CONCORD PRIVATE WEALTH

23 INSURANCE MISTAKES THAT ARE COSTING YOU MORE

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INTRO:

Like a lot of people it's easy to neglect your insurance policy, without completely knowing if you are paying too much, have enough cover, or whether you are actually covered at all. Do you remember the last time you looked at this, if ever at all?

I find people commonly spend about 3-5% of their gross income on insurance premiums, which can equate to a fair bit of money, so it's important to know whether there is anything you can do to that could reduce the amount of premiums you pay without sacrificing the amount of cover you have.

In a nutshell, you're paying your premiums for the peace of mind that insurance offers, but this does not mean that you should spend beyond what's necessary on your insurance. So, read on as we discuss the 23 different ways to save money while still being protected by your insurance cover.

WHO AM I?:

"Hi, I'm Paul Harrison, Financial Adviser and all-round insurance whizz. For over 15 years, I've helped create strategies for thousands of clients to protect their assets and achieve their financial goals. I aim for precision and accuracy, making sure that the client pays the exact amount of premium for the right quality and amount of cover. My goal is to make sure you and your family are financially protected in case the unthinkable happens.

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23 Insurance Mistakes That Are Costing you more

1. Monthly Premiums Instead of Annual Premiums

A monthly payment frequency generally means you are paying about 5-7% extra in premiums per year as opposed to an annual premium. So, if you're cover is currently paid monthly, or anything other than annually, speak with your provider and change it.

2. Outdated Occupation Details

The amount that you pay in premiums depends a lot on the level of risk that your occupation has relative to others. So, if you had a change in occupation that results in working in a less risky occupation then contact your insurance provider or your financial adviser to get a quote for your new occupation.

3. You failed to update your smoking status after leaving your employer

Some group insurance policies obtained through your employer or policies obtained from industry super funds do not have a distinction between smokers and non-smokers. So, make sure you've updated your smoking status otherwise your premiums may default to smoker rates.

4. Failure to Review the Waiting Period on your Income Protection Cover

The waiting period of your income protection cover plays a crucial role in how much premium will you be paying every month. This is how long you must be off work before the insurance company starts paying you. In general terms a shorter waiting period (30 days) is significantly more than a longer waiting period (90 days).

5. Failure to Update Your Insurance Provider About Your Smoking Status

Insurance companies classify a smoker based on their smoking history in the past 12 months. If at the time of your application you were classified as a smoker but have quit for over 12 months, you should update your smoking status with your insurance provider.

Your provider will provide you with the requirements and let you know what processes you will have to do. Once your smoking status is updated to non-smoking, you no longer need to revert it even if you for some reasons started smoking again.

6. You went with your super's insurance products without checking out other insurance products in the market

If you were not previously aware, you can get other insurance products in the market and still pay them through your super.

We do this by linking the insurance to your super account so that the premiums can be paid each year.

This gives you the freedom to choose among the other insurance products available in the market and still keep an ideal level of cash flow.

We find our clients are more likely to get a better deal without having to compromise on either quality or affordability with this method.

7. Your life insurance is paid directly from your bank account

Insurance doesn’t need to be more expensive than necessary. Paying directly from your credit card or bank account is one of the common mistakes in getting insurance. This is because your life insurance premiums are not tax deductible.

By paying for your cover through super it will be more tax effective for you and if you are concerned about the effects of the premiums on your super balance, there are tax effective ways to reduce this impact too.

8. Not reviewing loadings and exclusions regularly

Exclusions and loadings are common to see on insurance policies. Exclusions are where an insurer excludes a certain condition from a future claim, for example your bad back, mental health, skin cancer etc.

A loading is where you pay an extra premium to the insurer as you are deemed to be at a higher risk of claim in the future. It is important to review these regularly to have them removed if they no longer apply.

For example a person may have a loading applied to their cover for being overweight, but if they reduced their weight they can have this reviewed and their premium reduced.

9. Lying on your application

This is probably the one mistake you would never want to make. The information which you provide during your application is warranted by your duty of disclosure.

This means that you take full responsibility for this information and understand that the insurance company can void your claim if you are not entirely truthful on your application.

By doing this the insurer understands all the risks they are taking by insuring you and that come claim time there are no issues paying out. If you did not meet your duty of disclosure this can obviously have a dramatic impact on your finances when you need funds the most.

10. You've waited too long before you sorted an insurance cover

As you age you are more likely to pick up health issues. As stated earlier insurers can either put a loading or exclusion on your cover, or decline your application completely.

It doesn't take much for an insurer to decline an application, so our advice is to sort your insurance out before its too late.

11. You are paying for too many insurance policies

While it's common knowledge that getting insurance can be a challenging process, believe it or not, some people end up having multiple or duplicate covers. This can result in being over insured and paying for something you don't need.

For example if you have multiple income protection policies the insurers would limit the amount they pay you out to a certain percentage of your income, so you’re probably paying for something you don’t need.

In addition to this, trying to manage a claim with multiple insurers is likely to be a nightmare too. In these cases, getting your policies reviewed by an insurance adviser is ideal.

This is to make sure that you are not paying for covers that you do not need and your cover is tailored to your current situation.

12. You have too much cover

Your levels of insurance cover during your life are based on your personal circumstance at the time. As life goes on things change, and one of things can happen is you may find yourself over-insured.

That said, to ensure that your cover is cost-effective, it needs to be accurate. You need to make sure that you are paying for exactly what you need and when you need it.

