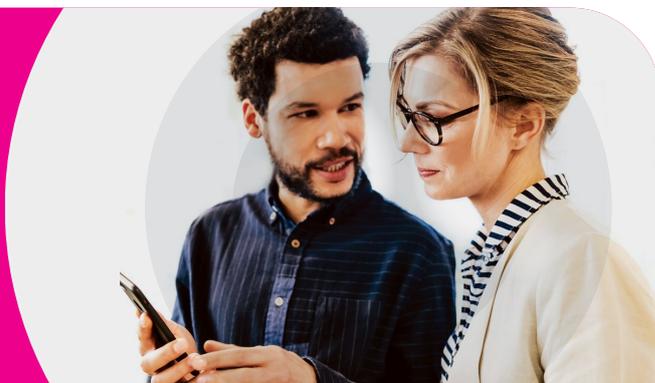


Planning your personal insurance



Making sure you and your family are OK if something happens to you

While most people don't think twice about insuring their home or car, less than a third of us insure our most important asset – the ability to earn an income¹.

Many Australians will be diagnosed with a serious illness in their working life. Without adequate insurance many of us would face financial hardship meeting medical and living expenses while unable to work. Government Social Security payments are unlikely to be enough to bridge the gap.

Insurance should be part of any financial plan to provide much needed cash in critical times. It won't take away the pain of being unable to work or losing a loved one, but it can ease the burden of financial problems for you and your family.

Four main types of personal insurance

Life	Total and permanent disability (TPD)	Trauma	Income protection
Pays a lump sum benefit to your nominated beneficiaries if you die, or to you to if you're diagnosed with a terminal illness (this is referred to as Death cover when provided inside super)	Pays you a lump sum benefit if you become totally disabled through illness or injury, and you are unable to return to work	Pays a lump sum benefit if you're diagnosed with a specified illness	Is paid monthly and will generally cover up to 75% of your salary if you're unable to work

Things to consider when buying insurance include:

- The specific policy definitions and features
- Whether the cover is held inside or outside super
- Any tax implications



Life insurance

Life insurance is quite straightforward. The beneficiary receives an insurance payout if the insured dies.

When deciding how much cover you need, things to consider include:

- Clearing debts
- Providing income to support the family
- Education costs for children.

You can hold Life insurance inside or outside super, and there are pros and cons of both. There are also different rules and tax implications depending on who you leave the benefit to.

Income protection

Income protection will pay you a regular amount if an injury or illness stops you working. This usually comes as a regular monthly payment at a percentage of your normal income. The maximum most insurers will offer is 75% of your before tax salary, and some may provide up to an extra 10% as a super contribution.

Income protection payments are taxable and assessed at your marginal tax rate.

Income protection can be held inside or outside of your super. Premiums paid from super are not tax deductible to you.

¹ FSC.org.au – research conducted by the Financial Services Council found 83% of Australian's insure their car but only 31% have income protection.

Premiums outside super are tax deductible, so holding an income protection policy separate to super may be appropriate, depending on how much tax you pay and your available cash flow.

Waiting periods can vary from 14 days up to two years. The waiting period is like an excess, the shorter waiting periods have higher premiums than longer waiting periods.

The length of your **benefit period** also affects policy premiums. It may be a year or more but will generally end by age 65.

Trauma insurance

Consider how you'd cope if you were diagnosed with cancer; you may need extended time off, or your spouse may need to take time off work to care for you after chemotherapy or radiation treatment. This is where trauma insurance comes in – paying a lump sum if you're diagnosed with a specified illness or injury.

The benefit paid can also help with out of pocket medical expenses and other costs that Medicare and Private Health Insurance don't cover.

Most providers cover around 50 serious medical conditions or 'trauma events', such as cancer, heart attack, coronary bypass surgery and stroke.

Trauma cover is only available outside super and premiums aren't tax deductible. However, benefits paid are tax free.

Total and permanent disablement (TPD) insurance

Total and permanent disablement (TPD) insurance generally covers you for disability that stops you from ever working again. The benefits are paid as a lump sum.

Considerations in deciding your level cover include:

- Clearing debts
- Providing ongoing income
- Out of pocket medical expenses and other costs
- Potential ongoing care needs
- Supporting dependants

TPD can vary between insurers. Some policies will cover disablement that prevents you from working in your current **(own) occupation**. Others cover you when you can't work in **any occupation** (even if it pays significantly less) for which you are reasonably qualified by education, training or experience. TPD cover may also be available under a home duties/maker occupation if you're not in paid employment.

The key difference between TPD and trauma insurance is that trauma insurance covers you if you suffer one of the specified medical conditions outlined in the policy, regardless of how well you survive and whether or not you return to work. TPD insurance will only be paid if you're unable to ever work again.

When TPD is held inside super, cover is limited to an "any occupation" definition. TPD benefits paid from super can have different tax implications depending if it paid as a lump sum or an income stream.

If held outside super, premiums are not tax deductible and the lump sum received is tax free.

Other types of insurances

Other personal insurances include: **business expense insurance**, which provides a monthly reimbursement of your fixed business cost; and **key person insurance**, which provides a lump sum to financially protect the business in the event the insured dies, becomes totally and permanently disabled or suffers a critical illness. A financial planner can discuss these in more detail.

Factors that affect premiums

Insurers set the base premiums on a number of factors such as age, gender, occupation, smoker or non-smoker.

Your health history may also affect the final premiums or an exclusion may apply to an existing condition. The insurer will advise you of the final terms, if you agree the policy will start and the premiums will be payable.

Get in touch

Customer service centre

Phone 1300 650 873
Monday to Friday 8.30am to 6pm (AEST/AEDT)

Fax 1300 722 072

Visit aware.com.au



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