



Managing insurance costs in an inflationary environment

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2023

Learning Objectives

- At the completion of the presentation, learners will be able to demonstrate the following:
 - i. A deeper understanding of product strategies available to manage costs
 - ii. Consideration of the trade off and pros and cons of the strategies available
 - iii. Understand how these strategies allow advisers to meet standard 5 of the Financial Planners and Advisers Code of Ethics (2019)

Agenda

1. Reduce the Sum Insured or Monthly Benefit
2. Convert to superannuation
3. Decline CPI indexation
4. Accept a lower CPI indexation rate
5. Manage Extra Packages and Extra Cost Options
6. Linking cover
7. Super Linking
8. Convert to Any Occupation TPD
9. Increase the Income Protection Waiting Period
10. Reduce the Income Protection Benefit Period
11. Change premium structure
12. Apply for the Healthy Life Discount
13. Apply for non-smoking premiums
14. Involuntary Unemployment Premium Waiver Benefit
15. Income Cover – Cover Pause Feature

Financial Planners and Advisers Code of Ethics 2019 – commenced 1 January 2020

Standards of

Ethical behaviour

Standard 1

You must act in accordance with all applicable laws, including this Code, and not try to avoid or circumvent their intent.

Standard 2

You must act with integrity and in the best interests of each of your clients.

Standard 3

You must not advise, refer or act in any other manner where you have a conflict of interest or duty.

Standards of

Client care

Standard 4

You may act for a client only with the client's free, prior and informed consent. If required in the case of an existing client, the consent should be obtained as soon as practicable after this Code commences.

Standard 5

All advice and financial product recommendations that you give to a client must be in the best interests of the client and appropriate to the client's individual circumstances.

You must be satisfied that the client understands your advice, and the benefits, costs and risks of the financial products that you recommend, and you must have reasonable grounds to be satisfied.

Standard 6

You must take into account the broad effects arising from the client acting on your advice and actively consider the clients broader, long-term interests and likely circumstances.

Standards of

Quality process

Standard 7

The client must give free, prior and informed consent to all benefits you and your principal will receive in connection with acting for the client, including any fees for services that may be charged. If required in the case of an existing client, the consent should be obtained as soon as practicable after this Code commences.

Except where expressly permitted by the Corporations Act 2001, you may not receive any benefits, in connection with acting for a client, that derive from a third party other than your principal.

You must satisfy yourself that any fees and charges that the client must pay to you or your principal, and any benefits that you or your principal receive, in connection with acting for the client are fair and reasonable, and represent value for money for the client.

Standard 8

You must ensure that your records of clients, including former clients, are kept in a form that is complete and accurate.

Standard 9

All advice you give, and all products you recommend, to a client must be offered in good faith and with competence and be neither misleading nor deceptive.

Standards of

Professional commitment

Standard 10

You must develop, maintain and apply a high level of relevant knowledge and skills.

Standard 11

You must cooperate with ASIC and monitoring bodies in any investigation of a breach or potential breach of this Code.

Standard 12

Individually and in cooperation with peers, you must uphold and promote the ethical standards of the profession, and hold each other accountable for the protection of the public interest.

Our values

A relevant provider must always act to realise and promote the values of:

- Trustworthiness
- Competence
- Honesty
- Fairness
- Diligence

A relevant provider is defined in the Corporations Act 2001 (s 910A) as an individual authorised to provide personal advice to retail clients, in relation to relevant financial products.

Financial Planners and Advisers Code of Ethics 2019

Standard 5	<ul style="list-style-type: none">• All advice and financial product recommendations that you give to a client must be in the best interests of the client and appropriate to the client's individual circumstances.• You must be satisfied that the client understands your advice, and the benefits, costs and risks of the financial products that you recommend, and you must have reasonable grounds to be satisfied.
Standard 6	<ul style="list-style-type: none">• You must take into account the broad effects arising from the client acting on your advice and actively consider the client's broader, long-term interests and likely circumstances.
Standard 9	<ul style="list-style-type: none">• All advice you give, and all products you recommend, to a client must be offered in good faith and with competence and be neither misleading nor deceptive.

