

LIFE INSURANCE STAR RATINGS

IN THIS REPORT: We research & rate the suite of life insurance products to determine who offers the best value from the 15 companies specialising in this market.

LIFE INSURANCE – WHO NEEDS IT?

There's no doubt that if you are not going to die, you certainly won't need life insurance. For the rest of us, though, life insurance is a fact of life. Death or disability through accident or illness may not be the most fun party topics but it is essential to start talking about the issue and following up with professional advice from a licensed financial planner. Personal insurance should no longer be taking a back seat in the popularity stakes, as you and the contribution you make to your family lifestyle are valuable assets and really should be protected.

'Don't want to think about it', 'too complex', 'it'll never happen to me' are some of the most common excuses used to explain the underwhelming rush for personal insurance. Licensed financial planners, however, can make the world of difference in most cases, suggesting relevant strategies and personalising insurance to your own, individual situation which may encompass life insurance, income protection, trauma or total and permanent disablement insurance.

DEATH BY STUPIDITY

There's no end to foolish behaviour exhibited by humans not thinking things through before acting. Equally foolish is the notion that "it will never happen to me". Both reasons are behind the very existence of insurance for death and trauma.

www.darwinAwards.com

The Darwin Awards chronicle enterprising demises by people who "do a service to humanity by removing themselves from the gene pool" (i.e. lose the ability to



reproduce either by death or sterilisation in a stupid fashion).

Who would have thought ...

- A bloke pruning his own trees would put an operating industrial mulcher at the base of the tree, climb a ladder to the offending branch, slip off the ladder and straight into – you guessed it – the 'conveniently-placed' mulcher.
- A mum baking a cake for the kids would actually lick the mixer's live electrical cord after it fell into the cake mixture. Sure, she turned the machine off first but forgot about the power point at the wall.
- An airport worker stealing fuel from a plane to use in his car, couldn't get the siphon hose into the plane's fuel tank so he lit a match to see what was happening.
- A man whose Porsche was stuck in traffic across railway lines would run towards the oncoming train waving his arms in an attempt to save his sports car.

As long as humans inhabit the planet, there will be unfortunate loss of life or limbs. It's just as well there is no stupidity clause in life insurance policies.

SURVIVING IS MORE IMPORTANT

Life insurance is as much about surviving illness or accident as it is about actually exiting. Making provision for the family after you are gone is all very well but the real burden can occur just surviving a serious illness or accident.

Apart from the initial hospitalisation, there is likely to be a configuration of complicated financial issues to face, such as ongoing treatment, travel, accommodation, at-home care, aids and equipment, home modifications.



A serious illness or accident usually means many months off work, drastically

reducing the amount of money coming in. This is further exacerbated by a partner taking time off work to act as a carer.

The financial stress can be alleviated by having proper insurance cover in place. This can be trauma insurance, income protection or TDP – total and permanent disablement – or a package which also includes term life insurance.

Cancer is the leading cause of claims under critical illness insurances in Australia and, according to 2005 figures from Access Economics, 57% of cancer survivors in New South Wales spent at least 5 months off work after their diagnosis. 71% of this group required an average of 40-plus hours of family care at home per week at an average cost of \$681 a week.

Serious illness or accident will blow your out-of-pocket expenses sky high and, more often than not, it is family and friends who bear the brunt financially, physically and emotionally.

Adequate life insurance cover steps in and picks up the tab, leaving you to get on with the most important tasks which are rehabilitation and getting the family back to normal.

IRONING OUT THE CONFUSION

For the second year, CANSTAR CANNEX has researched and rated the life insurance suite of products encompassing:

- Term life insurance
- Trauma insurance
- TPD – Total & Permanent Disablement
- Packaged Life insurance
- Income Protection

To help educate consumers better, we looked at adviser-based Life Risk Policies to determine which insurers provide the best value across different categories and profiles.

The extensive work done by CANSTAR CANNEX has resulted in a consumer-friendly education tool which will provide much more information and knowledge which will be useful when taking that next step and talking it over with a planner.

