

Level Premium

Making your insurance more affordable long-term

When you take out insurance, there are generally two ways you can pay your premium (rather like choosing between a fixed or variable rate home loan).

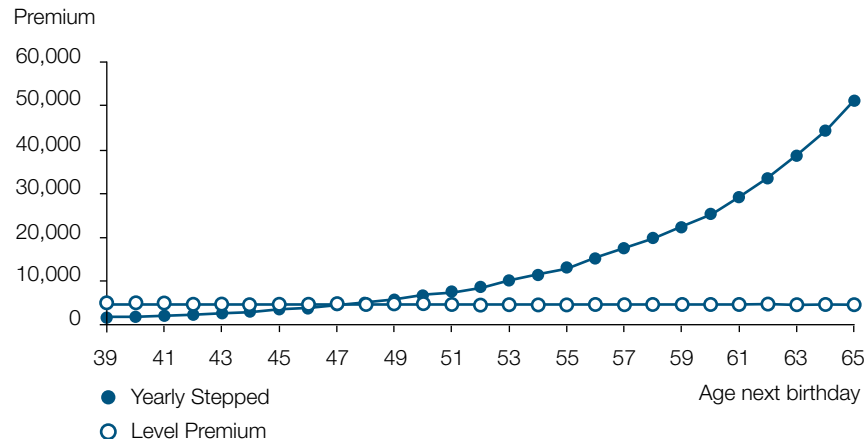
1. A stepped premium that is calculated each year in line with your age.
2. Or a level premium that is calculated each year based on your age when the cover commenced.

While stepped premiums are usually lower in the early years, level premiums can be a more cost-effective option if you continue the insurance over a longer period.

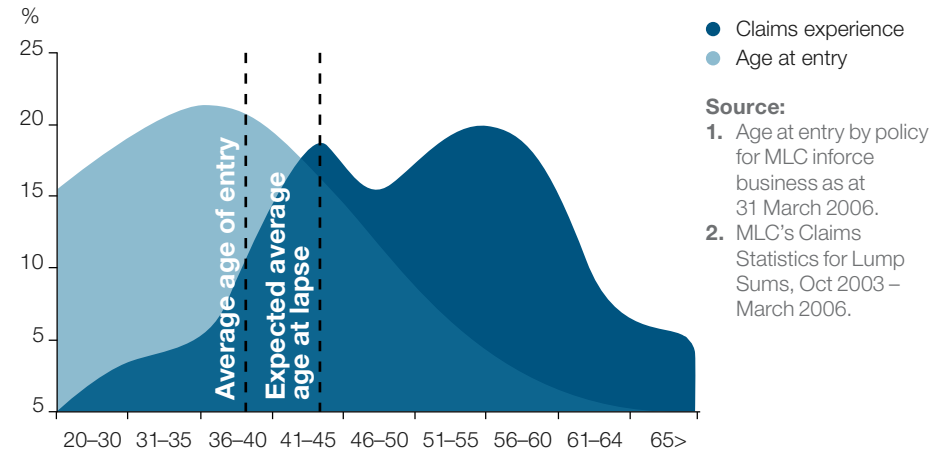
When deciding which premium option, it pays to keep in mind insurance is about protecting your debts and income for the long-term.

As you can see, level premiums are consistent over time¹, while stepped premiums increase dramatically as you get older.

Life Cover / Total & Permanent Disability (TPD) / Critical Illness Stepped vs Level Premium Comparison.



Assumptions: Male, age 38, non-smoker. Life Cover Standard of \$1 m, Critical Illness of \$500,000 and TPD of \$500,000. Based on MLC Limited's premium rates as at 1st May 2008. The sum insured is not indexed by inflation.



And often it's when you get older that you need insurance the most.

So it makes sense to choose the option that is likely to make your insurance more affordable for the long-term and for you to have cover when you need it most.

The end benefits (see case study on next page)

	Level	Stepped	Saving
Total premiums to age 65	\$118,430	\$374,918	\$256,488

With a bit of forward planning, and the right premium option, you could reduce the long-term cost of your insurance considerably.

¹ Level premium doesn't mean your premiums are guaranteed or do not change. Level premium rates may increase over time due to rate increases, CPI increases and policy fee increases. However, unlike stepped premium, level premium (excluding CPI and the policy fee) doesn't go up by age-related increases.

Case study



David, aged 38, took out Life Cover Standard cover of \$1,000,000, Critical Illness Plus (Extension) of \$500,000 and Total and Permanent Disability (Extension) of \$500,000.

Although he paid higher premiums in the early years, he chose level premiums because he

anticipated he would need the cover until he reached age 65.

Had he chosen stepped premiums, he would have paid between \$1,752 and \$48,754 pa for 27 years and incurred a total cost of \$374,918.

However, having chosen level premiums, over the next 27 years, he paid premiums of \$4,386 pa for a total cost of \$118,430.

By having the foresight to select level premiums, David saved himself a total of **\$256,488**.

Also, in the later years, when he was more likely to need the cover, it was far more affordable (that is, \$4,386 pa versus up to \$48,754 pa) at age 65.

This case study is for illustrative purposes only.

Why take out level premium with MLC?

As we've shown, level premium is a long-term insurance solution. Ideally it should be matched to a company with a proven track record of looking after clients for the long-term.

For example:

- since 1986, MLC have passed on over 200 upgrades to Personal Protection Portfolio & Life Cover Super clients—new and existing—to ensure they can continue to enjoy market leading insurance.¹

- over the last 11 years, the average annual increase in MLC Income Protection premiums is below 2%. This is significantly lower than the current rate of inflation (around 4%). In addition, MLC Lump Sum² level premiums have actually fallen by an average of 0.6% over each of the last nine years.
- in that time, MLC's experience is noteworthy when compared with what happened in the life insurance market. There have been instances of clients of other insurers having to face premium increases of 50% and more. It's not unusual for some life insurers to implement repeated significant increases over time.

¹ While many other insurance companies promote a similar 'Guarantee of Upgrade', they may only apply upgrades to clients in a particular policy series, new business only, or policyholders commencing cover from a certain point in time.

² Refers to Life Cover, Total & Permanent Disability and Critical Illness insurances.

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