#1: Reduce the Sum Insured or Monthly Benefit

- Simple – application only.
- Approximate proportionate reduction in premium based on reduction in sum insured.
- May lose large sum insured discounts.
- If healthy can apply for increase in the future.
- If not healthy then may be exposed in the future.

Being under insured could leave the insured and their family financially exposed.

Best practice is to regularly review cover to ensure that it is in line with debts, income and financial needs.

Income Protection is indemnity, “don’t pay for what you can’t claim”.

#1: Reduce the Sum Insured or Monthly Benefit

40 year old non-smoking male, white collar, any occupation TPD, Non-smoker stepped premiums

Cover	Sum insured	Premium
Death Cover	\$1,000,000	\$427
TPD	\$500,000	\$166
Stamp duty		\$16
Total		\$609

Cover	Sum insured	Premium
Death Cover	\$500,000	\$255
TPD	\$250,000	\$95
Stamp duty		\$9
Total		\$359

50%
reduction in
sum insured

41% reduction in
premium (due to large
sum insured discounts)

#2: Convert cover to superannuation

- Available on Death Cover, TPD cover and Income Cover.
- Utilise cash flow of superannuation (account based superannuation or via partial rollover for risk only).
- Death and TPD cover are tax deductible premiums under superannuation. (Income protection is tax deductible inside and outside super)
- Converting to superannuation requires “cancel and re-issue”.
- Generally premiums are the same inside and outside super.
- May result in loss of benefits as super and non-super policy terms may differ.
- May result in loss of benefits as re-issued under current policy terms and conditions.

Consider the impact of insurance premiums against retirement objectives.

Consider the tax and release issues upon claim payment.



#2: Convert cover to superannuation

35 year old non-smoking female, white collar, stepped premiums

Cover	Sum insured	premium
Death Cover - inside super	\$1,000,000	\$372
Death Cover – outside super	\$1,000,000	\$372

	Death cover – inside super	Death Cover – outside super
Income	\$90,000	\$90,000
concessional contribution (to fund insurance)	\$372	\$0
Taxable income	\$89,628	\$90,000
Tax payable (inc. Medicare Levy)	\$21,388	\$21,517
Net income	\$68,240	\$68,483
Post tax insurance premium	\$0	\$372
Net income after insurance premium	\$68,240	\$68,111

2022-23 Tax rate 32.5% and 2% Medicare Levy



Client is \$129 better off

#3: Decline CPI Indexation

- For the 12 months to December 2022 CPI rose to 7.8%.
- CPI indexation applies to all linked polices.
- CPI plus stepped age increases can materially increase premium year-on-year.
- Life Cover, TPD Cover and Trauma Cover increased by the greater of 5% and CPI.
- Income Cover will increase by CPI.
- Notification within 1 month of policy anniversary to decline CPI indexation.

CPI indexation will continue to be offered even if declined in any year.

Not taking CPI will see the future value of cover eroded over time.



#3: Decline CPI Indexation

50 and 51 year old non-smoking male, white collar, stepped premiums

Age	Cover	Sum Insured	Stepped premium
50	Life	\$1,000,000	\$1,058
Age	Cover	Sum Insured with CPI	Stepped premium
51	Life	\$1,073,000	\$1,322
Age	Cover	Sum Insured without CPI	Stepped premium
51	Life	\$1,000,000	\$1,232

Age and CPI increases premium by 25%

Decline CPI. Premium age increases by 16%

#4: Other CPI Indexation options

- Combination of accept and decline CPI indexation (“mix and match”). Can accept or decline CPI for linked policies and stand alone policies.
- Accept full CPI indexation on all policies and then reduce the sum insured to the desired level on other policies.
- Apply for CPI indexation at a later date.
- Can select “No indexation” at policy commencement and then apply for CPI indexation with statement of continued good health.
- 5 and 10 year fixed term option (Death Cover, TPD Cover and Trauma Cover) avoid both age and CPI related premium increases.

