FINANCIAL & CORPORATE SERVICES

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EX DIVERSITATE VIRES

LIFE ASSURANCE OVERVIEW

"Assurance" refers to long term Life Cover. "Insurance" refers to short term insurance - household goods, vehicle etc.

1. Overview

38 years' experience gives me a unique perspective of both the good and bad elements of the Assurance industry and as such a good start would be for me to give you an overview. The Assurance industry PR Dept will slate my perspective as cynical and will hotly deny certain statements - keep in mind they have a lot to lose whereas I do not and tend to call a spade a shovel even if it means it is offensive in some quarters. Let's start with a few "Pearls of Wisdom" which you would do well to take to heart and never forget.

1.1. Assurance Industry specialises in BSBB (my favourite impolite saying - "bullshit baffles brains"). Smoke and mirrors are the order of day and you would do well to separate the chaff from the wheat.

1.2. Of all the thousands of Brokers / Agents out there: - if 10% know their product perfectly that's a lot and if then 10% of the 10% are scrupulously honest and always put the Client before themselves – that's a lot. Make no mistake there are many top class, honest and professional Brokers – unfortunately few and far in between.

- As you read this you have zero idea whether I fit into the 10% bracket or am equally a BSBB specialist like the 90%. Only way you will be able to determine that is if I am able to prove actuarily what I recommend.

1.3. What is the best Life Assurance product you can buy – worldwide? Answer: - None at all - Zero – Zip. Think about it. If you were Bill Gates would you need Life Assurance?? Clearly not.

1.4. Ah! But you are not Bill Gates, right? So, unless you are going to become financially independent anytime soon and are able to cancel Life Assurance - you need to understand you must be able to afford this product until you die.

1.5. Critical lesson No 1:- Life Cover in its purest form never changes. In the last 38 years in this industry, I can testify that the fundamentals are exactly the same. Cover costs Rx per R10000 and if you die at age 99 and policy lapses at 98, your estate will get a fat zero. Think about your car insurance: - you pay premium -you are covered – lapse policy = zero cover. There are no cash values in pure Life Cover.

1.5.1. All the "Cashbacks", "Rewards", etc., the industry offers are part of the BSBB mentioned above - the glitz and glamour – smoke and mirrors - all dependent on your long participation – all dependent on your performance – all actuarily built into the premiums. (PPS is exception to the above – to be discussed separately).

2. Premium patterns

You can buy R1,000,000 Life cover for R100 or R1000. Same cover. You – the layman – looks at this lot and says clearly the R100 deal is best. Right? Wrong! R100 product is called **"Age Rated"** and grows annually as opposed to the R1000 policy which is called **"Level Rated"** and which remains level for the same cover.

Critical lesson No 2:- So, if you are not Bill Gates and provided you understand you get zero out if you cancel the policy, then you need to understand you must structure the policy upfront so that you can afford it when you are old. The industry loves selling Age Rated because it is an easy sell - close the deal - commission is king.

2.1. Age Rated WILL burn you financially 🔥🔥🔥 - 100% guaranteed. And what will happen is you will cancel as you will not be able to afford the heavy premiums.

2.2. And you think the Assurance Industry will be ever so sad to see you go right? They want you to cancel. They actuarily build in the factor that a very high percentage of clients will cancel before they die. Can you hear the indignant screams from the industry? - "*Cynic – liar - us- never – we care deeply for our clients*". Rubbish folks. All they care about is the bottom line. As long as they can keep you around for 10-20 years paying those nice premiums – perfect – and if you cancel your policy before you die, that is the real cherry on their cake. They have no need to pay you out. Major profit. Stock market shares go up. Shareholders very happy with a job well done. Win-win-win. Only looser is you - the schmuck who was sold cheap rubbish.

