Aspirations Wealth Group

Build and Protect your Wealth

Fact Sheet

Personal Insurance

The purpose of this fact sheet is to outline the most common forms of personal insurance. Unlike car and home contents insurance, which allow you to insure your belongings; personal insurance policies enable you to insure yourself, and your ongoing well-being.

Types of personal insurance include:

- ⇒ Life
- ⇒ Total and Permanent Disablement (TPD)
- ⇒ Trauma
- ⇒ Income Protection (IP)

What is personal insurance?

The term 'personal insurance' refers to insurance policies you take out on yourself.

It provides protection against events like sickness, injury and death that prevent you and your family from meeting your financial commitments and lifestyle requirements. This fact sheet outlines the most common forms of personal insurance:

⇒ Life insurance;

⇒ Total and permanent disability insurance;

⇒ Trauma insurance, and

⇒ Income protection.

It is important to understand that insurance does not remove the risk of something going wrong. It provides you and your family with protection, compensation and financial security if something does happen. Put simply, insurance helps you manage those unexpected events that may otherwise mean you have to:

⇒ Use your savings or investments;

⇒ Borrow money;

⇒ Ask family or friends or others for financial assistance;

⇒ Sell assets to pay outstanding debts and day-to-day living expenses; or

⇒ Find other ways to make ends meet.

Everybody's circumstances are different – however, insurance is important for everyone. Your need for insurance will change as you move through different stages of your life. The amount of insurance you require will be influenced by your how much you earn, the change in cost of living, your assets, your liabilities, if you are married or in a defacto relationship, and the number of dependants you have - all of which may change depending on your life stage.

While having insurance can give you peace of mind, it's not like a savings account. Insurance involves the payment of a premium in exchange for cover. You will only receive a benefit if you have a legitimate claim against the policy you have bought.
There are many types of insurance.

Life insurance

Life insurance, also referred to as term insurance and death cover, pays a lump sum if you die. It protects your family if you are no longer around to support them. While most people think that life insurance is only for the main income earner, the person who takes care of the family is also a large contributor to the home.

Feature	Details
Provides a cash lump sum that can be used by your family to:	⇒ Cover costs such as funeral expenses and legal fees associated with the implementation of your Will. ⇒ Repay debts such as your home mortgage and personal loans. ⇒ Replace your income. The lump sum can be invested and withdrawn as income.
Can be purchased either inside or outside of superannuation.	⇒ Many super funds provide life insurance. Your employer has an obligation to offer you a super fund that provides a minimum level of death cover. You can choose to maintain this cover, increase it or opt out. ⇒ Speak to your adviser who can then check whether you have any insurance and whether it's enough to meet the needs of you and your family. Your super member statement will also show whether you have any insurance cover and how much the premiums are.
Tax treatment	**Outside super -** Life insurance premiums are generally not tax deductible however the benefit payment is tax-free. **Inside super -** Premiums are tax deductible for the super fund, but the benefit payment may be taxed depending on who receives it.

How much life cover should I have?

This will depend on the costs you want to cover, such as:

- ⇒ Funeral costs;
- ⇒ Living expenses for your family;
- ⇒ Debts to pay out, or ongoing loan repayments;
- ⇒ Future education expenses.

You should also consider:

- ⇒ Whether your spouse will continue to work.
- ⇒ Funding the cost of a housekeeper, childcare or a nanny.
- ⇒ Whether any assets will be sold, such as your car.
- ⇒ Whether you will downsize the family home.

Total and permanent disability (TPD)

Total and Permanent Disability Insurance (TPD) provides a lump sum payment if you suffer a disability before retirement and can't work again or can't work in your usual occupation or chosen field of employment. Payments under a TPD policy are generally not made until the insurer believes that you are unlikely to work again. This usually occurs only after you have been unable to work for at least six months.

Feature	Details
Provides a cash lump sum that can be used by your family to:	⇒ Repay debts such as your home mortgage and personal loans. ⇒ Replace your income. ⇒ Meet medical costs. ⇒ Meet the costs of a modified lifestyle, e.g. nurse or carer and home and car modification.
Can be purchased as an add on, or as a stand-alone policy	⇒ You can buy TPD as an add-on to term life insurance, or as a stand-alone product. ⇒ You can also get TPD as an extra benefit from your super fund or as part of a trauma insurance product.
There are different TPD definitions	You should consider which of the definitions best suit your particular situation. **Own occupation:** you will be entitled to claim if you are unable to return to your 'own' occupation. **Any occupation:** you will only be entitled to claim if you are unable to return to 'any' occupation you are reasonably suited to by education, training or experience. Note that this type of insurance is no longer able to be held through superannuation. *'Own occupation' is more expensive than 'any occupation' TPD.*
Tax treatment	**Outside super -** TPD premiums are not tax deductible; however, the benefit payment is tax-free if paid to the injured person or their relative. **Inside super -** Only the portion of a TPD insurance premium that provides disability super benefits to a member is tax deductible for the super fund. The benefit payment you receive will be taxed as a lump-sum super benefit.