CPI offered on
All stepped policies

CPI not offered on
5 year fixed term option

CPI offered on
Level to age 65 and 70

CPI not offered on
10 year fixed term option

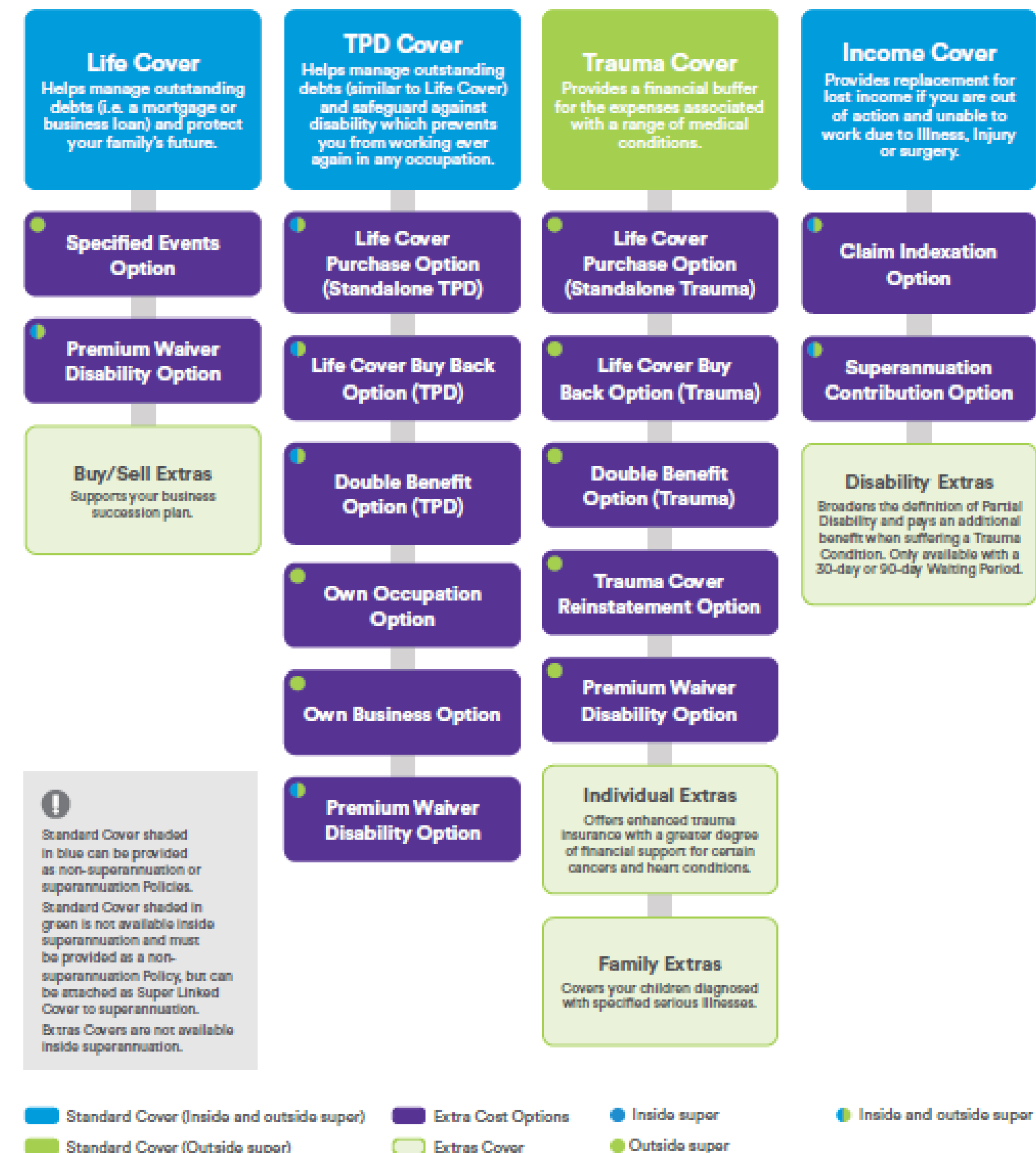
#4: Other CPI Indexation options

MetLife Protect Premium types	Premium/ sum insured increases with CPI	Premium increases with age	Premium guaranteed not to increase	Premium converts to stepped	Sum insured reduced to match premium
Stepped	Yes	Yes	No	No	No
Level to age 65	Yes	No	No	Policy anniversary before age 65	No
Level age 70	Yes	No	No	Policy anniversary before age 70	No
5 year Fixed Term	No	No	Yes	After 5 years	After 5 years
10 year Fixed Term	No	No	Yes	After 10 years	After 10 years

- Each of the premium structures has different influence on CPI and premium.
- Understanding the client's initial and ongoing insurance needs will help determine the appropriate premium structure(s).

#5: Manage Extras Packages and Extra Cost Options

- MetLife Protect and MetLife Protect Super has a modular product design. To the standard Death, TPD, Trauma and Income Cover can be added a range of Extras Packages and Extra Cost Options
- Allowing clients to create the product that best suits specific objectives and financial situation
- As clients' needs change over time, they do not have to replace their insurance, instead they can add or remove the different optional extras to meet their changing circumstances.



#5: Manage Extras Packages and Extra Cost Options

50 year old NS male, professional. Age 65 cover, 30 day wait , stepped premium \$6,000 monthly benefit



Can maintain monthly benefit, age 65 cover and 30 day waiting period – but reduce costs by approx. 25% by managing costed options.

Question 1

- What are some of the considerations when you move life insurance from outside superannuation (individually owned) to inside superannuation?