WHAT WE RESEARCHED

1. **TERM LIFE INSURANCE:** This is death cover which provides a lump sum payout of money on death or on diagnosis of a terminal illness that will end in death within 12 months.
PURPOSE: Eliminates likely financial hardship after the death of a spouse, particularly the breadwinner. Pays outstanding debts, such as mortgage, and leaves a lump sum to be invested to cover the cost of future family needs such as children's education.
2. **TRAUMA INSURANCE:** Provides a lump sum of money to assist you if you happen to be diagnosed with any of the defined events in the policy such as cancer, heart attack, stroke.
PURPOSE: Eliminates financial hardship so you can concentrate fully on recuperating and making any necessary lifestyle changes. The money pays debts, medical costs and a lump sum to be invested to cover lifestyle changes, e.g. wheelchair access to be built at home.
3. **TPD - Total and Permanent Disablement:** Provides a lump sum of money if an accident or sickness leaves you unable to work either in your own or any other occupation again. While not working, TPD can cover you if an accident or sickness, e.g. paraplegia or depression, results in you not being able to live without assistance.
PURPOSE: Eliminates financial hardship in the wake of being unable to work again. The money pays debts and leaves a lump sum to be invested to replace income. Provides financial assistance to ensure your needs are taken care of and your family continues to maintain their existing lifestyle.
4. **PACKAGED LIFE INSURANCE:** The three insurance products listed above – Term Life, Trauma and TPD - are sold separately but they can be packaged together in one policy with one company.
PURPOSE: Cover is provided for each event. Advantage may be gained through a lower premium.
5. **INCOME PROTECTION:** This cover provides a regular payment, generally per month in arrears. It will replace 75% of your usual monthly income when you are off work due to accident or sickness. Premiums paid are generally tax deductible, whilst any claim benefit received is income tax assessable.
PURPOSE: To eliminate hardship and protect your family's lifestyle by providing a replacement income, should an accident or sickness strike the breadwinner.

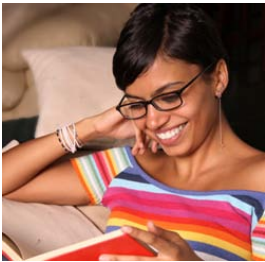
PROFILES – WHERE DO I FIT?

It's always interesting to hear the answers people give when asked to name their most valuable asset. Unsurprisingly, age and lifestyle play key roles in the variety of answers given. In every case your most 'valuable' asset is – stand up and take a bow – yourself!

Think about it. If you are 25, earning \$1,000 per week, that totals to a massive \$3.3M gross income to age 65 and that's without a pay rise! From youth through to retirement, your ability to earn an income largely dictates how comfortable you and your family will be.

Profiles have been broken in to three simple categories which determine our needs for insurance; young, mature and empty nester.

Our **Young profile** is a person just starting out., has minimal debt and is perhaps saving for a house.



At this stage, our Young person may prioritise income protection for injury or sickness more than death cover.

As time goes on an increase in cover without medical evidence would be well regarded.

Our **Mature profile** is the family man or woman, with an increased income tempered by increased debt, most notably a mortgage.



The Mature family man or woman wants to maintain the family's lifestyle and is looking for life insurance products as a way to protect all that they hold dear.



Our **Empty Nester profile** is enjoying the new-found freedom of the kids moving out. They have minimal debt and are concentrating on saving for their retirement.

Their needs for life cover are decreasing as debt levels and lifestyles change but they still want to safeguard their income for retirement.

DID YOU KNOW?

We obtained over 600,000 quotes from 15 life insurance companies and compared the quotes for the three life stages across five personal insurance categories. This comparative research is way beyond the scope of ordinary consumers, making our report a valuable resource for those serious about comparing insurers and products.

BUT I HAVE SUPER ...

