

How your insurance premiums are calculated

The amount you pay for your life insurance – usually each month or year – is called a premium. Before you purchase your insurance, you'll be provided with a quote which will estimate how much you will pay in premiums.

So how do life insurance companies decide the amount they will charge you? There are a number of factors that typically go into the final cost of your premium.

Your level of cover

The amount and types of cover you have decided to include in your insurance will play a key role in what you are charged. You may have a combination of cover types, including life cover, income protection and total permanent disablement (TPD) cover.

You will also be insured for a certain amount under the benefits you've selected, and in the case of income protection and business expense cover, you will have a set waiting period before you can receive benefits, and a set time that you will be able to receive those benefits.

You may also have selected some optional add-on benefits as part of your cover, which may affect the price of your premium.

Your personal circumstances

A range of factors about your personal situation can also affect your premium. As you get older the risk of you contracting a serious illness increases, so your premiums will be higher with age, unless you've chosen the level premiums option.

Factors such as your gender, general health, whether you smoke, your occupation and lifestyle will be taken into account when calculating the premium price.

Your premium type

When you take out life insurance, you are able to choose the premium type that best suits your needs. You can choose from stepped premiums – where your premiums are recalculated each year based on your age – or level premiums, where your premiums do not increase due to age (up to age 65). However, if you choose level premiums, your premiums can still increase for other reasons, such as indexation with inflation.

Level premiums are likely to be higher when your cover begins compared to stepped premiums.

Your payment frequency

Whether you pay your premiums monthly or annually will also affect how much you pay. If you choose to pay on a monthly basis, you will need to pay an extra administrative loading to cover the cost to the insurer of collecting your premium more frequently.

Government taxes

Insurance sales duties imposed by state governments should also be included as part of your premium costs, either as part of your base rate or as an additional charge. These taxes may vary depending on where you live.