 - a) Conditions of release
 - b) Taxation of benefits
 - c) Erosion of retirement savings
 - d) All of the above



#6: Linked Cover

- Linking lump sum cover can be a more cost effective way of maintaining cover than standalone.
- TPD Cover can be linked to Death Cover, Trauma Cover can be linked to Death Cover, Both TPD and Trauma Cover can be linked to Death Cover.
- Linked cover can be either inside or outside superannuation (Super Linking allows for a combination of superannuation and non-superannuation cover).
- Once the Death Benefit is paid all cover ceases.
- If a benefit is paid under TPD or Trauma Cover (partially or in full), the TPD or Trauma Cover will either be reduced or it will end. The corresponding Life Cover and any other linked TPD or Trauma Cover Amounts will also be reduced by an amount equal to the benefit paid.
- Life Cover Buy back, Life Cover Purchase, Double Benefit Options and Trauma Reinstatement are available to manage cover post claim.

Linking helps balance affordability while maintaining breadth of cover.

Understand the potential exposure caused by the reduction in linked covers.

#6: Linked Cover

40 year old female NS professional. Stepped premiums.
Stand alone v linked pricing (non-super)

\$1m standalone Life cover Premium \$327	\$1m Life cover, linked \$1m TPD (any) and \$250,000 Trauma (basic) with Life cover buy back after TPD and Trauma Premium \$1,178	\$1m Life cover linked \$1m TPD (any) and \$250,000 Trauma (basic) Premium \$1,137
\$1m standalone TPD (any) cover Premium \$653		
\$250,000 standalone Trauma (basic) cover Premium \$905		
Total stand alone premium \$1.885	Linked premium \$1,178	Linked premium \$1,137

Significant cost savings by linking covers, including life cover buy back options
is a cost effective way to mitigate risk.