As aforementioned, you could be paying for an insurance cover that you don’t need right now. Here are a few things to consider when checking:

a)Have you repaid your mortgage?
b)Do your children still rely on you financially?
c)Did you recently receive an inheritance?
d)Have your investments & super progressed in value?

13. Your cover is not adequate

Now, the flip side of the previous mistake is not having enough cover when you need it. The impacts of not having enough cover can be far greater than paying for too much cover.

For example, if you are underinsured or do not have insurance you must ask yourself what are the financial impact to myself, my family and my future plans.

If you have a young family and do not have life insurance there are big consequences, or if you are carrying a mortgage without income protection the banks still need their money back if you can't work.

If you know your budget and talk to an Adviser, they can work with you to maximise the amount of coverage you can get.

14. Listing the wrong beneficiaries

Nominating the correct beneficiary for your life insurance is very important. There can be a massive difference in how the proceeds of your life insurance is treated from a tax perspective.

For example there are tax consequences for nominating non-dependent adult children versus an dependent child. For further reference, you can check this ATO.

15. You think the insurance through your super is adequate

I may have mentioned this previously, but I think it's important to put more emphasis on this.

Given the complexity of setting up your cover, it makes more sense to just go with whatever your superannuation has offered.

But the insurance cover provided through your super is not always enough and is generally poor in quality. Rice Warner made a recent study among different insurance provided through super, and found the following:

a) Only 60% of needs are provided by the provided Life Cover
b) Only 13% of needs are met by the TPD given by the super
c) Only 17% of needs were met by the Income Protection through Super

While it's convenient to just trust your super, if you want what your money's worth, it is wise to have your cover reviewed by an expert. We all have different situations with different needs, make sure yours are covered adequately.

16. Negligence to your cover

If you are paying your premiums through your super, then you might be making this mistake right now. Legislation was passed in July 2019 to protect your super balance being eroded from premiums and fees (PYS) meant there were some pretty big downfalls the government didn't consider.

The main one is there is a possibility that your insurance benefits can be cancelled if you haven't made a single super contribution for the last 18 months and have not made an election to retain the cover. To paint a better picture, here are possible scenarios that might be true to your situation:

a) You are on/ have taken paternity or maternity leave, or a sabbatical
b) You have become self employed and are not contributing to super
c) You have more than one super account
As you can see these are generally situations that result in no contributions

17 You bought bad policies

Have you heard the saying “If it’s too good to be true, then it’s probably not?” Well, nowadays, there are too many advertisements about “hassle free” insurance, especially on line or on day time TV. The trouble with these policies is they do not assess your health until claim time and they usually contain clauses that exclude a claim.

Come claim time you may actually find out they wont payout due to a pre-existing condition or even something related to the pre-existing condition. These policies are also characterized by exclusions for many general conditions too (on top of your own pre-existing conditions). Why not have some certainty do have the insurer assess your health accurately at the start so there are no problems when its time to claim.

18. Not getting insurance for your partner

Getting insurance for the breadwinner is as obvious as it gets. But it's still pretty much the same impact if anything happens to the partner, even if they are not working. Making sure that you are covered for this type of scenario is as important as getting your own cover.

19. Processing a claim by yourself

As sad as it may sound, when you are trying to process a claim for your insurance, you could probably be at the most stressful and devastating point in your life. It could be just as tedious and stressful (or more) than when you were just setting up the policy.

This is why it would have been much better if you purchased your insurance through an insurance adviser. Because if you did, then you wouldn't have to worry about anything.

They will take care of it for you and you can just focus on mourning your loved ones or recovering from your sickness or injury.

20. Not having a Will

Now, we've mostly been talking about insurance covers, but the Will is just as important. A Will provides direct to your estate as to where you want your money to go. Remember your Estate can be made up your super balance plus your life insurance proceeds and your other assets, so it can amount to a lot of money. This is why it's important to have a document that outlines your instructions on where you want your money to go. There are plenty of cost effective solutions today that can help you in securing a Will that suits your situation.

21. Switching Superannuation Impulsively

Switching super funds is not a decision that you would want to take lightly.

Especially if your insurance covers are tied up to your super. When you switch super accounts, any insurance that was part of that account will be lost. While you can just try to get the same insurance products with the new provider, note that your age, health and your current situation may be different from when you got the old policies, so you may find yourself either not being covered or having certain conditions excluded from claim.

22. Failing to see the importance of considering the premium structure for long term policies

When setting up your insurance you can choose between stepped and level premium structures. Basically a stepped premium will increase each year you get older, as there is more change of claim. A level premium will initially start of higher but wont incur any increases due to age.

What you can find is that over the long term a level premium will work out to be cheaper, especially as you move into your mid to later stages of your working life. If you intend to hold a cover long term, for example holding income protection for your whole working life, consider the benefits of a level premium. I set my own policy up when I was 22 on a level premium and now its cheaper than anything out there on the market today.

23. Not getting the right advice

Reading from resources like this and other resources online will likely never be enough, especially if you want to get it right the first time you set up your insurance cover. While comprehensive resources like this can be helpful, there's still heaps more value with the experience and expertise from a really good Financial Adviser who specialises in insurance (like us). An adviser will cover off all the points discussed and help you navigate your way to adequate and cost effective insurance solutions. If you feel like you could do with some help please get in touch and at least get a second opinion.

Still not sure?

Make a 15 minute phone call to speak with Paul

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Insurance services

- Review of your existing cover
- Set up & implementation of new cover
- Advice on sums insured
- Tax effective structure of cover
- Premium affordability review
- Claims service

Prefer to email?

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