2.3. Premium pattern abuse is what I see in 99% of the cases. Wherever possible I outright refuse to sell "Age Rated" even if it means losing the business to a competitor. There are very few exceptions. One justifiable example would be a very young couple with children who have precious little money but who desperately need cover - they will be sold Age Rated – but with very clear and dire warnings - in writing – that they need to upgrade as soon as possible, or suffer serious financial damage in later years. (There are other examples – business assurance maybe – but few and far between)

2.4. This Critical lesson No 2 is so important I am going to hammer it home with a text case study as follows:

- Existing Client contacted me recently in desperation as he was paying premiums on behalf of his Dad and they were financially crippling him. On investigation his Dad took out a policy with Liberty Life for R1 million in 2013 at age 63 – premium was R3,100 p.m.
- On investigating the case it was discovered the Broker had fraudulently not declared all medical conditions, so we had to move heaven and earth to get Liberty to rectify matter and ensure Client was actually covered.

- By August 2022 – Client now aged 72 – premium had escalated to R15,101 p.m. Cover had grown to R1,8 million.
- We called for a quote to convert this policy to level cover. Liberty came back with a premium of R25,441 p.m. - a stunning 151% escalation.
- Result was Client was forced to convert to level premium pattern but reduce cover to R500,000 with a premium of R7066 p.m. simply to ensure he retained some cover.

2.5. Herewith a second case study based on new current quotes. Following table refers. Results as follows:

- Client – Age 35 – R5 m Life + R5 m Severe Illness + R5 m Disability Cover.
  - Level Premium = R3,694 p.m. versus Age Rated = R2,105 p.m.
- Breakeven point in terms of total money spent in this specific case is 15-16 years.
- At age 65 Client locks cover in at R21,6 million (R5 million in present day value). However, premiums still have to be paid until death do us part.
- Table below speaks volumes.
  - Age 65 – R 4,6 million variance between Level and Age rated premiums.
  - Age 70 – R11,1 million variance between Level and Age rated premiums.
  - Age 80 – R24,1 million variance between Level and Age rated premiums.
  - Age 90 – R37.0 million variance between Level and Age rated premiums.

PREMIUM COMPARISON - AGE VERSUS LEVEL
JOHN CITIZEN

CRITERIA		COVER			QUOTE
Company:	Sanlam	Life Cover:	R5 000 000		Sanlam's quote only shows a 20 year projection.
Client Age:	34	Severe Illness:	R5 000 000	(Accelerated)	Thereafter premiums increased by a mere 0.1% which is very conservative
Cover increases:	5%	Disability:	R5 000 000	(Accelerated)	The reality would make this example so much worse

At age 65 Client locks in cover until death - no more increases.

