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# 10 MISTAKES PEOPLE MAKE WHEN BUYING LIFE INSURANCE

AND EASY WAYS TO AVOID THEM!

“By requesting this report, you could be on your way to saving thousands of dollars over your lifetime on your life insurance. “

**FINANCIAL INDEPENDENCE LIMITED**

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The Top 10 Mistakes People Make When Buying Life Insurance and Easy Ways To Avoid Them. Congratulations! By requesting this report, you could be on your way to saving thousands of dollars over your lifetime on your life insurance.

This report will show you the top 10 most common mistakes people make when purchasing life insurance. We'll also show you some easy ways to avoid them all.

# MISTAKE # 1

## Not reviewing your cover regularly

This is probably one of the biggest mistakes that people make. There are a number of reasons why you should review your cover regularly:

### 1. You change!

Your circumstances will change constantly. By reviewing your cover you can be sure that you have the right cover...for the right amount...paid to the right place. You could also be paying for an insurance you don't need anymore.

### 2. Insurance's change

Insurance policies are constantly changing and the last thing you want to do is to have an old policy that doesn't cover some of the items that a new policy covers.

### How to avoid this mistake:

Firstly make sure that your Insurance Broker has a review process and if offered a review don't ignore or decline it. Make sure you tell your broker when you experience any major changes in your life, such as getting married, divorced, children arriving or leaving, buying or selling houses, businesses or debt changes...the list goes on.

### TOO LATE

Meet Jack. Having procrastinated over reviewing his insurance policies for some time because he didn't trust his insurance broker, Jack finally relented and booked an appointment.

However the day before he was to review his insurances he felt a bit dizzy and decided (after his wife made him!) to go to the doctor. To his surprise he was having a stroke.

The problem for Jack is that he now has a serious medical condition and therefore he can't change his insurance policies let alone increase any cover.

# MISTAKE # 2

## Not buying enough insurance

I know this might sound like a sales pitch. However, the truth is at claim time most people then realise that they did not have enough.

In fact most New Zealanders are woefully underinsured when it comes to life insurance. The general reason why is the age old excuse that "it costs too much". However we have never met a client, at claim time, where the cost of the insurance was an issue!

So how much is enough? Generally the average person will cover their debts and maybe a few years replacement income...or may look to cover 4 to 5 times their annual income. They generally shove the policy in the top drawer and feel comfortable that it is there. Whilst we are not here to judge that decision, you need to ask yourself whether or not you feel comfortable knowing that once that claim is paid it will only be a matter of time before the money runs out and your family will be hurting for money.

So let's look at some fundamentals...one of your largest assets is your ability to earn an income. So assuming that you are surviving on your current family income why not simply replace the income? So if your family income is \$50,000pa you would need \$1 million invested at 5% to replace this income. This is majorly different to the average person who would probably have \$200,000 of life cover.

### How to avoid this mistake:

Firstly make sure that your Insurance Broker fully understands your circumstances and that they present to you a written report detailing how they came up with the insurance figures. This way you can be sure that they have listened to you and have your best interests at heart. Make sure you are aware of the financial impacts that a death can cause. Ask us for some examples as we have seen many claims and the impact life insurance has had on those families.

"In my experience no client has ever had an issue with the costs of insurance when it comes to claim time...in fact I have not met a client who at claim time thought they had enough insurance"

- Steve Freeman  
Director Financial

# MISTAKE # 3

## Ignoring Trauma Insurance

At almost every age you are five or six times more likely to become disabled than to die.

Trauma insurance is a vital part of your financial health especially if your family depends on your income.

### What is Trauma Insurance?

Trauma Insurance covers things such as Cancer, Heart Attack, and Strokes etc and will pay you a lump sum of money.

The two biggest mistakes people make when it comes to buying Trauma insurance are:

#### 1. Accelerating the Trauma cover against your life insurance.

Accelerating means that if you get paid out for your trauma policy, your life insurance will reduce by the corresponding amount. In some cases, such as debt protection for businesses, accelerating the cover is ok. However be sure that you know what you want to use the funds for...and remember Trauma insurance is more expensive than life insurance...but you have a higher likelihood of claiming on it and you will still be around to enjoy the proceeds with your family.

