

What Is Whole Life Assurance?

For a given premium, a wide range of benefits are available. The premium is split between providing for the insurance required now and investing into the insurance company funds in order to subsidise the cost of the cover in later years.

1. HOW THE INSURANCE BENEFITS ARE PAID FOR

A premium is charged based on the cost of providing cover on a year-by-year basis. Over the initial 10 year term, the cost of providing the cover in year one is a fraction of the cost in year 9. So in Year 1 90% of the premium may be invested into an investment fund with 10% paying for the protection. In year 9 the protection may cost 125% of the premium but the accrued savings subsidise the cost. If the underlying fund performs well the client will receive a cash sum on surrender or maturity. If the fund performs poorly, the premium will have to be increased at a later date.

2. MINIMUM COVER

Here the level of guaranteed insurance is relatively low and hence a large proportion of the premium will be invested hopefully building up a substantial fund for the investor or their dependants.

3. MAXIMUM COVER

At the upper end of the scale, where the sum assured is high, a much smaller proportion of the premium is invested and after the initial guaranteed period (which is usually 10 years) it is nearly always necessary either to increase the premium significantly (typically by a factor of 3 to 6) in order to maintain the level of cover. Alternatively, the level of protection is dramatically reduced should the same premium be paid.

4. BALANCED COVER

Between the above two extremes is a "balanced" level of cover where the ratio of sum assured to premium is designed at a given growth rate to be just sufficient to maintain the sum assured throughout life, however long that may be.

Care needs to be taken when considering a balanced cover plan. There is no guarantee that the cover will be maintained for life as this depends upon the growth rate of the insured funds. Some plans appear cheap for balanced cover by assuming unrealistic growth rates. These should be considered maximum benefit plans rather than true balanced cover alternatives.

Once the above concept is grasped, it is possible for one to see that for a given sum assured, it is possible to pay a premium within a wide range.

