WHAT TO DO WHEN YOU CAN'T AFFORD TO PAY YOUR INSURANCE PREMIUMS

As South Africans come under increasing financial pressure in the current economic climate, some are simply unable to afford to pay their month premiums on their life insurance policies.

According to Chris de Klerk, Corporate Actuary at PPS Insurance, it is crucial to talk to your financial advisor or insurance company before you stop paying your premiums. "Making rash, short term decisions can cost you a great deal in the long term."

He says policyholders must check whether their insurer permits them to take a premium break on their insurance benefits.

With risk only policies (where there is no savings component), most life companies allow you up to three months grace to catch up your premiums. However, it is best not to miss your premium payments as you run the risk of your insurance policy lapsing. If you fail to pay your outstanding premiums during this grace period your cover will likely lapse, with effect form the date of your last premium payment.

If you then decide a few months later to re-instate your cover, you will probably have to take out a new policy. Your premiums may well increase, especially if you had a level premium policy before. Your policy may also have additional loadings if your health has deteriorated from when you took out your previous policy. While it may not affect your premium directly, you may also have additional exclusions added on your new policy.

De Klerk says that if you have a universal life type policy (i.e. one where there is a savings component to the premiums) the life office may, on non-payment of your premiums after a waiting period of three months, draw the premiums from the investment value of your policy.

While this means the investment value of your policy will decrease, your policy stays in-force and your life cover will stay intact. It is best to check the policy wording of your contract to ensure that your insurer will draw on your investment value to keep your policy in-force. If your investment value is insufficient to cover your outstanding premiums your policy will lapse.

He cautions that often, rules can vary depending on the type of cover you have in place. PPS Insurance, for example, allows you on your sickness and dread disease cover to apply to stop paying premiums for up to 12 months. During this period your benefits will be suspended (i.e. you cannot claim against these benefits). Once you start paying your premiums again your risk benefits resume, after a waiting period of three months, without penalties or the need to go through underwriting.

De Klerk says it is important to consider your health if you are looking to reduce your benefits in the short term. “If your health is poor, it may be difficult to apply for additional cover in the future when you can afford it more.”

Another tip is to look at premium payment options. “Some life companies offer different premium patterns, which can reduce the cost of your cover in the short term if absolutely necessary. It’s also important to bear in mind that cheaper risk cover now is likely to mean much higher premiums later on, although it remains a better alternative to not having cover at all.”

Some companies also offer a discount if you pay your premiums upfront, instead of monthly. This can reduce your insurance bills, if you can manage the immediate cash flow needs.

De Klerk says you should check that your insurer is providing a competitive premium for your insurance benefits. “Don’t be afraid on investigating the market. There may well be a better deal available. However, make sure you consult a professional adviser in any decision you make regarding changing of benefits. Insurance products vary greatly in the benefits they provide and price is not necessarily a good indicator of value for money. Ensure also that you deal with an insurer that has a good reputation for paying claims. Also check potential insurance policy terms for clauses relating to pre-existing conditions or exclusions. Make sure that any policy you enter into covers you for the risks you want covered.”

It makes sense to critically review your overall risk cover with an adviser. Do you have the right level of sickness, life, income, dread disease and disability cover? Look at the total amount of your cover, including any provided by, for example, your employer’s staff pension fund. “Our experience is that South Africans are generally underinsured, but in the review of your particular insurance benefits you may find there are areas you can cut back on.”

Finally, he says that if you have income disability or incapacity benefits which provide you with an income should you be disabled, remember that - depending on your particular circumstances - you may be able to claim the premiums on these policies as a deduction from SARS. This helps reduce the overall cost of your insurance.