Years	Age	COVER ALL	LEVEL RATED Combined Premium	Increase %	Annual Premium	Progressive Total	AGE RATED Monthly Premium	Increase %	Annual Premium	Progressive Total	VARIANCE FV	VARIANCE PV	
1	35	R5 000 000	R3 694.69		R44 336	R44 336	R2 105		R25 261	R25 261	R19 075	R18 167	
2	36	R5 250 000	R3 898.84	5.5%	R46 786	R91 122	R2 364	12.3%	R28 368	R53 629	R37 493	R34 007	
3	37	R5 512 500	R4 130.29	5.9%	R49 563	R140 686	R2 678	13.3%	R32 137	R85 766	R54 920	R47 442	
4	38	R5 788 125	R4 390.82	6.3%	R52 690	R193 376	R3 033	13.2%	R36 395	R122 161	R71 215	R58 589	
5	39	R6 077 531	R4 688.96	6.8%	R56 268	R249 643	R3 464	14.2%	R41 569	R163 730	R85 913	R67 315	
6	40	R6 381 408	R5 026.33	7.2%	R60 316	R309 959	R3 952	14.1%	R47 429	R211 159	R98 800	R73 726	
7	41	R6 700 478	R5 411.08	7.7%	R64 933	R374 892	R4 556	15.3%	R54 672	R265 831	R109 061	R77 507	
8	42	R7 035 502	R5 847.12	8.1%	R70 165	R445 058	R5 249	15.2%	R62 986	R328 817	R116 241	R78 676	
9	43	R7 387 277	R6 344.09	8.5%	R76 129	R521 187	R6 045	15.2%	R72 543	R401 361	R119 826	R77 241	
10	44	R7 756 641	R6 911.61	8.9%	R82 939	R604 126	R6 961	15.1%	R83 529	R484 890	R119 236	R73 201	
11	45	R8 144 473	R7 551.87	9.3%	R90 622	R694 748	R8 009	15.1%	R96 104	R580 994	R113 754	R66 510	
12	46	R8 551 697	R8 285.95	9.7%	R99 431	R794 180	R9 216	15.1%	R110 596	R691 590	R102 590	R57 126	
13	47	R8 979 282	R9 124.30	10.1%	R109 492	R903 671	R10 603	15.0%	R127 239	R818 829	R84 843	R44 994	
14	48	R9 428 246	R10 076.46	10.4%	R120 918	R1 024 589	R12 192	15.0%	R146 306	R965 135	R59 454	R30 028	
15	49	R9 899 658	R11 155.14	10.7%	R133 862	R1 158 451	R14 010	14.9%	R168 123	R1 133 258	R25 193	R12 118	BREAKEVEN
16	50	R10 394 641	R12 391.20	11.1%	R148 694	R1 307 145	R16 098	14.9%	R193 180	R1 326 438	-R19 293	-R8 839	
17	51	R10 914 373	R13 774.44	11.2%	R165 293	R1 472 438	R18 477	14.8%	R221 719	R1 548 157	-R75 719	-R33 036	
18	52	R11 460 092	R15 321.01	11.2%	R183 852	R1 656 290	R21 203	14.8%	R254 438	R1 802 595	-R146 305	-R60 793	
19	53	R12 033 096	R17 041.42	11.2%	R204 497	R1 860 787	R24 326	14.7%	R291 908	R2 094 503	-R233 716	-R92 489	
20	54	R12 634 751	R18 963.58	11.3%	R227 563	R2 088 350	R27 898	14.7%	R334 771	R2 429 274	-R340 924	-R128 491	QUOTE END
21	55	R13 266 489	R21 121.51	11.4%	R253 458	R2 341 809	R32 022	14.8%	R384 262	R2 813 537	-R471 728	-R169 323	
22	56	R13 929 813	R23 546.12	11.5%	R282 553	R2 624 362	R36 788	14.9%	R441 455	R3 254 991	-R630 629	-R215 581	
23	57	R14 626 304	R26 272.61	11.6%	R315 271	R2 939 633	R42 300	15.0%	R507 601	R3 762 592	-R822 959	-R267 932	
24	58	R15 357 619	R29 341.07	11.7%	R352 093	R3 291 726	R48 680	15.1%	R584 165	R4 346 758	-R1 055 031	-R327 131	
25	59	R16 125 500	R32 797.26	11.8%	R393 567	R3 685 293	R56 072	15.2%	R672 863	R5 019 621	-R1 334 328	-R394 031	
26	60	R16 931 775	R36 693.36	11.9%	R440 320	R4 125 614	R64 642	15.3%	R775 701	R5 795 322	-R1 669 709	-R469 590	
27	61	R17 778 363	R41 088.98	12.0%	R493 068	R4 618 681	R74 586	15.4%	R895 033	R6 690 355	-R2 071 673	-R554 894	
28	62	R18 667 282	R46 052.26	12.1%	R552 627	R5 171 308	R86 135	15.5%	R1 033 616	R7 723 971	-R2 552 663	-R651 168	
29	63	R19 600 646	R51 661.12	12.2%	R619 933	R5 791 242	R99 558	15.6%	R1 194 692	R8 918 663	-R3 127 421	-R759 795	
