Insurance facts you should know

SALT FINANCIAL GROUP

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Even non-income earners need to be insured

If you are not earning an income from regular paid employment, it doesn't mean that you shouldn't be insured.

If you are bringing up children or maintaining your home, you are doing 'unpaid' work. This would turn into a real cost to your family if you weren't there to do it anymore.

In considering the amount of insurance you might need, calculate what it would cost for someone else to do the tasks the 'unpaid' worker currently performs.

Inside or Outside super?

There are good reasons why you should consider holding insurance in your super fund.

For certain policies, having insurance inside your super fund can be more tax effective, however some of the benefits may not be accessible until retirement. The beneficiaries of your insurance cover need to be considered as well.

Some insurance products allow you to hold and pay for most of your cover within your super fund and part of your cover outside the fund.

This is commonly referred to as Linking.

Analysing what is best for you and your circumstances can be complex, this is where a financial adviser will be able to help.

Your insurance needs change on an annual basis

Each year what you need is likely to change.

You may have different financial obligations, the need for protecting your dependants might lessen, your children will get older or you may even have more children.

As insurance can be a considerable expense, you don't want to pay for more than you need. Conversely, you don't want to be underinsured if your debt increases or your family grows. An annual reassessment makes good sense.

If you have a financial adviser, ensure your annual review of your financial position also includes your insurance cover.

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Different ways of protecting you in case of sickness or injury

When you insure yourself you are really insuring the loss of your income and the loss of your contribution to the household and family.

You are also insuring your health, should you need special care. There are different types of insurance cover to take care of these issues.

TPD stands for total and permanent disablement. If you lose the ability to work you will be paid a lump sum from a TPD insurance policy.

Income protection is insurance cover that provides a monthly payment in the event you are unable to work due to sickness or injury.

Living insurance, sometimes referred to as ‘trauma insurance’, provides a lump sum payment if you suffer a specified medical condition and survive. It can assist with living expenses, medical costs, special care, and it provides a level of financial independence while you are recovering.

Life insurance insures your life – if you lose your life this insurance will pay a lump sum.

Each of these insurances can be tailored to your circumstances and you should seek advice to make sure you are adequately protected.

Your income is your greatest asset

When we look at protecting what we have, we typically look at our tangible assets like our home and cars.

Yet potentially our greatest asset - the income that we are expecting each year for the rest of our working lives - is not always something that people would consider insuring.

Your income is what typically funds the house, the car(s) and the family holidays. If you become ill or are unable to work due to sickness or injury, how will you afford to maintain your lifestyle as well as your financial and family commitments?

For a full assessment of your financial needs, it's important to see a financial adviser.

You don’t always have enough insurance in super

6 out of 10 people with dependants don't have enough insurance cover to look after their family for more than 1 year if they were to pass away.[1]

Most of us hold some minimum level of insurance cover as a default within our super fund, but it's not always enough. You need to know how much cover you have, what type of cover it is and what your own needs are so you can consider whether to change or increase your level of cover.

As a guide, you should at least be insured to meet the level of debt you and your partner hold, taking into account your financial situation.

It is essential to the well being of your dependants that you have the right level of cover for your circumstances. If you are unsure of what this might be you should seek professional financial advice.

[1] IFSA-Rice Walker Fast Facts: A nation exposed! Underinsurance key facts, August 2005.

The cost of aged care is changing the perception of Life Insurance

As people live and work longer there is a greater need to make sure that your income is protected for longer so that it doesn't run out in your working lifetime.

New products are now offering income protection cover up to age 70. So in the event you are unable to work as a result of sickness or injury, it may make good financial sense to obtain a cover that lasts longer.

Some insurance is tax deductible

Whether insurance is tax deductible depends on the type of cover and whether the cover is held within your super.

Generally, life insurance, income protection and TPD (any occupation) are tax deductible to a superannuation fund.

You may also have the ability to make tax deductible contributions to superannuation to fund the cost of the premiums. When held outside superannuation, only income protection insurance is tax deductible.

Sometimes the odds are too high to ignore

Unpredictable things do happen.

In 2012 about 50,000 Australians suffered new and recurrent strokes – that is 1000 strokes every week or one stroke every 10 minutes.[1]

An estimated 128,000 new cases of cancer will be diagnosed in Australia this year, with that number set to rise to 150,000 by 2020.[2]

Between the ages of 25 & 45 the life expectancy is only 46% if you are a male and 50% if you are a female.[3]

[1] Deloitte Access Economics – The economic impact of stroke in Australia, 2013

[2] www.cancer.org.au/about-cancer/what-is-cancer/facts-and-figures.html

[3] www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/3302.02012?OpenDocument

Glossary

Agreed Value

This is a term used in income protection insurance and refers to the agreed amount of cover that you will be paid in the event of a claim. If your income reduces or increases prior to the claim being paid, it will not affect your agreed benefit amount.

Indemnity

This is another term used in income protection insurance and also refers to the amount you will be paid in the event of a claim. It is unlike agreed value as indemnity will pay you a benefit amount based on a percentage of your monthly earnings prior to the claim being paid.

Beneficiary (beneficiaries)

This is the person, persons, corporation or trust that you leave your policy benefit to after death. You can change the nominated beneficiary any time before the death benefit becomes payable. If there is no nominated beneficiary the benefit will be paid to any surviving policy owner or in the case of no surviving policy owner, the estate of the last surviving policy owner. Subject to Trustee discretion.

TPD

TPD stands for Total and Permanent Disablement. This insurance provides a lump sum benefit to the insured should they be unlikely to ever work again, perform household duties again, or suffer a loss of ability due to a permanent disability.

Any Occupation TPD

Unable to perform any occupation to which they are reasonably suited by education, training or experience.

Own Occupation TPD

The injured person is unable to work again in the occupation they were last engaged prior to the claim.

Home Duties TPD

The insured person would be unable to perform home duties as previously undertaken.

General Cover TPD

This is to cover the increased cost of living because of the sickness or injury.

Trauma or Living Benefit Insurance

Trauma or living benefits insurance provides a lump sum amount when you suffer from one of the insurer's list of traumatic events – as stated in the policy. This might include cancers, heart disorders, nervous system disorders, accidents, blindness, organ transplant, or a range of other events. Each insurer differs in what they cover and what they pay for each condition. Some insurers allow you to claim for several events while others do not.

Linking

Linking allows you to attach (or link) superannuation and non-superannuation policies together. Trauma, Needlestick and Children's Benefit can be held outside superannuation and linked as rider benefits to Life and TPD cover held within a superannuation fund.

Alternatively TPD cover, or just own occupation TPD cover, could be held outside superannuation, and linked to Life cover within a superannuation fund.

Contact Salt Financial Group Pty Ltd for further information on 03 9088 4777 or visit www.saltfinancialgroup.com.au