#7: Super Linked Cover

- Super Linking is a version of linked cover that allows for cover to be split across two policies held inside and outside superannuation.
- Premium savings have already been achieved by the linking of cover, however, Super Linked Cover provides access to additional benefits only available outside superannuation, while still funding the primary cover from superannuation.
- The total premium for the super linked policies held inside and outside superannuation is the same that you would pay for the same policies wholly held outside superannuation.
 - Income Cover inside superannuation can be Super Linked to Extras Cover outside superannuation.
 - Life Cover inside superannuation can be Super Linked to Trauma Cover outside superannuation.
 - Life Cover inside superannuation can be Super Linked to TPD Cover inside or outside superannuation

Takes advantage of cash flow and tax deductible premiums of super

Overcomes the restrictions of benefit payments under superannuation

Understand the tax and release conditions, as payments will always be considered first through superannuation

#7: Super Linked Cover

45 year old professional NS male. \$1m Life linked to \$500,000 Own Occupation TPD and \$250,000 Trauma (basic) stepped premium

Option 1

Linked non-super

Premium \$1,859

After tax premium \$1,859

Option 2

Linked life and TPD super with Trauma and Own Occupation extension non-super

Premium \$1,859

(pre-tax) Super premium \$594

(after tax) non-super premium \$1,265

- Identical premiums
- have achieved \$594 as pre-tax premium through super
- 32% of total premium through super
- Significant savings to client

#8: Convert from Own to Any Occupation TPD

- Own occupation TPD is available to Professional, white collar, medical and legal, light blue, qualified trades as well as a range of unqualified blue collar occupations.
- Own occupation provides greater certainty in the event of a claim “inability to ever work again in their Own Occupation, trade or profession solely due to Injury or Illness” (MetLife Protect PDS October 2022).
- Can be converted with application/request only.

Life Events Extras Feature allows Own Occupation TPD to be added without medical underwriting



#8: Convert from Own to Any Occupation TPD

35 year old Male NS light manual occupation stepped premium

\$750,000 life and linked
\$500,000 TPD Own Occupation (non-super)
Premium \$631

\$750,000 life and linked
\$500,000 TPD Any Occupation (non-super)
Premium \$544

Approx. 14% saving



35 year old Male NS clerical occupation stepped premium

\$750,000 life and linked
\$500,000 TPD Own Occupation (non-super)
Premium \$526

\$750,000 life and linked
\$500,000 TPD Any Occupation (non-super)
Premium \$460

Approx. 13% saving



#9: Increase the Income Protection Waiting Period

“This is the minimum number of continuous days that must fully elapse before any entitlement to a Total Disability Benefit, or Partial Disability Benefit commences. The Life Insured must be continuously Totally Disabled or Partially Disabled for the duration of the Waiting Period.”

MetLife Protect PDS October 2022

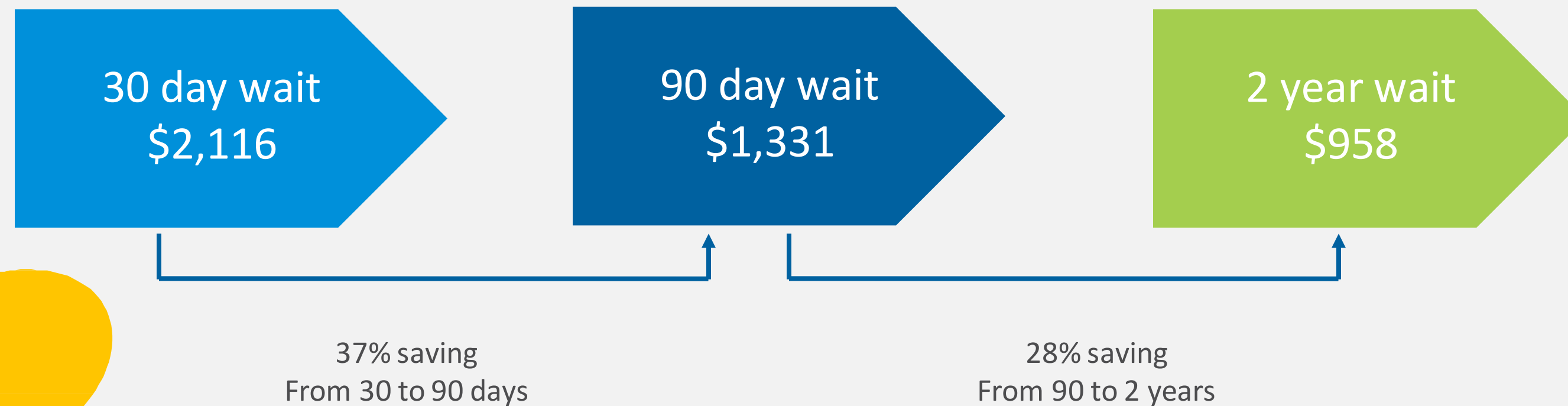
- The shorter the waiting period the sooner benefits are payable, but the premiums are more expensive.
- The longer the waiting period the greater the time before benefits are payable, but the premiums are cheaper.