30	64	R20 580 678	R58 004.77	12.3%	R696 057	R6 487 299	R115 172	15.7%	R1 382 063	R10 300 725	-R3 813 426	-R882 341	
31	65	R21 609 712	R65 185.38	12.4%	R782 225	R7 269 524	R133 350	15.8%	R1 600 203	R11 900 929	-R4 631 405	-R1 020 574	
32	66	R21 609 712	R65 185.38	0.0%	R782 225	R8 051 748	R173 355	30.0%	R2 080 264	R13 981 193	-R5 929 444	-R1 244 390	
34	67	R21 609 712	R65 185.38	0.0%	R782 225	R8 833 973	R173 355	0.0%	R2 080 264	R16 061 456	-R7 227 484	-R1 375 786	
34	68	R21 609 712	R65 185.38	0.0%	R782 225	R9 616 197	R173 355	0.0%	R2 080 264	R18 141 720	-R8 525 523	-R1 622 874	
35	69	R21 609 712	R65 185.38	0.0%	R782 225	R10 398 422	R173 355	0.0%	R2 080 264	R20 221 984	-R9 823 563	-R1 780 916	
36	70	R21 609 712	R65 185.38	0.0%	R782 225	R11 180 646	R173 355	0.0%	R2 080 264	R22 302 248	-R11 121 602	-R1 920 227	
37	71	R21 609 712	R65 185.38	0.0%	R782 225	R11 962 871	R173 355	0.0%	R2 080 264	R24 382 512	-R12 419 642	-R2 042 232	
38	72	R21 609 712	R65 185.38	0.0%	R782 225	R12 745 095	R173 355	0.0%	R2 080 264	R26 462 776	-R13 717 681	-R2 148 262	
39	73	R21 609 712	R65 185.38	0.0%	R782 225	R13 527 320	R173 355	0.0%	R2 080 264	R28 543 040	-R15 015 721	-R2 239 564	
40	74	R21 609 712	R65 185.38	0.0%	R782 225	R14 309 544	R173 355	0.0%	R2 080 264	R30 623 304	-R16 313 760	-R2 317 299	
41	75	R21 609 712	R65 185.38	0.0%	R782 225	R15 091 769	R173 355	0.0%	R2 080 264	R32 703 568	-R17 611 800	-R2 382 552	
42	76	R21 609 712	R65 185.38	0.0%	R782 225	R15 873 993	R173 355	0.0%	R2 080 264	R34 783 832	-R18 909 839	-R2 436 336	
43	77	R21 609 712	R65 185.38	0.0%	R782 225	R16 656 218	R173 355	0.0%	R2 080 264	R36 864 096	-R20 207 879	-R2 479 596	
44	78	R21 609 712	R65 185.38	0.0%	R782 225	R17 438 442	R173 355	0.0%	R2 080 264	R38 944 360	-R21 505 918	-R2 513 210	
45	79	R21 609 712	R65 185.38	0.0%	R782 225	R18 220 667	R173 355	0.0%	R2 080 264	R41 024 624	-R22 803 957	-R2 538 001	
46	80	R21 609 712	R65 185.38	0.0%	R782 225	R19 002 891	R173 355	0.0%	R2 080 264	R43 104 888	-R24 101 997	-R2 554 732	
47	81	R21 609 712	R65 185.38	0.0%	R782 225	R19 785 116	R173 355	0.0%	R2 080 264	R45 185 152	-R25 400 036	-R2 564 114	
48	82	R21 609 712	R65 185.38	0.0%	R782 225	R20 567 340	R173 355	0.0%	R2 080 264	R47 265 416	-R26 698 076	-R2 566 809	
49	83	R21 609 712	R65 185.38	0.0%	R782 225	R21 349 565	R173 355	0.0%	R2 080 264	R49 345 680	-R27 996 115	-R2 563 434	
50	84	R21 609 712	R65 185.38	0.0%	R782 225	R22 131 789	R173 355	0.0%	R2 080 264	R51 425 944	-R29 294 155	-R2 554 559	
51	85	R21 609 712	R65 185.38	0.0%	R782 225	R22 914 014	R173 355	0.0%	R2 080 264	R53 506 208	-R30 592 194	-R2 540 717	
52	86	R21 609 712	R65 185.38	0.0%	R782 225	R23 696 238	R173 355	0.0%	R2 080 264	R55 586 472	-R31 890 234	-R2 522 401	
53	87	R21 609 712	R65 185.38	0.0%	R782 225	R24 478 463	R173 355	0.0%	R2 080 264	R57 666 736	-R33 188 273	-R2 500 068	
54	88	R21 609 712	R65 185.38	0.0%	R782 225	R25 260 687	R173 355	0.0%	R2 080 264	R59 747 000	-R34 486 313	-R2 474 142	
55	89	R21 609 712	R65 185.38	0.0%	R782 225	R26 042 912	R173 355	0.0%	R2 080 264	R61 827 264	-R35 784 352	-R2 445 016	
56	90	R21 609 712	R65 185.38	0.0%	R782 225	R26 825 136	R173 355	0.0%	R2 080 264	R63 907 528	-R37 082 392	-R2 413 054	

