Risk life insurance: â€œinstant estatesâ€• for those who really need them

by Editor

Death: something none of us like to think about. As an income earner with dependents, however, itâ€™s something you have to consider.Gavin Came , executive committee chairman of the Financial Intermediary Association (FIA), explains that life and other risk insurance must be structured according to your specific needs ï¿½" why itâ€™s helpful to enlist the services of a professional advisor.Q: What is risk life insurance?A: Risk life insurance is a way of creating an â€œinstant estateâ€• for your loved ones in the event of your death. The best way to understand this â€œinstant estateâ€• is to think of it as the amount of money needed to replace you as a breadwinner.Risk life insurance thus means that when you die, your loved ones will be correctly compensated and able to continue to live as if you were still generating your income, as opposed to them being forced out into the workplace to support and fend for themselves.Where there is a two income family then both partners need to consider risk life assurance.Q: Who needs it?A: Generally, the people who need risk life insurance most are, in my mind, typically younger to middle-aged salary earners with dependents. This is because theyâ€™re still creating their estates.They have yet to save the money and build up the assets which may one day reduce the need for life assurance. Their dependents who are usually young children, but could be aged parents or other family, cannot yet depend on the accumulated assets for their day to day living.In contrast to this, young people without dependents and family obligations donâ€™t typically need risk life insurance. A young, single person with well off parents, who is just starting out in their first job for example, has no need for life assurance.They should, however, secure themselves with income protection. This is a different type of risk insurance that protects your income should you become disabled or be involved in an accident.It will provide you with 75% of your monthly salary until such time as you can return to work.Q: How much life insurance do you need?A: To avoid being over or under insured you should use a financial planner to do a proper financial analysis of your needs. As a general rule of thumb however, you should have life cover of at least ten times your annual salary to replace your income.Peopleâ€™s needs are different though ï¿½" hence the need for a financial planner. Previous marriage obligations, commitments to extended family and so forth will all impact on the amount of life cover you require.You should establish how much cover is provided by your employer as this will form part of the calculation.Q: Do critical illness benefits, disability benefits and impairment benefits fall under your life insurance?A: In addition to life insurance, these other types of insurance can be considered for specific needs. These are often for the same amounts as your life insurance but can be implemented separately.Their main purpose is to replace income lost and preserve your lifestyle should you not be able to work, either temporarily or permanently.Q: What is the difference between accelerator rider benefits versus stand-alone benefits?A: You can have trauma insurance and disability among others, added to your policy as an accelerated or a stand-alone benefit. By way of example: you can apply for R1 million of life insurance and R1 million of disability, and will be given two choices.The less expensive option ï¿½" the accelerated benefit ï¿½" will involve your disability paying out should you become disabled and the life cover simultaneously falling by the same amount. You thus be paid out for death or disability, whichever comes first.With the stand-alone option the disability and death benefits would be paid separately; functioning independently of each other. This solution will, however, involve a higher premium.When choosing between these then, you have in part to look at affordability. However the decision as to how best secure your familyâ€™s future should be discussed with a professional.Q: How can you save on your life insurance premiums?A: You should look at your investments and insurance policies with your financial advisor at least annually. This is important for two reasons. The first of these is that your lifestyle circumstances may have changed: you may have had a child or been promoted.The second reason is that alternative, sometimes more competitive, products and services become available over time. These might suit you better.That being said, if you do choose to replace one product with another, you must be absolutely sure that the new product is definitely much better than the old one.Q: What is group life assurance?A: Group life is the life insurance normally provided to you by your company as a member of your companyâ€™s retirement fund. Itâ€™s thus life insurance offered by an insurance company to a group of people.Itâ€™s typically structured around more favourable rates as opposed to individual ï¿½" the insurance equivalent of a â€œbulk discountâ€•.Group life assurance also usually provides a â€œfree cover limitâ€•. This means that up to a certain level your cover is provided free of underwriting: you donâ€™t have to have any medical tests.Regardless of your state of health then, you can get automatic access to this free cover limit.The disadvantage of group life assurance is that itâ€™s provided by your employer and thus not specifically tailored to your personal circumstances.You would probably need to â€œtop-upâ€• your life insurance, as the group cover generally provided is equivalent to just three times your annual salary ï¿½" well short of the â€œrule of thumbâ€• amount.This is why you should discuss life insurance cover with your financial advisor, to ensure that your loved ones will be adequately provided for should the need arise.If you would like to learn more about Estate Planning with Life Insurance contact:Jonathan MittmanVice PresidentMetropolitan Advisory Group, LLC212-332-7596

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