

Insuring Divorce Settlement and Child Support Payments Against Disability

How Renewal Premiums are Calculated

When the policy renews after 5 years, the first year premium of the policy in year 6 will usually range between 10% higher to 20% lower than the **first year premium for the original policy**. This may be confusing because during the first 5 years the Payor has reduced the obligation and the premiums decreased every year as the obligation went down. Below is an explanation of this pricing phenomenon.

The two biggest factors impacting renewal pricing are the insured's age and the amount of the remaining obligation.

- The biggest impact on renewal rates is the Payor's age. The increase in rates for being 5 years older is substantial. The increase is NOT linear, meaning there is not a simple percentage increase as you age. The premium increases more between ages the older you get. The premium increase (both the amount of the increase and the percentage increase) will be lower if the insured's initial policy was purchased at age 40 and renewed at age 45 than if it was purchased at age 55 and renewed at age 60.

Example #1 - Payor is an executive, lives in Oregon, is a nonsmoker and is obligated to pay \$10,000 per month for 10 years to the Recipient.

First 5 years of premium (age 40)

Policy Year	Surplus Lines		
	Base Premium	Taxes/Fees	Total Premium
1	\$2,205.00	\$270.32	\$2,475.32
2	\$2,025.00	\$266.18	\$2,291.18
3	\$1,845.00	\$262.04	\$2,107.04
4	\$1,665.00	\$257.90	\$1,922.90
5	\$1,485.00	\$253.76	\$1,738.76

On renewal, the Payor is age 45 and owes \$10,000 per month for 5 years. The annual premium is...

Renewal premium after the first 5 years (age 45)

Policy Year	Surplus Lines		
	Base Premium	Taxes/Fees	Total Premium
1	\$1,710.00	\$258.93	\$1,968.93
2	\$1,350.00	\$250.65	\$1,600.65
3	\$1,000.00	\$242.60	\$1,242.60
4	\$1,000.00	\$242.60	\$1,242.60
5	\$1,000.00	\$242.60	\$1,242.60

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As you can see, the renewal premium at age 45 is about 23% less than the first year premium for the initial policy.

First 5 years of premium (age 55)

Policy Year	Surplus Lines		
	Base Premium	Taxes/Fees	Total Premium
1	\$5,203.00	\$339.27	\$5,542.27
2	\$4,834.00	\$330.78	\$5,164.78
3	\$4,465.00	\$322.30	\$4,787.30
4	\$4,096.00	\$313.81	\$4,409.81
5	\$3,727.00	\$305.32	\$4,032.32

On renewal, the Payor is age 60 and owes \$10,000 per month for 5 years. The annual premium is...

Renewal premium after the first 5 years (age 60)

Policy Year	Surplus Lines		
	Base Premium	Taxes/Fees	Total Premium
1	\$4,845.00	\$331.04	\$5,176.04
2	\$3,825.00	\$307.58	\$4,132.58
3	\$2,805.00	\$284.12	\$3,089.12
4	\$1,785.00	\$260.66	\$2,045.66
5	\$1,000.00	\$242.60	\$1,242.60

The renewal premium in this example is only 7% less than the first year premium for the initial policy, which illustrates the premium increases between ages are larger the older you get.

- The second biggest impact on premium is the amount of the remaining obligation to be insured. If the divorce decree requires benefits be paid to the Recipient for 10 years and half the payments have been made over the first 5 years, the percent change in the renewal premium will be less than if the obligation to pay was over 15 years and after 5 years, 33% of the obligation has been paid. This is because 2/3's of the obligation remains and is subject to the rates at the older age.

Example #2 - Payor is an executive, lives in Oregon, is a nonsmoker and is obligated to pay \$10,000 per month for 15 years to the Recipient.

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First 5 years of premium (age 40)

Policy Year	Surplus Lines		Total Premium
	Base Premium	Taxes/Fees	
1	\$3,105.00	\$291.02	\$3,396.02
2	\$2,925.00	\$286.88	\$3,211.88
3	\$2,745.00	\$282.74	\$3,027.74
4	\$2,565.00	\$278.60	\$2,843.60
5	\$2,385.00	\$274.46	\$2,659.46

On renewal, the Payor is age 45 and owes \$10,000 per month for 10 years. The annual premium is...

Renewal premium after the first 5 years (age 45)

Policy Year	Surplus Lines		Total Premium
	Base Premium	Taxes/Fees	
1	\$2,784.00	\$283.63	\$3,067.63
2	\$2,577.00	\$278.87	\$2,855.87
3	\$2,370.00	\$274.11	\$2,644.11
4	\$2,163.00	\$269.35	\$2,432.35
5	\$1,956.00	\$264.59	\$2,220.59

In this example only 1/3 of the total obligation is paid off during the first 5 year term of the policy. As a result, the renewal premium is only 10% less than the original policy's first year premium compared to the 23% savings when 50% of the obligation was paid off during the first 5 years.

First 5 years of premium (age 55)

Policy Year	Surplus Lines		Total Premium
	Base Premium	Taxes/Fees	
1	\$7,048.00	\$381.70	\$7,429.70
2	\$6,679.00	\$373.22	\$7,052.22
3	\$6,310.00	\$364.73	\$6,674.73
4	\$5,941.00	\$356.24	\$6,297.24
5	\$5,572.00	\$347.76	\$5,919.76

On renewal, the Payor is age 60 and owes \$10,000 per month for 10 years. The annual premium is...

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Renewal premium after the first 5 years (age 60)

Policy Year	Surplus Lines		
	Base Premium	Taxes/Fees	Total Premium
1	\$7,751.00	\$397.87	\$8,148.87
2	\$7,193.00	\$385.04	\$7,578.04
3	\$6,635.00	\$372.21	\$7,007.21
4	\$6,077.00	\$359.37	\$6,436.37
5	\$5,519.00	\$346.54	\$5,865.54

The premium for renewal at age 60 is 10% **higher** than the first year premium of the original policy issued at age 55, versus 10% **lower** when 50% of the obligation was paid off the first 5 years.

- The other two things that can impact pricing are the Payor's health and the base pricing of the policy.
 1. If the Payor has developed a health problem, the carrier may choose to charge extra premiums to insure this greater health risk. The carrier can also choose to waive a specific medical condition or decline to issue coverage.
 2. If the carrier has suffered excess losses they may choose to raise the base rates for the coverage. These rate increases can't be done individually; they would affect everyone insured under the Divorce Settlement Disability Policy.

This is a very confusing subject to explain, even to people who are insurance licensed. The reason we've included it is to give you an idea of what kind of pricing to expect when the policy is renewed in year 5.