How much TPD cover should I have?

When considering how much cover you need, you should think about:

⇒ Your financial commitments, what are they and how long will they last.

⇒ Repaying your debts.

⇒ Allowing for an increase in your expenses to cover the cost of ongoing care.

⇒ A lump sum amount to help cover the cost of any home modifications.

⇒ Whether any assets will be sold to help pay for these expenses.

Trauma insurance

Trauma (or critical illness) insurance provides a cash lump sum if you suffer a specified illness or injury (e.g. serious heart attack, stroke, cancer, kidney failure etc). Advances in medical treatment have increased the need for trauma insurance because of the improved chance of survival; although you are more likely to survive, you are also more likely to have big medical bills to pay.

Trauma insurance is a way to ensure you have funds available to seek medical treatment and take time off work to recuperate.

Feature	Details
Provides a cash lump sum that can be used to:	⇒ Pay for immediate care. ⇒ Provide an income stream should you stop working. ⇒ Repay any debt or fund the ongoing repayments. ⇒ Meet the costs of ongoing therapy, transportation and any adjustments to housing and lifestyle changes.
Choosing a policy	The number of conditions covered under a trauma policy can vary, and it is important to consider the definition of each illness and injury when selecting which product to purchase.
Stand-alone policy or additional options	Trauma insurance is usually purchased as a stand-alone policy, but can be purchased with additional options, such as a TPD benefit. Trauma insurance is generally not available through superannuation.
Cost	Cost Trauma cover is relatively more expensive compared to other forms of life insurance because of the greater probability of a trauma event occurring. Care should be taken in choosing the product to ensure it includes the illness and injury cover that you feel meets your needs and circumstances.
Tax treatment	Tax treatment Trauma benefits are free of tax and there are no restrictions on how you can use the payments.

How much trauma cover should I have?

This will depend on:

- ⇒ Your financial commitments, and how long will they last.
- ⇒ Whether you want to repay your debts in full or provide funds to cover the repayments for a period of time.
- ⇒ The estimated cost of specialist medical care.
- ⇒ Whether any assets will be sold to help pay for expenses.
- ⇒ The amount of time you may need to take off work, and whether you will need additional money during this period.

Income protection (IP)

Income protection insurance (also known as disability insurance or income replacement) provides a monthly payment stream to replace lost income if you are unable to work due to injury or sickness. It is designed to help you maintain a reasonable standard of living, while you are unable to continue earning your regular income. While income protection insurance is an important consideration for anyone who works and relies on an income, it is also important for self-employed people, small business owners or professionals whose business relies heavily on their ability to work.

Feature	Details
Level of cover	⇒ Generally, the maximum allowable cover is 75% of your gross wage. ⇒ Some policies will provide cover greater than 75%, but any additional amount must usually be paid into your superannuation fund.
Benefit period	⇒ This is the maximum length of time that you can receive payments while you are not working. ⇒ You can select a benefit period from two years through to age 65. ⇒ The longer the benefit period, the higher the premium.
Waiting period	⇒ This is the length of time between stopping work and when you can make a claim to start receiving payments. ⇒ You can select a waiting period of between 14 days and two years. ⇒ The shorter the waiting period, the higher the premium.
Inside or outside of super	Income protection can be offered through your super fund or can be purchased as a stand-alone policy outside of super.
Occupation rating	⇒ The cost and availability of cover is directly related to your specific occupation. Consideration will be given to any risks associated with your job and how much you work, whether you are part-time or casual. ⇒ Income protection is not available to people who are unemployed and may be paused if you go on some forms of extended leave, such as unpaid leave and maternity leave.
Tax treatment	Income protection premiums are generally tax deductible, but the payments received are considered income and are subject to tax.

How much income protection cover should I have?

It is important to choose the right level of cover for you and your family's needs. You should think about:

- ⇒ Your financial commitments, what are they and how long will they last.
- ⇒ Whether you have ongoing loan repayments to cover.
- ⇒ Whether you will need to fund childcare or housekeeping costs.
- ⇒ Whether your spouse will continue to work.
- ⇒ If you need the maximum level of cover, or if you have other financial resources to help cover expenses.

What type of policy should I have, indemnity or agreed?

There are two types of income protection policies, indemnity and agreed value. The difference lies in how the insurance company works out how much to pay you when you claim. Your occupation and personal circumstances, such as being newly self- employed, can sometimes affect which type of policy you can apply for.

Feature	Details
Indemnity contract	⇒ When you claim, you must prove to the insurance company how much you are earning. Your income at claim time will determine how much you are paid. ⇒ If your income reduces in the future, you can only claim on the lower amount. If your income increases in the future, the maximum you can be paid is the sum insured. ⇒ Cheaper than an agreed value contract. ⇒ Generally, salary continuance policies through superannuation are indemnity contracts. ⇒ May be an attractive way for salary earners in stable jobs to obtain cheaper income protection.
Agreed value contract	⇒ When you apply for the insurance, you provide evidence of how much you are earning to the insurance company. At claim time, you do not have to prove your income. When you claim, the sum insured determines how much you are paid. ⇒ If your income reduces in the future, you will still receive the higher amount. If your income increases in the future, the maximum you can be paid is the sum insured. ⇒ More expensive than an indemnity contract but provides more certainty around the benefits.