#### 2. Low cost covers.

Be sure what you are actually covered for. There are many 'budget' or 'essential' trauma covers that are available. If you are not sure what you are covered for make sure that one of our Brokers review your policies (This is FREE of charge and with absolutely no obligation) ...see coupon at the back of the report.

### Don't Forget the Kids!

" I was recently very honored to meet a little 7 year old girl called Molly. She was a real hero who together with her Mum and Dad told us her story of being diagnosed with Leukemia.

The part that really hit home was the financial impact that her illness had on the family. They lost all of their savings and if it wasn't for the amazing support from a small rural community they would have lost their house.

Now that Molly is well and survived her terrible ordeal, her Mum and Dad can't stop emphasizing the need to have Trauma insurance on the kids...Molly's Dad is now an Insurance Broker!"

## **How to avoid this mistake:**

Make sure that your Insurance Broker discusses other options with you such as Trauma cover. Remember that not all Trauma policies are the same so to ensure that you get the best cover insist that your Insurance Broker is not tied to one insurance company and has access to independent policy research.

# MISTAKE # 4

## Using a tied agent

This is a very easy mistake to make.

A tied agent is someone who is 'tied' to a particular insurance company. In other words they are required to place most if not all of their business (your insurance cover!) with the one insurance company they work with. By deciding to use a tied agent you are narrowing down the choices you have and in many cases you will not get the best insurance policy available to you.

### What about the Banks?

These are tied agents as bank staff can only sell you the banks insurance products. Again you need to be aware that in many cases the banks products are inferior to what is available in the insurance market. For example independent research has shown that one major trading bank has a Trauma insurance product which is rated as a "D" whereas there are many other Trauma policies that are rated "A" for almost the same cost.

### How to avoid this mistake:

Don't settle for inferior insurance policies and be sure that you are getting the best options available to you. Make sure you ask the Insurance Adviser what insurance companies they are able to deal with and what restrictions they have to place insurance with other companies. Also ask what percentage of business they place with the top 4 companies they use. If you don't get a satisfactory answer make sure that you seek alternative quotes and advice to ensure that they are getting the best deal for you.

Independence Insurance Research from Strategy\* (Trauma Cover as at April 2009)

	Trading Bank 1	Trading Bank 2	Insurance Coy 1	Insurance Coy 2	Insurance Coy 3
Product Rating	D	D	A+	A+	A+

\* Strategy is an independent research company that provided insurance product comparisons and ratings. If you would like to compare the insurance policy you have please contact one of our brokers.

# MISTAKE # 5

## Ownership of policy

This again, is potentially one of the biggest mistakes people can make! The problem is that the mistake is often not picked up on until claim time...when you guessed it...it's too late. Now the key to good insurance advice is ensuring that the right amount gets paid to the right place at the right time.

What are some of the main areas of policy ownership that can be wrong?

### 1. Business owners!

Many business owners have insurance policies either owned by the company or cross owned for ownership transfer purposes. It is extremely important that the proceeds of these insurance policies go to the correct sources for a number of reasons:

- Taxability of the proceeds
- Ensuring control of the company
- Ensuring that the funds get paid to the right people.

Meet Jane. Jane was married to Steve who was part owner of a very successful business. Unfortunately Steve was killed in a boating accident and left Jane with 3 kids, a mortgage and a small personal insurance policy.

Jane was comforted knowing that Steve and his business partner Joe had some life insurance policies cross owned by each other. This meant that Joe would receive the life insurance proceeds allowing him to use these funds to purchase Steve's shares in the company.

However Steve's premature departure caused a huge amount of stress, Joe's wife left taking half the insurance money, Joe had a breakdown and the business went under leaving Jane high and dry.

## 2. Family trusts

Many families now have trusts which own assets such as the family home and also hold liabilities such as a mortgage on the family home. Make sure that if you want to use life insurance to repay debt such as your mortgage that the entity that holds the debt also owns the insurance policy.

For example if you have a trust which has a mortgage ensure that the trustees own the insurance policy. This will avoid the need to 'gift' the insurance policy proceeds into the trust to repay the mortgage. This could save you years of gifting, legal expenses and could help to protect these funds from creditors etc.

