Insuring the Ageing

2008 AFA Adviser of the Year and estate planning expert, Adam Smith, is calling on the life companies to walk the talk when it comes to product flexibility. In this article, Smith refers to the pressing need for life companies to bring their products into line with evolving demographic trends within Australian society. These evolving trends include the rise of blended families and especially the extended working lives of many baby-boomer Australians…

I'm constantly reminded on a weekly basis how far behind the insurance industry is with the rapidly changing ageing demographic in Australia. I have many clients well into their 60s and 70s who continue to work in some capacity and want to protect themselves if the worst should happen. Yet often these clients can't qualify for insurance cover due to their age or are faced with prohibitively expensive premiums for income protection, death and trauma insurance.

I wonder whether this is a common thread across many advice practices or whether this is an issue more specific to my practice due to our estate planning offering.

Either way, it's something insurers and reinsurers need to consider and look to modify or change their product offering to cater for changes to our ageing demographic, which is being led by the baby boomer generation.

Premium increases are certainly front of mind for many clients today, especially for mature-age insured lives. But there remains an underlying need for this protection and most discussions I have with my clients revolve around recognising this need and working out the best way to balance the the peace of mind insurance provides with the cost of doing so.

> *age 75 is the new 65*

The good news is that while many ageing clients are often shocked by the substantial annual premium increases, when you have the opportunity to explain why and to reassess their need they're more understanding and simply want a solution that will adequately protect them while lowering or at least retaining their current premium costs.

We recently sent an article to our clients on our **Top 5 Cash Flow Strategies**. It's often better to acknowledge the 'elephant in the room' upfront when it comes to premium increases, rather than pretend clients are not thinking about it, as you can tend to lose clients that way!

In my experience **age 75 is the new 65**. For example, I have an 86-year-old barrister still practicing for six months of the year out of Hong Kong and he has no plans to retire!

Most clients (in particular white collar professionals) are working well beyond age 65 for the following reasons:

- For many males in this demographic it forms part of who they are (i.e. their ego) and provides purpose for them. So the thought of stopping work is not an option. Rather, a gradual phase out is the preferred option.
- Income. Many have the need to continue working, be it from GFC fallout, blended family issues or servicing debt and lifestyle needs. These mature-age Australians would therefore like the option to continue protecting a level of income.
- Baby boomers, while typically wealthier, tend to have more debt, and often this debt extends well into their 60s.

Many Grandparents also play a vital role. Sometimes it involves guardianship roles for their grandchildren and ensuring that should something happen to them that there's a lump sum available to provide for the financial needs of their grandchildren, which often incorporates schooling needs. So, providing some form of cover in these circumstances is often discussed during our estate planning meetings.

Superannuation rules in Australia are more in line with the ageing demographics than life insurance industry rules and thought needs to be given to how we can better offer insure to the ageing demographic – both affordably and profitably.

When I explain to clients that it's not possible to insurer them for IP and Trauma, they look at me strangely and can't conceive why they can't access this cover when they're prepared to pay for it.

Suggestions for income protection cover product flexibility, all designed to cater to a maturing insured life include:

- Applying a maximum 50% income benefit.
- Restricting the benefit period to either two or five years only.
- Excluding mental illness and possibly other events in order to reduce cost.
- Extending entry age to age 70.
- Offering indemnity-only cover
- Potentially offering a cancellable contract (although this is not ideal as lacks certainty).

There are also ‘ageing’ issues that emerge in the area of business succession. Problems can sometimes be created for business owners working beyond age 65 whereby their partners are covered, but their own cover ceases. This can create an inequity in the partnership relationship and issues could emerge should a claim event take place.

In terms of other ‘non-product’ strategies, I’m utilising a fee for service arrangement for some of my mature-age clients, to help lower their overall costs. At this stage, we’re experiencing a 30% take up for the fee option.

While we work hard to find ways to minimise costs for our own mature-age client base, the industry needs to focus on delivering a much more tailored approach to product solutions for this market segment in order to accommodate our changing society – for those who want to work longer and for those who must…