What waiting period should I have?

To work out an appropriate waiting period, you will need to consider:

⇒ How much leave you have available (e.g. sick leave, long service leave);

⇒ Whether you have savings that can be used to fund your expenses during the waiting period.

You need to weigh up how long you can go without income, against the cost of the premium - the shorter the waiting period, the more expensive the insurance.

What benefit period should I have?

To work out an appropriate benefit period, you will need to consider:

⇒ Your financial commitments, what are they and how long will they last.

⇒ Whether you have ongoing loan repayments to cover and how long they will last.

⇒ What age you intend to retire and whether your spouse will continue to work.

⇒ Other savings, such as superannuation, you have available to fund your future expenses.

Cost of insurance

The cost of insurance is called the premium. The premium is based on a number of factors relating to the potential risks to the insurer, such as your age, occupation and existing medical history. The premium covers other costs including administration fees, taxes and government charges and you can choose either stepped or level premiums.

Stepped premiums increase exponentially each year as you get older.

Level premiums remain the same, with possible small increases for CPI and policy fee increases, for the life of the policy. Level premiums can therefore be more expensive initially, but if you keep the policy for a long time, they offer a saving on the total cumulative amount paid for the insurance.

Special conditions

If the insurer determines that you pose a higher risk to them than the average client, they may offer you an adjusted policy. A policy can be adjusted in four ways:

Feature	Details
Exclusions	⇒ An 'exclusion' is when the insurer leaves specific events out of your policy. For example, if you have had back problems in the past, your policy may state that you will not be paid out for any injury to your back.
Loading	⇒ A loading is an increase in your premium, compared to the standard premium. ⇒ A 150% loading means that your premium is 150% of the standard premium. ⇒ Loadings usually apply where you pose a greater risk to the insurer; ⇒ such as if you are overweight or have a history of heart conditions in your family.
Adjusted term	⇒ Rather than choosing to refuse you insurance, the insurer may decide to limit the terms of your policy. For instance, you may be offered a two year maximum benefit period on income protection insurance. ⇒ Or you may only be offered an ‘any occupation’ TPD policy.
Decline of cover	⇒ Where the insurer believes that you pose too great a risk to them, they can choose not to insure you. ⇒ It is important we investigate and explain other options available to you when this happens.

Insurance as part of your superannuation

We have already indicated that some personal insurance can be purchased as part of your superannuation. In summary, Life insurance, Total and Permanent Disability Insurance and Income Protection are all offered within superannuation.

If your insurance is held within superannuation, the cost of the premiums is withdrawn from your superannuation balance.

There are some benefits to having insurance products in your superannuation, rather than outside of your superannuation fund. Some of the advantages may include:

- ⇒ Automatic acceptance without having to complete medical checks.
- ⇒ Cheaper cover due to the bulk discount available to superannuation funds.
- ⇒ Some contributions to superannuation attract a tax deduction. This means that you may be able to pay for your premiums by making tax deductible super contributions.

However, there are also some disadvantages of having insurance in your superannuation, including:

- ⇒ Limitations on the level of cover.
- ⇒ Limitations on benefit periods for income protection insurance.
- ⇒ Income protection through superannuation usually only provides an indemnity type contract.
- ⇒ In the event of death, there may be a delay in the payment of benefits.
- ⇒ Superannuation death benefits paid to a non-dependant may be taxed at up to 31.5%.
- ⇒ TPD payments are typically taxed when paid out from super.

It is therefore crucial that we work out the best way to structure your insurance, whether this is inside superannuation, outside, or a combination of the two.

The alternative to insurance

The alternative to taking out insurance is called self-insurance.

Self-insurance means that rather than buying a specific policy, you rely on your existing assets to fund your expenses and lifestyle if something were to happen.

This can be a realistic option for people who have accumulated sufficient level of wealth to cover themselves, such as those close to retirement.

Unfortunately, people often choose to self-insure because they believe the cost of insurance is too high. And while paying for something that you hope to never use can make the premium seem like an avoidable expense, the cost of not having insurance can be a lot higher.

What is the real cost of your family not being unable to lead the lifestyle that you had planned? What would happen if you couldn't meet your repayments for your mortgage or personal debt?

Provide full and accurate information

It is important that you are completely honest with your insurer about your circumstances when applying for a policy. You must answer all of the questions and answer them correctly.

If you mislead the insurer in any way, they can refuse your claim. This could render your policy worthless and result in financial distress for you and your family.

Keeping your insurance up-to-date

It is important that you review your insurances on a regular basis. Insurance is not static, and your need for cover will change as you move through different stages in your life. We can help you to review your circumstances to ensure that your level of insurance cover remains adequate.

Aspirations Wealth Group

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