Many people think they are covered by life insurance within their superannuation policy but most Income Protection policies inside super provide for only 2 years' worth of cover. This could be a problem if, say, at 35 years of age you could no longer work because of a serious accident or illness. The cover inside your super policy would provide income until you reach 37. What happens then? It's a long way to retirement age from there with no income support.

A possible strategy a financial planner may suggest? Continue with your current Income Protection policy inside super – it is cheap because of the group cover – but supplement this with a policy outside super. Because super covers you for the first two years, specify a waiting period of two years with your additional policy outside super. This substantially reduces your premiums and, more importantly, gives adequate cover for you and your family.

UNDER-INSURANCE A GAME OF RUSSIAN ROULETTE

Under-insurance of every kind – house, car, personal – has long been a problem and a drain on the public purse through government compensatory benefits. Research done by TNS for IFSA, the Investment and Financial Services Association, tells us that there are 2.5 million families with dependent children in this country, yet only 4% of those families have 10 years or more of income covered.

The most alarming statistic, however, is that 60% of families have less than one year's income covered. What is the long-term prognosis for these families with mortgage commitments, children's schooling costs, even putting food on the table if income dries up because of death or serious accident to the bread winner?

On the other hand, perhaps this statistic indicates that 60% of families who don't have cover in place have other sources of income through savings or

investments to cover the risk of the unforeseen. In all reality, this seems far fetched. The real reason is more like no-one wants to think about anything bad happening to their family and this is largely behind the prevailing procrastination. In this case, talking to a financial planner will make the world of difference, whatever does or does not happen to your family in the future.

PUTTING THE PUZZLE TOGETHER



Tailoring a life insurance plan for individual situations requires the skill of a financial planner or advisor. The research we conducted in these star ratings does not evaluate the performance by planners but what we did find is that all life insurance policies we looked at can be aligned to give maximum protection when used correctly.

The question is, can you do this yourself? Some people are quite happy working through the maze and educating themselves about such scintillating subjects as the advantages of putting TPD cover in super, or understanding the tax implications of making a claim prior to age 55. It's more than likely, though, that this is not your cup of tea at all and best left to the experts – a licensed financial planner or adviser.

Seeking out specialist advice will certainly make things easier but it's important to remember that the goal is to develop a plan for your individual needs. Licensed professionals are required to undertake ongoing study to ensure they are up to date with the changing advantages and disadvantages of life insurance strategies.

To get the best outcome, make sure you engage with your adviser and ask plenty of questions, such as:

- In or out of super, what are the tax implications and cost savings?
- Why should you pay more for 'Any Occupation' definition in TPD?
- What waiting period is best for my income protection? I currently have some in my super

- Can the sick leave I have accrued help reduce the cost of cover?
- What lifestyle risks should I cover and are there others I should consider?
- Are level premiums better for me?
- How much cover does my spouse need?
- Can I cover the educational needs of my two kids?

STEPPED OR LEVEL PREMIUMS?

In this year's *life insurance star ratings*, we have included level premiums. What is the difference between stepped and level premiums? Stepped is the most widely used in the industry, representing about 70% of all policies written.



A stepped premium is so called because it is recalculated at each policy renewal and, as the name suggests, usually goes up, according to risk factors such as age.

However in some situations, the premium will actually drop because of your age. Why? Because insurance facts support that your age is less of a risk than the previous year.

