Personal insurance explained

1 January 2021 (updated annually)

Having adequate life insurance cover provides you and your family with financial protection in the event of unexpected death, illness, injury or a major health catastrophe (such as disablement, a heart attack or cancer).

Insurance coverage provides you with peace of mind. It aims to remove or reduce the financial stress that inevitably occurs as a result of these events.

The main types of insurance cover are as follows:

Life insurance cover

Life insurance cover leaves your beneficiaries with a lump sum to help cater for their financial wellbeing.

This will give you the peace of mind of knowing that those who depend on you will not be financially disadvantaged with the burden of maintaining living standards or making loan repayments.

As a general rule, you should aim to have enough cover to pay all large debts and provide your family or other dependants with a lump sum that can be invested to earn an income to replace your lost earnings.

Total and permanent disablement cover

Total and permanent disablement (TPD) cover pays a lump sum should you become totally and permanently disabled through illness or injury. Becoming totally or permanently disabled can be a financial burden. It can prevent you from earning an income at a time when you have additional expenses to cover such as medical and/or rehabilitation costs. Your family also suffers from your disablement both financially and emotionally. TPD benefits help ease the financial concerns experienced at this difficult time.

Trauma (crisis) insurance cover

Trauma or crisis cover provides a lump sum payment to help people recover from a traumatic event such as a heart attack, cancer or stroke. This lump sum can be used to ease financial stress during a period of recuperation, where items such as home modifications and specialist medical attention may be incurred.

Income protection

Everyone who relies on a regular income needs to consider income protection. Your ability to earn an income is possibly your most valuable asset and should be protected. Income protection can provide you with a safety net if you are unable to work in the event of a temporary disablement due to sickness or accident. It is designed to help maintain your lifestyle by ensuring your cash flow needs and expenses can continue to be met during a period of absence from work.

The premiums that you will pay for this type of policy are generally tax deductible. If you hold your insurance within super, the super fund is able to claim a tax deduction on income protection insurance premiums which can reduce the cost of the cover.

Do you need life, TPD or trauma insurance cover?

If you answer YES to any of the questions below, then you may need to consider life, TPD or trauma insurance cover:

- Do you have debts? Such as mortgage, credit cards, personal loans?
- Do you have dependants? You need to think about their ongoing needs such as education expenses.
- Do you have children from a previous marriage? Blended families tend to create more insurance needs.
- Are you in a relationship and are you both in paid work? If your household needs two incomes to maintain your mortgage repayments and existing lifestyle, then you should both have adequate insurance cover.
- Do you have dependent parents? Something we often overlook is our responsibility to help care for our ageing parents.
- Do you have loose ends which need tying up such as money owed to family or friends?

Do you need Income protection?

- Most of us insure our cars and houses, but we often don't insure our most valuable asset – our income!
- A consistent income stream is the lifeblood of families and business. You can insure your income for a very small percentage of your annual income.
- If you answer NO to any of the questions below, then you may need to consider income protection:
  - Are you wealthy enough to be able to survive without your income?
  - Could you maintain your current lifestyle on social security (Centrelink) benefits?
  - Will your accumulated sick leave cover you for a long-term illness? If you are self-employed, you don't have any sick leave!
  - Could you maintain your superannuation contributions if you didn't have an income?

Case study

John and Sally are 38 and 36 respectively. They have two children: Matthew aged eight and Sheree aged six. John is employed full-time as an architect and earns $100,000 pa, whilst Sally works part-time at a local nursery and earns $20,000 pa. They have a mortgage of $220,000 and a car loan of $20,000. Their only assets, apart from the house and car, are John's super of $30,000 and $3,000 in a savings account.

Policies for John and Sally to consider include:

- An adequate level of life insurance cover for both John and Sally to ensure their debts will be paid upon either of their deaths (at least $240,000).
- Additional life insurance cover for John (possibly an additional $1,000,000 of cover) because he is the main income earner, so Sally would have sufficient funds for living costs, children's education and household maintenance.
- Trauma insurance cover for both John and Sally to provide a lump sum to pay debts, house modifications and medical treatments should they suffer from a trauma event.
- TPD cover for both John and Sally to provide the funds required for repayment of debts, medical expenses and to fund retirement needs should they not be able to return to the workforce.
- John should obtain Income protection to cover 75 per cent of his income to ensure that they will be able to meet their day-to-day expenses. Because Sally works part-time she may not be eligible for income protection.

How are premiums calculated?

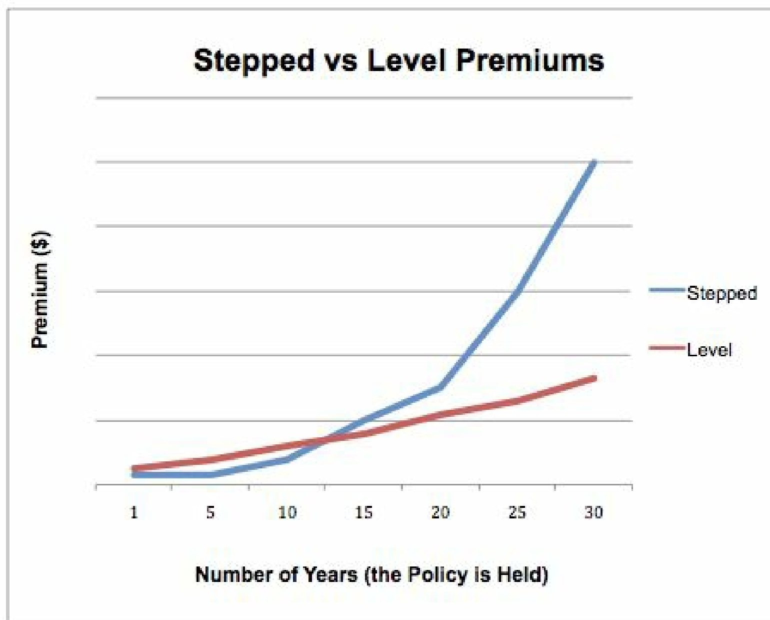
Generally, premiums are based on the sum insured, age, sex, occupation, hobbies, smoker/non-smoker status, general health and option chosen. Premiums can be stepped (they change with age) or level (fixed for an agreed time), with assessment differing from insurer to insurer.

- **Stepped premium** – your premium increases every year with your age.
- **Level premium** – your premium generally does not change and is based on your age when the

policy commences.

While stepped premiums are usually lower in the early years, level premiums can be a more cost-effective option if you retain the insurance for a longer period of time. If insurance cover is only required for a short timeframe, a stepped premium may be more appropriate and cost-effective.

Level versus Stepped premiums



What is the tax position of premium and benefit payments?

For TPD cover owned personally, the premiums are not tax deductible. Lump sum TPD benefits paid to the life insured are ordinarily tax free.

Ask your Bridges financial planner for more information.

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