

to see a broker every year, it is possible to build in a 5% or 10% annual grower, which provides for automatic escalation.

If the premium rate is guaranteed for a certain amount of time, one pays upfront for that guarantee. The cheaper the product the shorter the guaranteed term is going to be.

If one is paying R200 monthly for R1 million cover, for instance, and the premium is guaranteed for 15 years, the same amount will be paid for that coverage for the full 15 years. After that time, a re-evaluation is made when a premium may remain constant, or there may be a rise in cost or a reduction in cover.

“You have to look at your guarantee term and your premium growth. It could be that some of the products are cheap now, but they may become more expensive later on,” advises Van Pletzen.

Although this form of protection may be relatively inexpensive to start with, it is also possible to tweak it to ensure that not one cent is spent on unnecessary cover. One’s cover should change to adapt to changing needs through one’s life cycle. Many factors have to be taken into account, such as marital status, whether there are any children and if there are large amounts of debt that need to be serviced.

Initially, little cover is needed because there are no dependants. This changes in one’s middle years, when there are children, higher debt, cars, houses, little cash and other higher risks. As retirement age nears, debt tends to decrease, as does your financial responsibility toward your children. It could then very well be that you find yourself over-insured and that some cover can be gotten rid of, although your standard of living may also have increased, which one needs to take into account.

If a business is co-owned by more than one partner, cover also probably needs to be in place for a buy-and-sell agreement, in which the remaining partners are able to buy you out in the event of death or disability. Fluctuating interest rates could also have an impact. Van Pletzen advises the policy holder to review his financial situation at least once every two years.

“Life cover goes towards two things – paying off debt and supplying the estate to provide an income for dependants in the event of death and supplying the estate for those left behind,” says Van Pletzen. “You have to look at the total picture to capitalise and project. For instance, you may find you will need R5 million cover to pay for your R1 million debt and R4 million at 5% per annum will provide only R16 666.67 per month. What’s more, this would be a level income which would not take into account the impact of inflation going forward.

“This is where a financial planner is invaluable, because if you as an individual, or any uninformed person, try to make these projections, you could make mistakes and be underinsured, because you may not take everything into account.”

Unlike death cover, which only becomes really important once children come into the family, disability cover should form part of your budget from the first pay cheque. Disability resulting from an accident may be financially crippling as there may be expenses such as adapting a motor car or the house to deal with the disability.

There are many disability protection products on the market, each with different benefits. Some provide a lump sum, while others offer a regular income. Definitions of disability also vary considerably, with the cheaper ones usually only paying out in the event of total and permanent disability. It is therefore a good idea to speak to a financial adviser with expertise in more than just one of these products, to ensure the most appropriate cover is purchased.

Many insurance companies offer death cover, disability cover and retirement investments as part of their portfolios but Van Pletzen says you do not have to purchase all your solutions from the same company. 5