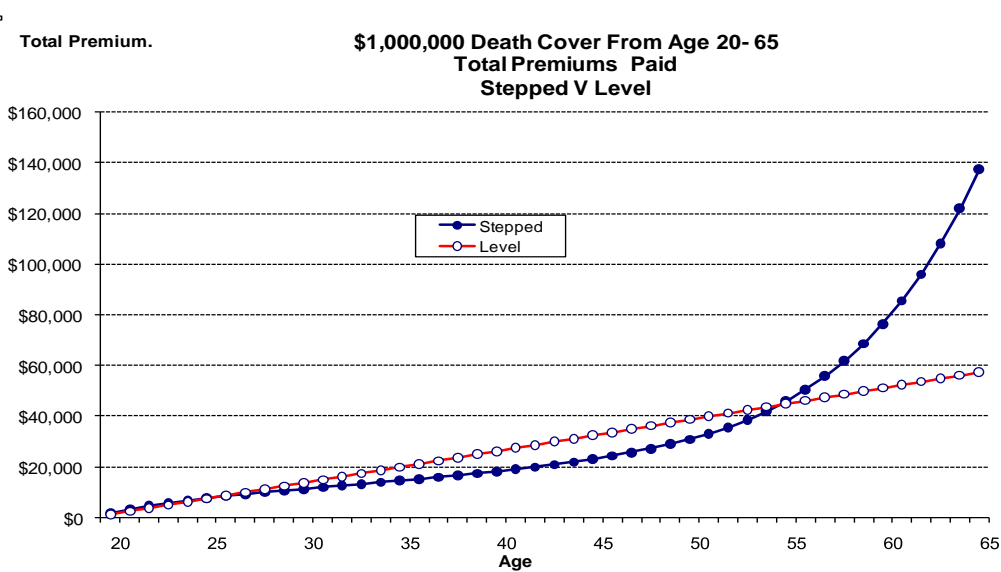
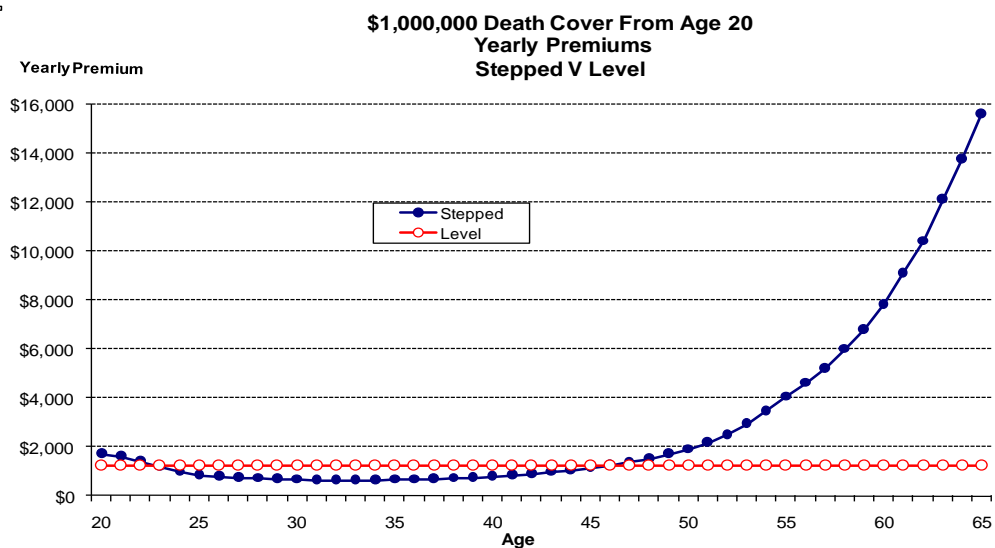
For example, a young man who grows out of being wild and reckless and settles down to family life. This thinking is reflected in the graphs below.

A level premium, on the other hand, is calculated on your age at the start of the policy and the premium remains consistently level as you get older.

You may pay more than stepped at the time you take the policy out but the premium does not increase. In saying that, it can, in fact go up if you increase your cover or if the company decides to review the whole contract but this is rare.

The best way to explain the difference is to think of stepped as a variable mortgage and level as fixed. Just as in a home loan situation, which is best and why are questions a planner can answer.

The graphs below show how level and stepped premiums differ. To do this we have used a typical insurance company's rates for a \$1m death cover from age 20 with no increase in cover over the period to 65.



Source: Canstar Cannex, August 2009

The graphs above shows the total cumulative amount of premiums paid against stepped and level premiums. You will notice that the total amount cumulatively paid for stepped premiums is considerably high in relation to the level premiums. The question is, what is the breakeven point when you should changeover from a stepped premium to a level premium? Getting the timing right could mean a considerable saving for the consumer and this is where the skill of a licensed financial planner comes into play

DID YOU KNOW?

