



Fin-Ed
FINANCIAL EDUCATION

PART **7** OF 8

UNDERSTANDING PREMIUM PATTERNS – WHY INSURANCE PREMIUMS INCREASE AND HOW TO CHOOSE THE RIGHT OPTION

*The right choice today can
save you thousands
tomorrow.*



Understanding Premium Patterns – Why Insurance Premiums Increase and How to Choose the Right Option

One of the most common frustrations policyholder's experiences, is receiving a premium increase notification from their insurer.

Many people ask:

"Why are my premiums increasing?" or "I thought my premium would remain the same?"

The answer often lies in something called a **Premium Pattern**.

Understanding how insurance premiums are structured is one of the most important, yet least understood, aspects of financial planning. *The premium pattern you choose today can have a significant impact on the affordability and sustainability of your insurance cover in the future.*

Why Insurance Premiums Increase

Unlike short-term insurance, life insurance becomes more expensive to provide as we get older.

This is because the likelihood of claiming generally increases with age.

As a result, insurers must price policies to reflect the increasing risk over time.

The challenge is balancing:

- Affordability today
- Sustainability tomorrow
- Adequate cover throughout your lifetime

To achieve this, insurers offer different premium structures or "**premium patterns.**"



There Is No Perfect Premium Pattern

A common misconception is that one premium pattern is better than another.

In reality, each option serves a different purpose and may be appropriate depending on your age, financial circumstances, and long-term objectives.

The key is understanding the advantages and disadvantages of each approach before making a decision.

Age-Rated Premiums

Age-rated premiums typically start with the **lowest initial premium**.

However, the premium increases every year as you become older.

The younger you are when you take out the policy, the more affordable the starting premium will be.

Advantages

- Lowest initial cost
- Affordable for young professionals
- Allows larger amounts of cover early in life
- Suitable when budgets are limited

Disadvantages

- Premiums increase every year
- Increases can become significant at older ages
- May become difficult to maintain later in life

Best Suited For

- Young professionals
- New families
- Individuals establishing insurance for the first time
- Those expecting their income to increase substantially over time

Age-rated premiums often provide excellent affordability in the early years but require ongoing reviews to ensure they remain sustainable.

Level Premiums

Level premiums are designed to remain relatively stable over the long term.

The starting premium is higher than an age-rated premium, but future increases are generally lower and more predictable.

While the premium may still increase due to inflation or insurer-wide adjustments, the age-related increases are significantly reduced.

Advantages

- Greater premium stability
- Easier long-term budgeting
- Often more cost-effective over longer periods
- Less risk of future affordability problems

Disadvantages

- Higher initial premium
- May feel expensive during early years

Best Suited For

- Professionals
- Business owners
- Individuals with long-term insurance needs
- Those seeking certainty and stability

Many financial planners prefer level premiums because they help reduce the risk of policies becoming unaffordable later in life.



Inflation-Linked Benefits

Many policies allow benefits to increase annually to keep pace with inflation.

For example:

A life insurance benefit of R2 million may increase by 5% each year.

While this protects the purchasing power of the benefit, it also results in corresponding premium increases.

Why This Is Important

Consider a policy that provides R1 million of cover today.

At an inflation rate of 6%, that same R1 million may have significantly less purchasing power in twenty years' time.

Without benefit increases, the real value of your cover gradually declines.

Best Suited For

- Long-term insurance planning
- Young families
- Income replacement planning
- Education funding objectives



Premium Escalation Options

Some insurers offer policies where premiums increase at a predetermined percentage each year.

Examples may include:

- 5% annual increases
- 10% annual increases
- Inflation-linked increases

The purpose is to smooth premium increases over time while allowing benefits to grow.

These structures often provide a balance between affordability and long-term sustainability.

What Happens If You Decline Increases?

Many insurers provide policyholders with the option to decline annual benefit increases.

While this may reduce future premium increases, there is an important trade-off.

Over time:

- The purchasing power of your cover decreases.
- Inflation erodes the value of the benefit.
- Your family may become underinsured.

What appears to be a saving today may create a shortfall in the future.

Insurance Through Different Life Stages

The appropriate premium pattern often depends on where you are in life.

Young Professional (Age 25 – 35)

Typical priorities:

- Affordability
- Income Protection
- Disability Cover
- Severe Illness Cover

Age-rated premiums are often attractive because they allow meaningful cover at a lower initial cost.

Young Family (Age 30 – 50)

Typical priorities:

- Life Cover
- Debt Protection
- Children's Education
- Income Replacement

A balance between affordability and long-term sustainability becomes increasingly important.

Peak Earnings Years (Age 45 – 60)

Typical priorities:

- Maintaining existing cover
- Estate planning
- Business succession planning

Level premiums often become more attractive because they provide greater certainty and reduce the risk of sharp future increases.

Pre-Retirement and Retirement

Typical priorities:

- Reviewing cover requirements
- Reducing unnecessary cover
- Preserving retirement income

At this stage, insurance needs often decline as debt reduces and accumulated wealth increases.

The Cheapest Premium Is Not Always the Best Option

When comparing insurance quotations, many people focus exclusively on the initial premium.

This can be misleading.

A policy that appears cheaper today may become significantly more expensive over time.

Similarly, a policy with a higher starting premium may ultimately provide better value and greater long-term affordability.

The true comparison should consider:

- Future premium increases
- Long-term affordability
- Benefit growth
- Sustainability of cover

rather than simply the first month's premium.

Reviewing Your Premium Structure

Your premium pattern should be reviewed regularly as your circumstances change.

Questions to consider include:

- Has my income increased?
- Has my debt reduced?
- Are my children financially independent?
- Do I still require the same level of cover?
- Is my premium structure still appropriate?

Regular reviews help ensure that your insurance remains aligned with your financial goals.

Final Thoughts

Insurance is not simply about choosing the right amount of cover.

It is also about choosing a premium structure that remains affordable and sustainable over the long term.

The right premium pattern can help ensure that your cover remains in place when it is needed most.

Understanding how premiums work allows you to make informed decisions and avoid unpleasant surprises later in life.



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