Planning your personal insurance

Making sure your family is 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 income[1].

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 losing a job or a loved one, but it will 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

If you have to make a claim, you'll need to meet the insurer's terms and conditions in the policy document you receive. If you don't meet these terms your claim will be denied. 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
- Choosing stepped or level premiums **(see details below)**

[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.

Life insurance

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

You choose your level of cover and the cost is based on your assessed risk. For example, older people and people who smoke or pursue hazardous leisure activities are seen as a higher risk and so pay higher premiums.

You can hold Life insurance inside or outside super. Inside super, it's 'owned' by the super fund with the member's super account being the beneficiary. Premiums on life insurance held within super are tax deductible to the fund. This doesn't apply to policies held outside super.

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 an agreed percentage of your normal income. The maximum most insurers will offer is 75% of your salary, but some may provide up to an extra 10% as a super contribution.

Income protection can be held inside or outside of your super. Income protection payments are taxable and assessed at your marginal tax rate. Premiums are tax deductible and therefore holding an income protection policy separate to super may be appropriate, depending on how much tax you pay and your available cash flow.

Like life insurance, the cost is affected by factors like age, current health, the type of work you do. They're also affected by your waiting period, benefit period and the percentage of your usual salary you want to insure. The shorter the waiting period and the more salary covered, the higher the premium.

Waiting periods can vary up to two years. Your claim can only be accepted and payments made once you've been ill for this period. 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 a stroke left you paralysed for a big period of your life and you couldn't go back to work for a while (and you may or may not be able to recover). This is where trauma insurance comes in – paying a lump sum if you're diagnosed with a specified illness or injury. 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, lump sum payments are tax free.

The cost can vary depending on your circumstances – similar to life insurance.

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.

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. As such, premiums for TPD insurance are generally less expensive than trauma cover, particularly for "any occupation" policies.

The cost is affected by factors such as age, health, smoking and your occupation. TPD can be held inside and outside super.

When TPD is held inside super, cover is limited to an "any occupation" definition, the premiums are tax deductible to the fund and taxed concessionally on any super lump sums paid out. 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. Your financial planner can discuss these in more detail.

Choosing between stepped and level premiums

Insurance premiums usually increase with age because the older you get, the more likely you are to make a claim. You can choose between stepped and level premiums.

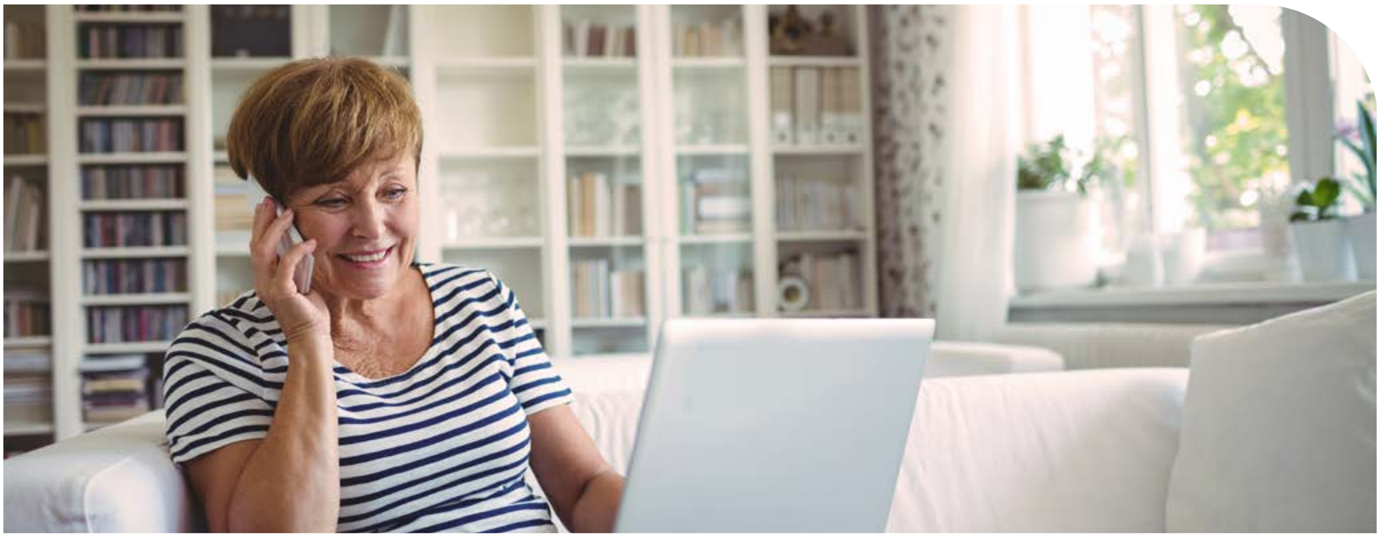
- **Stepped premiums** — Your premium is cheaper at the start and increases each year as you get older.
- **Level premiums** — Your premium is more expensive at the start and then only increases each year in line with inflation, but is lower than stepped in the long term..

Level premiums start higher but are cheaper than stepped premiums when you're older. Whereas, stepped premiums may make it more affordable to start the cover you need when you're younger.

Working out how much insurance you need

Most Australians are significantly underinsured or not insured at all. So the question is: how much do you need? The answer depends on your age, how old your dependants are, your current income, lifestyle and debts.

Whatever insurance you choose, it's important to regularly review your cover against your needs.



Start with the worst-case scenario

As a guide, first think of how much money would be available if you or your spouse died or became disabled. Add up what you have in super, shares, savings and existing insurance policies. The difference between what you have and what you'll need is the amount of insurance cover you should get.

Younger people often need more insurance because they have more debt, less savings (including super) and they have young children who will need money to bring up. Older people typically have less debt, more savings and their dependants have moved out of home. More insurance means more protection; however, it also depends on what you can afford, so you may need to prioritise.

Many super funds offer life and TPD disability cover. To see how much, if any, cover you have through your super:

- Check your member statement
- Check your account through your super fund's website or contact them by phone
- Read your product disclosure statement (PDS) to find out exactly what you could be covered for

Insuring through your super fund is often cheaper, but it may also be appropriate to hold insurance outside super.

To get an idea of how much insurance you might need to cover your current living costs use our insurance calculator at **aware.com.au/insurancecalculator**

We're here to help

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Locate us

Visit over 40 offices around Australia for help with your super account, including setting up your account online.
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