Last year, the life insurance industry paid out over \$3 billion in claims. That's about \$12 million a day paid out to support Australian families.



HOW SAFE ARE LIFE INSURANCE COMPANIES?

The global financial crisis has, understandably, caused a few jitters among people wondering about the security of big companies in turbulent times. Querying what actually happens to your policy if your insurer closes up shop is commonplace and the answer is very simple.

Life insurance is protected by its own special Act of Parliament. If a company cannot continue to operate, a judicial manager will be appointed to that insurance company. The manager is charged with the key task of arranging for other life companies to take on the existing policies and claims.

In short, if a company was to close, the other life companies take on the policyholders of the exiting company. This arrangement ensures that individual cover remains intact, as set down by The Life Insurance Act.

LIFE INSURANCE A DEAD HEAT

After completing exhaustive research comparing over 600,000 quotes across three life stages, 15 occupations, two premium types and both genders, we found there were two companies that simply could not be separated.

These were ING Life and Zurich.



For the second year in a row, ING Life continues to stay ahead nationally with its overall combination of consistently strong products and pricing. Although ING Life does not feature in the top two for each category – term life, trauma, TPD, packaged life insurance and income protection – it was a hair's breadth away everywhere and it was this absolute consistency across the board that got it to the line when the points were added up. ING Life also featured prominently in income protection broken up by occupation.

This year though, Zurich has shown it is a serious contender by strengthening key features and adjusting premium prices on its policies. This gave it the edge needed to equal ING Life. Strong performances in term life, TPD and packaged life insurance, as well as income protection by occupation, gave Zurich equal standing with ING Life.

We decided to award both companies our major accolade for offering outstanding value across Australia for the suite of life insurance products. Zurich and ING Life are to be congratulated for this achievement.

There is no doubt about the overall strength of the life insurance industry in Australia, with 7 of the 15 companies researched providing consumers with outstanding products. To recognise and acknowledge this strength, we have awarded two winners in each product category this year.

The following insurers also demonstrated broad and deep value offered to consumers through a network of financial planners and deserve our congratulations for the consistent service they provide to Australians.

National 5 Star Category Awards

Outstanding Value Insurance – Term Life

- Tower Life Australia
- Zurich

Outstanding Value Insurance – Trauma

- Asteron
- Commlnsure

Outstanding Value Insurance – TPD

- AXA
- Zurich

Outstanding Value Insurance – Packaged Life

- Macquarie Life
- Zurich

Outstanding Value Insurance – Income Protection

- AIA
- Commlnsure

HOW TO USE CANSTAR CANNEX STAR RATINGS

The star ratings of life insurance products by CANSTAR CANNEX was a huge effort, way beyond the scope of ordinary consumers. That's why the report is so important and a valuable resource for those who are serious about comparing insurers and products. CANSTAR CANNEX provides a full list of star rated products, from 5 stars down for complete and fair comparison.

An important point to remember at this stage is that under no circumstances whatever should you ever cancel cover without replacement cover being confirmed and a Policy Document received.

In looking up suitable cover for you or to check out how your current insurer rates, an added bonus is that you'll find out a lot more information along the way, thanks to stories, hints and tips, comments and video clips on www.canstarcannex.com.au

This will arm you with a lot more knowledge on the subject of life insurance and you will be better prepared when you consult a licensed financial planner.

To customise your list of star-rated life insurance products, simply enter your Occupation Category, your Age Category, Gender, and the type of Cover you are interested in. It's important to remember that premiums shown are the average for that profile. After you hit the View Ratings button, you will then bring up a list of star rated products worthy of further investigation with your financial planner.

LIKE TO KNOW HOW WE DID IT?

For more in-depth information on how we conducted this report, read our methodology on the life insurance page at www.canstarcannex.com.au

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