Single premium rates and year two costs

ellipse

What are single premium rates?

We believe in charging the exact premium due for the cover provided. We do this by providing a table of single premium rates which is normally guaranteed for two years. This table has a different rate for each age. This approach means we charge premiums differently from the unit rate method where the rate charged for each employee is the same.

When the policy starts and each anniversary thereafter, we calculate the age of each employee at their next birthday and look up the corresponding rate in the rate table. For each employee, premiums are then calculated using this rate, the amount of cover and number of days they have been covered for. This means employers pay accurate premiums for the exact amount of cover provided in each policy year, so as the benefits and ages of the employees change, the premium paid changes.

How can I estimate the premium in the second year?

If the scheme membership stays exactly the same, at the first anniversary all members will be one year older. This means that, assuming salaries and benefits stay the same, an employer could, on average, expect a 7% - 10% increase in premiums in the second policy year. However, in practice, most businesses will see staff and scheme membership changes which in turn affect scheme premiums.

For example, if an older employee retired and was replaced by a younger employee on the same benefits, premiums for the joiner would be lower than for the retiree. Scheme premiums in the second year could therefore be less than in the first year. Conversely, if a younger employee was replaced by an older employee, and there were no other changes, premiums in the second year could be higher than in the first. Hence employee ageing combined with membership changes make it difficult to predict premiums for the second policy year in advance, particularly as each scheme will be different.

Guidance based on an analysis of our portfolio shows that while the average age of a scheme does typically increase each year, the average increase is approximately four months. So, rather than the 7%-10% estimate above, this suggests that the average employer could expect premiums to increase by closer to 3% each year due to ageing. Generally, larger schemes have lower increases while smaller schemes can have larger increases. In practice of course, increases due to salary and/or benefit changes would also impact year 2 costs on all schemes, however these changes have been excluded from the results above.

As each employer will have different circumstances, it is prudent to use an **estimate of 3% - 5%** for the likely increase in cost between the first and second years, due to the impact of ageing.

Every employer is different

Advisers should explain to their clients how premiums will be charged and that it is not possible to predict how their workforce will change in the future. While this analysis shows that generally speaking, there is little difference between the first and second year premium, each scheme will be different and employers should therefore make reasonable assumptions.

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