### How to avoid this mistake:

Firstly make sure that your Insurance Broker fully understands your circumstances and that they present to you a written report including ownership comments. It is always good to involve your accountant, lawyer and other professionals to ensure that the insurance policies work within your existing structures.

# MISTAKE # 6

## Term of insurance

Be aware of the expiry term of the insurance. Most life insurance policies in New Zealand have an expiry age, which is when the cover will cease. For example some will expire at age 60 whilst some expire at age 100 and some never expire! Make sure that you leave yourself the **options of continuing to be covered** in your 'twilight years' and not be forced into losing your insurance cover when you least expect it.

Meet Bob...a retired shop keeper & family man. After paying his Life Insurance premium for the last 20 years Bob was looking forward to a nice quiet retirement with his family (and 21 grandchildren!) Bob was looking forward to his 65<sup>th</sup> birthday and his first cheque from the Government! However just one month before this he was diagnosed with advanced prostate cancer and was given a two year survival period. Bob was grateful that he had kept his Life Insurance up to date and had already planned to use these funds to help his grandchildren with their education. Imagine Bob's disappointment when a month later he received a letter from the insurance company thanking him for

### How to avoid this mistake:

Check your policy documents to ensure that your cover has the appropriate expiry date. Always use a professional insurance adviser as this will ensure that you don't end up with a cheap policy that will take short cuts to keep the premiums down.

# MISTAKE # 7

## Failing the insurance medicals

So the next step after deciding that you wish to protect you and your family's financial future is to complete the application forms and submit to the insurance company for underwriting. Underwriting is where the insurance company assesses your risk factors. Part of this process may require you to have a medical examination, blood tests etc

You might not think you can "prepare" for a life insurance medical, but you can. There are quite a few things you can do to insure that you get the best results from the medical tests that the life insurance company will require. The average person has no idea on how to ensure the best results and in some cases, given the right guidance, could save themselves thousands of dollars in extra premiums. For example if you have a raised blood sugar levels, high cholesterol levels or maybe high liver function levels, these issues are ones which could cost you thousands of dollars in extra premiums over the years.

### How to avoid this mistake:

Firstly make sure that your Insurance Broker is experienced in placing business and has a specialist underwriting person to help deal with the insurance company requests. With the rise in internet based insurance purchasing, or mail out schemes and 'over the counter' insurance solutions from the likes of banks, you need to beware of the level of guidance you will receive. Make sure that you discuss any concerns you may have with your broker and ask them about ways in which you can help to pass the medical tests.

"We once saved a clients life!

Sometimes coaching through medicals does not always work. Last year we had a client who owned a large business. Due to the size of the company the levels of insurance cover required was high thus requiring the insurance company to request for some medical tests to be completed. In this clients case he had to have an exercise ECG (or in layman's terms a cardiac treadmill test). The client had put the test off several times and when he finally got around to doing the test he collapsed with a heart issue he didn't know he had!

Unfortunately for us this meant it was now impossible for the insurance to proceed. However after medical advice it became apparent that the client was extremely lucky he had the test as it quite possibly saved his life!"

# MISTAKE # 8

## Cheap low cost mail out schemes

Avoid at all costs! Most of these schemes are very 'simple' life insurance schemes that will only cover you for accidental death and NOT for any other death such as illness. Be wary of any Life Insurance application form that does not ask you any medical questions. It is likely that these products will only cover you if you die from an accident.

But aren't they cheap? The short answer is no. We have seen some of these schemes and a full blown Life Insurance policy is actually cheaper than the cut down accidental death only schemes.

Also... you need to be very wary of the service you will receive at claim time. The last thing you want your loved ones to have to deal with is a telephone operator somewhere who has never meet your or your family and would rather be having a lunch break than helping with your claim.

**Meet Sally...** After receiving a direct marketing letter from an automobile association about Life Insurance she decided that she would purchase some Life Insurance to ensure that her husband and children had some extra financial support should she die before she had planned. So Sally & Mike completed the simple one page application form and sent it off. A nice easy process and they felt comfortable that they were covered. Three years later Mike had a heart attack and died leaving Sally with a reasonable mortgage and three children. Whilst distraught with Mike's death Sally was comforted that she would be alright financially. Imagine the

### How to avoid this mistake:

Make sure that you receive professional advice when purchasing insurance. It is a very important financial decision and one that needs to be done right. If your health changes you may not be able to change to a different or better insurance policy without exclusions or loadings for pre-existing medical conditions.