Considerations

- How long can someone survive without an income?
- What other sources of income / money are available?
- Do they have employee benefits such as sick leave?

#9: Increase the Income Protection Waiting Period

40 year old NS male, clerical occupation
\$6000 monthly benefit to age 65 with claims escalation (non-super)



#10: Reduce the Income Protection Benefit Period

“The Benefit Period represents the maximum duration that Total Disability Benefits or Partial Disability Benefits can be payable for any one Illness or Injury (including a Recurrent Disability), over the life of the Policy. The Benefit Period starts on the day after the Waiting Period ends.”

MetLife Protect PDS October 2022

Considerations

- How long do I need to work?
- How long do I want to work?
- What other insurance to I have (TPD)?
- What is my preservation and pension age?



#10: Reduce the Income Protection Benefit Period

40 year old NS female, clerical occupation
\$6000 monthly benefit, 30 day wait to age 65 with claims escalation (non-super)



Question 2

- What are the two ways to significantly reduce premiums for an income protection policy?
 - a) Reduce the monthly benefit, and reduce the benefit period
 - b) Reduce the monthly benefit, and increase the waiting period
 - c) Increase the waiting period, and reduce the benefit period
 - d) Cancel ancillary benefits and decline future CPI indexation



#11: Consider other premium structures -or change the premium structure

- Utilising a premium structure that is appropriate to the clients personal situation is critical
- Needs and affordability change over time
- There may be a need to change to premium structure to meet a clients changing needs
- A policy that lapses prior to an insured event is a poor outcome

The value of a stepped premium versus a level premium differs for different consumers and is a key factor for advisers to consider when weighing up the affordability of cover for a client and their ability to retain the cover over time.

ASIC report 413 Review of retail Life Insurance Advice

#11: Consider other premium structures or change the premium structure

35 year old NS female, white collar, \$500,000 Life Cover and Linked any occupation TPD.

