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Future insurability and forward underwriting

IN previous editions of WSBA we have spoken about the different types of risk insurance cover being life insurance, TPD, trauma, income protection and business expenses.

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We have also talked about some of the benefits and options that may be available in those different insurance covers.

Many important benefits are often provided as standard inclusions, and one such benefit that may be provided as a standard inclusion is Future Insurability.

Another important benefit that may be provided as an additional option (usually for an extra cost) is Forward Underwriting. What are these benefits, how do they differ, and why are they important to include in your cover?

What is future insurability?

Future insurability, often also called guaranteed future insurability or guaranteed insurability, gives you the ability to increase your sum insured on the occurrence of certain life events without the need to complete medical underwriting requirements in the future.

This benefit is generally provided as a standard inclusion, but you should check with your insurance provider as not all companies provide this benefit, or provide it at no extra cost.

The benefit is generally provided for both personal and business events such as:

Personal events:

- Marriage.
- Divorce.
- Birth or adoption of a child.
- Effecting a first mortgage on the purchase of a home or increasing an existing mortgage for the purpose of building or renovating.

Business events:

- Where an insured key person's financial interest in a business increases.
- Where an insured key person's value to the business increases.
- For policies that may cover buy/sell, share purchase or business succession, when the value of the insured person's financial interest increases.
- Where the policy may for part of a loan guarantee from the insured person.

There are generally certain limits that apply to these increases under future insurability. For personal event increases, the future insurability option may be limited to a percentage of the sum insured, for example an increase of not more than 25%, or a maximum specific amount, for example increases no greater than $200,000. How would that work?

Let's say the insured person has a term life policy for an amount of $500,000, and they have just celebrated the birth of their first child.

Their policy may have future insurability cover that provides a benefit of an increase by the lesser of 25% of the original sum insured, or $200,000.

To exercise the benefit the insured person needs to write to the insurance company and request the benefit to be exercised.

Under the lesser 25% or $200,000 rule, the insured person would be entitled to an increase on their policy of $125,000, which equates to 25% of the original sum insured of $500,000. ($500,000 x 25% = $125,000).

This would increase their term life cover to $625,000 and the new premium would be paid on that level of cover once the increase is effected.

Now this is a very generalised example of how the benefit works, and you should look carefully at your policy terms and conditions to see what the terms are if you have this benefit provided.

There may also be an age limit in the policy for which this benefit can be exercised. Some policies have an age limit of 55, which means that once you pass age 55, you would not be entitled to apply for an increase under the future insurability benefit.

Similarly other age limits may apply, which may be 60 or 65. This age limit only applies to the future insurability option where the increase would be applied without medical underwriting; you may still be able to apply to have the cover increased outside these age limits but you may have to undergo any medical and financial underwriting requirements.

What is a forward underwriting benefit?

Forward underwriting is an option that is usually provided for an additional cost. Some companies do not provide this additional option and only provide the future insurability benefit in their policy; some companies may only provide the forward underwriting for business events only; some companies provide may provide both benefits for personal and business events.

The basic premise of forward underwriting is the same as that of future insurability: the policy can be increased on certain life events occurring in your personal or business life.

Under the forward underwriting option, and depending on the particular insurers policy conditions, you may be able to elect to select between $100,000 and $10 million of forward underwriting cover, or if the company doesn't provide a limit selection of this nature, then you may be provided with cover based sum insured or percentage limits such as the maximum of $10,000,000, three times the amount of cover, or the amount of the personal or business loan value etc.

Again, the forward underwriting option generally attracts an extra premium, and you will need to provide additional information at time of the application to have this option provided under your policy.

So for example, if you are applying to have term life cover of $2,000,000 now, and want to have a forward underwriting benefit of $3,000,000 applied to your policy, then you will probably be underwritten at the time of application based on a sum insured of $5,000,000 ($2,000,000 sum insured now and $3,000,000 forward underwriting benefit).

That may mean additional medical and financial evidence being provided when you take out the application, but you would not need to provide that in the future if you wanted to exercise the forward underwriting option.

What is the difference between future insurability and forward underwriting?

With future insurability you can request an increase in the cover which is ruled by certain policy limits and there is generally no additional underwriting requirements to have this benefit provided.

With forward underwriting, at the time of application you can either specify a limit of cover that you would like provided under the benefit, or the policy may provide for higher levels of increases compared to the future insurability benefit.

You will need to have additional underwriting completed at the time of application to allow for the increases to take place during the course of the policy; this may include both medical and financial underwriting.

Once the initial underwriting is completed, you do not need to have any further underwriting completed if you want to exercise the forward underwriting option.

The benefit of having these options in your policy:

As your insurance needs change regularly, and your needs may grow over time, the ability to increase your cover can become difficult, particularly if you health changes dramatically.

Having the ability to exercise an option to increase your level of cover without having to undergo any medical, and/or financial underwriting, will help you policy keep up to date if you have the need to increase the cover because of changes in your circumstances or in response to key life events.

As with all insurance policies, you should carefully check the policy terms and conditions, or seek the advice of a duly qualified insurance adviser, so that you have a clear understanding of how these benefits will work if you need to use them in the future.

If the benefits are provided on your policy when it is issued, they remain on the policy until it is cancelled or expires, however with the future insurability benefit there may be age limits imposed at which point that benefit would no longer be active.

As it is very important to make sure that your insurance policies remain relevant to your ever changing circumstances, when you are considering an insurance policy for term life, TPD or trauma, whether it be for personal or business reasons, you should look at the availability of future insurability and forward underwriting in that cover, as at some point in the future you may be able to exercise these benefits without having to complete any further underwriting requirements. Until next time!

Dr Jim Taggart OAM and Christina Matthews are Representatives of Taggart Nominees Pty Ltd. Taggart Nominees Pty Ltd holds AFSL No: 234973, and is a Life Insurance Broker. The information is this article is general in nature and does not constitute financial advice.

References:

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