- (Note: Above comparison assumed an escalation of 30% to convert Age Rated to Level rated at age 65. Yet in the Liberty example in 2.4 above, the actual quote came in at 151% escalation. Therefore, to say above example is conservative is definitely an understatement)

2.6. Brokers will tell you to rather convert to Level in later years. Example quoted above speaks for itself. It is still a no-no. **Bottom line: Avoid Age Rated premium pattern from day 1 if humanely possible. It is poison.**

3. Cash Back and Reward Programs.

Most of the Assurance Companies offer one or other form of Cash Back / Reward program. Some can be very good incentives. This does not change what I said above, viz: basic cover has zero cash values and all rewards / cash back is technically BSBB and built into premiums one way or another. **Critical lesson No 3:-** You get nothing for nothing. There are no freebies.

3.1. However, as long as you understand the above and are able to work the various systems and programs then they can be very beneficial.

3.2. An appointment with me will highlight the pitfalls and all the pros and cons.

4. How much Cover do I need?

We have already established you are not Bill Gates therefore you definitely do need Cover. Question is what type of cover and how much.

4.1. Keeping mind that the best Life Assurance is none at all, the objective is always to determine **what is the least amount of cover you need – not the maximum.** However, it is vitally important to be covered correctly, therefore, to ensure you strike the right balance between having adequate cover for your family and ensuring it is affordable.

4.2. That can only be achieved by doing a comprehensive and proper FNA. (**Financial Needs Analysis**). And this is where the rubber meets the road between Brokers who use industry standard – paint by number programs which spit out fancy graphs and blind you with complete BSBB, versus a Broker who not only has designed and built his own program but can prove actuarily what he is talking about.

4.3. Not only can I prove my recommendations to you actuarily, but by the time I am finished with you, I give you the program which you can update this yourself for life. Provided you have absolute basic Excel skills you will be able to dictate and change criteria used and thus eliminate all future nonsense. You will be in total control.

4.4. **Contact me for an appointment for an obligation free FNA assessment**.

5. So, do you still think your current portfolio is perfectly adequate?

Standard reply from most people is "My Broker has looked after me for years - he/she is my best mate / cuzzie / mother / father / golf buddy, etc. He always does the best for me".

Ja-No-fine! - Really?

38 years of experience have demonstrated that 95% of people who grant me the opportunity to review their portfolio become my Client. Why do you think that is? Because 9 /10 - "Best Mate Broker" has not done the right job. Turns out he is not clued up after all and sadly – all too often – intentionally or unintentionally - implements policies that are detrimental to his Client.

In only 5% of the cases am I able to say, "Mr Client – stick with your Broker as he has done a great job".

A second opinion cannot possibly hurt you. I urge you to give me the opportunity to review your portfolio and give you an obligation free assessment.

Contact me - could just save you a small fortune during your lifetime.

What's App or call me directly on 0824504151 or email at rob@fcs.co.za

Regards

Rob Santini