



MICHAEL JACKSON'S DEATH RAISES A NUMBER OF INSURANCE-RELATED ISSUES

Reports of disputes around Michael Jackson's children, estate and life insurance have raised a number of insurance-related issues.

The first has to do with exclusion clauses in his life policies that may result in these not paying out due to concerns over the nature of his death. This could leave his dependents with a large amount of debt and without sufficient financial resources for the future.

According to Chris de Klerk, Corporate Actuary at PPS Insurance, while life insurance policies in some countries contain a number of exclusion clauses, this is not the case in South Africa. "While life policies in some countries have a permanent suicide exclusion clause, in this country, the typical policy will only not pay out if the policyholder commits suicide in the first two years of taking out the policy. This exclusion clause would fall away after the first two years."

No other exclusions are standard on life cover policies in South Africa but it remains important to check the policy wording of your contract to ensure that this is the case.

On the other hand, most disability policies such as permanent income replacement and dreaded disease cover (i.e. in the case of a coma or paraplegia) typically have more standard exclusions and don't pay out if you are injured doing something illegal. A disability policy would also not pay out if the policyholder was disabled as a result of abusing prescription medication as it would probably fall under the deliberate self harm exclusion.

De Klerk says life cover is crucial in order to prevent leaving your dependents in debt. "You can take out policies for a specific reason, such as covering an outstanding home loan and cede it to the institution through which you have obtained the loan, so that if you die, the policy covers the outstanding home loan.

He adds that some insurers, like PPS, even allow you take out one policy and cede it to several people, divided up by the amount that you owe each one.

Another issue that Michael Jackson's death has raised is the amount of death cover needed. According to de Klerk, most companies follow similar financial underwriting requirements, using income and age as a guide as to how much death cover is appropriate. "Generally, the younger the policyholder, the more life cover is needed as they are likely to have younger dependents who will require financial assistance for a longer period of time. In addition, current income also needs to be taken into account in order for dependents to continue with the same standard of living.

She says a rule of thumb for a 35 year old would be to multiply annual salary by a factor of about 25. So for example, a person of this age with an annual income of R500 000 would require life cover of R12.5 million. For a 55 year old, the multiplier could be about 15, meaning that the policyholder would require life cover of roughly R7.5 million.

Another brewing controversy over Jackson's death is around the nomination of beneficiaries. De Klerk says that individual life cover policies generally pay out quickly if a beneficiary is nominated. "However, if no beneficiary has been nominated, the funds get paid to the estate and it can take years before the beneficiaries receive anything. It is also important to make sure your nominated beneficiary form is up to date as the life company will pay to the beneficiaries you have nominated on this form."

This is unlike death cover in a pension fund, which require the Trustees of the fund to investigate who the death cover should be paid to, regardless of who is nominated by the member.