Stepped premium
Age 35
Premium \$319

5 year fixed term
Age 35
Premium \$421

10 year fixed term
Age 35
Premium \$500

Level to age 65
Age 35
Premium \$1139

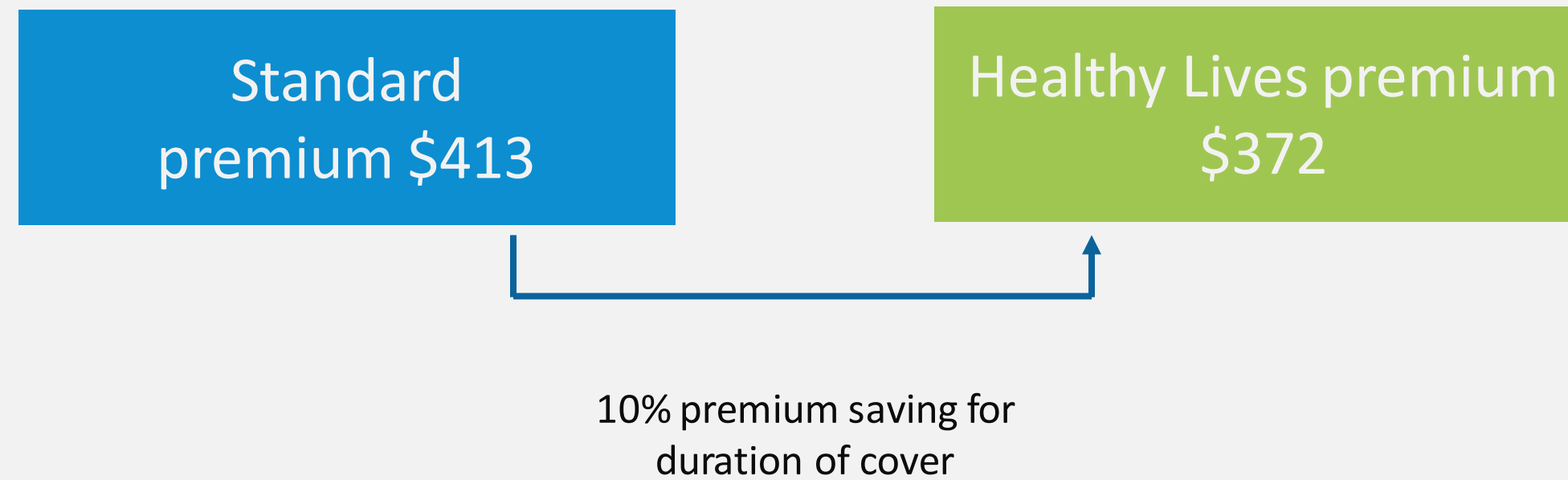
#12: Apply for the Healthy Lives Discount

- Most companies offer a healthy life discount based on health and BMI.
- MetLife offers a 10% Healthy Lives discount across Life and TPD Cover and all premium types for the duration of cover.
- Available at underwriting or upon application if they qualify later.



#12: Apply for the Healthy Live Discount

\$1m life cover 35 year old NS Male stepped premium



#13: Apply for non-smoking premium rates

- Smoking is one of the single biggest risk factors to health and hence insurance premiums.
- Smoking impacts most significantly on Trauma insurance premiums.
- Life companies will define smoking differently , but generally must not have consumed any tobacco product in the last 12 months to qualify as non-smoker.



#13: Apply for non-smoking premium rates

40 year old female, \$500,000 stand alone trauma
(basic) stepped premium



40 year old female white collar, \$6000 income protection, age 65, 30 day
wait claims escalation, stepped premium



#14: Apply for Involuntary Unemployment Premium Waiver Benefit

“If the Life Insured **becomes Involuntary Unemployed** you can request all Life Cover, TPD Cover and Trauma Cover premiums including any extra cost options and or extra cover premiums to be **waived for up to three months while they are not working.**”

MetLife Protect PDS October 2022

Maintain cover through a period of involuntary unemployment and financial stress

Lump sum cover

Income cover

“If the Life Insured is a permanent employee who **becomes Involuntarily Unemployed**, you can ask us to waive Income Cover premiums for **up to three months** while they are out of work. The Income Cover –Involuntary Unemployment Premium Waiver Benefit can be provided once in any 12-month period and for up to six months in total over the life of the Policy. **Income Cover continues** while the Income Cover – Involuntary Unemployment Premium Waiver Benefit applies.”

#15: Income Cover – Cover Pause Feature

Maintain cover through a period of unpaid leave and financial hardship

Income cover

“If the Life Insured takes unpaid **parental leave or unpaid sabbatical** leave from their employer, **or experiences financial hardship**, and the Income Cover has been in force for at least two years, you can **reduce your Income Cover to 25%** of the Monthly Cover Amount, with a corresponding **reduction in your premium**. You can restore your Monthly Cover Amount with **no medical underwriting required** either when the unpaid leave period ends and the Life Insured returns to work or the period of financial hardship ends, up to 12 months later with a corresponding increase in your premium”.

MetLife Protect PDS October 2022

Questions 3

- What action will produce the single biggest impact on premiums for your client?
 - a) Premium Pause feature
 - b) Move the risk insurance cover inside superannuation
 - c) Change TPD cover from “own occupation” to “any occupation”
 - d) Stop smoking for at least 12 months





MetLife