



Do you know how much you are paying for death insurance?

Most insurance policies that pay out on your death are for very many years and include an investment element (either a maturity value at a chosen age or a surrender value if the policy is terminated). This investment element masks the mortality charges (ie the cost of insurance).

There are two completely different methods –mortality charges fixed at outset or changed throughout your life.

If mortality charges are fixed at outset that doesn't mean you know what they are - the insurance company may merely reduce the portion of your premiums available for investment. The insurance company must take a view on the risks of you dying for every future year of your life. They will use the data that is available when the policy starts. Experience in the second half of the twentieth century, and into the twenty-first, is that mortality rates have fallen. Has your insurance company recognised this and increased the proportion of your premiums that are available for investment? Probability not but it is a question that might be asked.

Many insurance policies invest your premiums (after administration fees) in investment units. Insurance is added to the policy and paid for by taking mortality charges out of your investment balance every month. Obviously the higher the mortality charges the greater the reduction in the investment value of your policy. So do you know how the charges are calculated?

The charges are based on two (or sometimes three) components. When you die the insurance company has available to it the investments you have built up (less the accumulated monthly mortality charges). The investment value available is usually less than the amount payable on your death - the insurance company will have to top this amount up on your death and mortality charges should be based on the amount of the top up required. This sounds obvious but sometime insurance companies charge you for more than the top up.

The rates at which mortality charges are calculated are obviously very important – the higher they are the greater the mortality charges. So do you know how the insurance company decides on the rates? Some policies leave the decision entirely at the discretion of the insurance company. Some say they are determined by the actuary but don't explain how the actuary will do this. As we said above, mortality rates have fallen – but has this been taken fully into account or has it been only recognised partially and has the recognition of falling rates been delayed so you have been paying higher amounts for longer than you should?

It is now recognised that mortality rates for non-smokers should be much lower – if you are a non-smoker have you benefitted from this?

A third component to look out for is a cost mark-up. You will be paying administration charges but sometimes the insurance company will also add an undisclosed mark-up to the mortality charges. Even where this doesn't apply you may find that there is an implicit mark-up by making you buy investment units at one price but giving you a lower price when the same investment units are sold to pay the monthly mortality charges.

At Congruent we understand these issues. Where the policy is large we can investigate and advise you.

Congruent, 141-142 Fenchurch Street, London, EC3M 6BL, United Kingdom

T: +44 (0)20 3143 3150 | directors@mycongruent.com | mycongruent.com