial adviser about the best premium payment option when taking out insurance. A financial adviser can also address a range of potential issues and identify other suitable protection strategies – see Tips and traps.