# MISTAKE # 9

## Not proceeding because of a loading or exclusion

After you have completed the application forms, your Broker will send these to the Insurance company. The insurance company will 'underwrite' (assess) your medical history. You will then be offered the 'terms' which they are prepared to provide for insurance cover.

These may include loadings which is an additional amount of premium based on the risk assessed. i.e. the insurance company may assess that you have a higher risk of dying due to a higher than normal cholesterol level and load your premium by an additional percentage. So if your premium was originally quoted at \$100 per month, and your loading is 50%, the adjusted premium will be \$150 per month.

An insurance company may also exclude some pre-existing medical conditions. This is why it is important to get your insurance while you are young and healthy, as the older we get the more likely we are to develop medical problems.

So why is it a mistake to not proceed with a loading or exclusion? In many cases it will be the only insurance option you have. Generally there is a good reason why the insurance company believes that your risks are higher. Hence the importance of taking the insurance offered!

### How to avoid this mistake:

A good insurance broker will always argue the point with the insurance company (thus why you need to ensure that your insurance broker is not tied to one company so they can shop around for the best terms for you). Make sure that your Insurance Broker also talks to you about future insurability or special events increase options. (Most of the top researched providers allow this for free).

#### IMPORTANT NOTE:

If you have existing insurance policies DO NOT cancel them before seeking advice. Certainly do NOT cancel before you have acceptable alternative insurance cover in place.

The last thing you want is to

# MISTAKE # 10

## Not using a broker

As you can see from the previous 9 mistakes many of these can be avoided by using a good Insurance Broker. The current problem in New Zealand is that there is no regulation to ensure that you will get good advice nor to protect you against bad advice.

So what questions should you be asking your insurance broker? The following checklist will help you determine the suitability of your insurance broker:

- Do they belong to a professional organisation? (Such as IFA, LBA, PAA which will give you a dispute resolution process should something go wrong)
  - Are they tied or limited in who they can place their business with?
  - Has any insurance company terminated their agency before?
  - Do they use research to determine the best products in the market?
  - Have they given you a Disclosure Statement? (Although insurance brokers are not required to do so, many of the more reputable Insurance Brokers will have one available for you)
  - Do they have a review system and support staff to ensure that you are adequately looked after.
- Members of the LBA (Life Brokers Association)
  - Not tied to any insurance Company
  - Disclosure Statement available FREE of charge on request
  - Written reports and product comparisons
  - Independent Insurance product research used to determine which products would be best for YOU.
  - Specialist Claims system and staff
  - Specialist Underwriting system and staff
  - Full regular review process

### SO WHY USE FINANCIAL INDEPENDENCE:

Financial Independence is one of the largest Insurance Brokerages in the Bay of Plenty & Waikato. With over 14 staff and brokers we can help you with all of your insurance requirements.

**“We work for YOU...not the insurance company”**

We sincerely hope that this report has enlightened you enough to help you with your life insurance buying decision.

We have two key missions for all our clients:

- 1. To find the best possible insurance available and to make the application process as easy as possible for you.**
- 2. To ensure that that the claims process is as stress free as possible for our clients.**

*Should a claim be declined , we will **always** challenge this decision on our clients behalf.*

Please know that we are dedicated to achieving these goals.

If you use us as your Insurance Brokers, we promise we will work hard for you, earning your trust so that we can do business now and in the future. If you are serious about obtaining the highest quality products and services, we can help you. We look forward to working with you soon.

**PLEASE TAKE ADVANTAGE OF THE COUPON.** Simply phone for an appointment and present the coupon for a FREE review of your current insurance package.

## **FREE INSURANCE REVIEW**

This coupon entitles the bearer to a  
FREE insurance review.

Please advise Financial Independence Ltd of  
the coupon when making your appointment.

**Ph 0800 694 672**

### **THE SMALL PRINT:**

The information contained in this report is of a general nature and should not be construed as advice. We strongly recommend that if you have any questions, about the 10 mistakes raised in this report, to call one of our brokers at Financial Independence.

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