

31/03/2009

Insurance – Protecting your valuable assets.

Having adequate insurance protection is the foundation of any good financial plan. Most people realise the importance of insuring their valuable assets against loss. Covering your home, car or business is one thing but covering yourself & your ability to earn an income is more important given that if you do not have the ability to earn an income then it is not possible to accumulate these assets, which we do tend to insure without question. It is vital people protect not only their assets but also their current and future earning potential. This can be done through a variety of cover options. It may not be as exciting as investments or super but insurance is an incredibly important part of any financial plan.

General Insurance

For your house car & business you can either deal directly with an insurer or you can use a general insurance broker.

Life, disablement and trauma insurance

I find there is quite a bit of confusion people have regarding insurance and what is the best type to have. Different policies are offered for different purposes.

We act as life insurance brokers and give people advice and assistance in the areas of Income Protection, Trauma Insurance, Life insurance & Total and Permanent Disability cover. As brokers we work on behalf of our client to identify the best possible cover at the best possible price. We research the market using comprehensive software that prices and compares all companies offering insurance in the Australian market.

Structuring insurance

We provide service and advice around how to structure the recommended cover taking into account many issues such as type and level of cover, personal and business circumstances of the client, any potential tax outcomes as well as claim paying ability and financial strength of the company. Most employers will generally offer a token amount of insurance via superannuation. However, every persons financial situation and needs are different and it is important to ensure you do have in place the appropriate types and level of cover for your individual circumstances.

Regular reviews are essential

Many people have insurance cover in place already, which is great but it is important to review what you have on a regular basis, to ensure it is still appropriate for you and that it suits your current circumstances. We know people are living longer these days, due to advances in medical technology but we also know we seem to have more things go wrong with us possibly thanks to the higher stress levels of modern life and greater exposure to toxic chemicals etc.

We are living longer

With life expectancies increasing we have seen the cost of life insurance cover decrease in recent years. Anyone who has had a life insurance policy for more than a few years are probably paying too much. We see many cases where we are able to reduce the cost of the cover, saving people money. In doing this we also find we are able to improve the benefits offered under the new policy. You do have to be careful though, to make sure you are not losing out on any benefits you would like to keep. Your adviser will outline the benefits and any you could lose if there are any.

Definitions of the benefits offered are very important

Insurance policies have to define what is covered and what is not covered under the contract. Many insurers now offer better or more thorough and flexible definitions for things such as total disablement and temporary disablement cover, types of cancer, specific cancer cover for males and females. Having a sound definition can help to clear up some of the confusion about what is covered and what is not. You want to make sure if you have a policy you will get the payout. Many are now offering partial benefits giving people the chance to claim at differing levels where they would have previously been unable.

Free insurance cover for children

Another recent development we are seeing is some companies are now offering free insurance cover for children. The idea here is that if a child was to suffer a major medical condition funds are paid to the parent to assist them to take the time out to be with their family. A serious illness to a child can have devastating effects on a family's finances.

Cover provided can include conditions such as:

Blindness	Liver disease
Cancer	Major burns
Cardiomyopathy	Major head trauma
Encephalitis	Major organ transplant
Heart attack	Paralysis

and many more.

Grandparents left holding the baby.

We have older clients who find themselves looking after their grandchildren permanently. In some cases something terrible has happened to their children and they find themselves forced into a position of having to look after their grandkids. This can in some cases have a disastrous effect on the retirement plans of these people. I have arranged life insurance policies, paid for by the grandparent, but on the life of their children with the purpose being to provide money should something happen to their children.

Business insurance

Business owners need to consider insurance for the benefit of the business and quite separate from their personal insurance arrangements. We assist people with plans involving:

Key person cover – Protecting the key people in a business

Partnership protection strategies – Enabling surviving partners the ability to pay out a partner or their families should something bad happen.

Share purchase plans – This is the same as above but for companies where shares are involved.

Debt protection – Paying out business loans.

Could you imagine if you were in a business with a partner and something happened to one of the partners? The family of the deceased or disabled person would want to get a fair value for their share of the business and the survivor usually does not want to find they are in business with a family member of the person they used to be in partnership with. Without carefully structured agreements and insurance to support the funding this can end up a mess.

Superannuation

You should explore the benefits of having insurance cover through superannuation. There are many traps you need to be aware of here especially in regards to taxation and the ability to get the money out of super but a good adviser can help you to work out the best way to go here.

How much is enough?

Case study

Bill & Lucy are clients of ours. Bill, aged 39, is a self employed IT consultant earning \$84,000 per annum. Lucy, aged 35, is not employed as she has stopped working to raise their three children aged 7, 5 and 3. Their home has an outstanding mortgage of \$390,000 and they have just put a deposit on a holiday house in Port Douglas to spend their Christmas holidays in each year.

If Bill were to die, an appropriate amount of life insurance would cover such things as debt repayment in full on both properties, every day living expenses for Lucy and the children, childcare expenses if Lucy were to go back to work, as well as the cost of the children's ongoing education.

But what would happen if...

Bill becomes totally and permanently disabled?

If Bill had a serious accident and was paralysed, or became severely handicapped, Total and Permanent Disability (TPD) cover would allow Lucy to meet the costs of providing Bill with the medical attention he needed. It would also allow Lucy and Bill to make the necessary modifications to their home to make life easier for Bill.

We recommended \$2 million cover for Bill which would pay out all loans and replace his lost income for the next 18 years at which point his youngest would be 21. We did assume that Lucy would not be able to return to work.

Bill suffers a critical illness?

If Bill had a heart attack and had to undergo bypass surgery and was unable to return to work for seven months, Critical Illness cover can help meet the medical expenses and Bill's foregone income.

They wanted to make sure the debt was paid out so we arranged \$900,000 cover for trauma.

Something happened to Lucy?

Bill is not the only person who needs cover. In the event of Lucy's death or disablement, it would be likely that Bill is unable to leave work without sacrificing some or all of his current income. He may potentially have to look after the children himself or pay for additional childcare expenses.

Sufficient protection for Lucy is vital for the continual management of the family household in the event of her death or disablement.

We established a policy for Lucy for \$500,000 covering death, total disablement and trauma. This would provide \$40,000 extra income per year for 18 years.

If Bill dies?

If Bill were to die without adequate life insurance, Lucy would not be financially secure. She would need to continue mortgage repayments, pay for the children's education and return to work to finance everyday living expenses. The right level of protection will ensure Lucy and the children are financially secure and have adequate funds to continue life as they know it.

We recommended \$2 million of life insurance cover here also.

Summary

Whilst insurance is a very old concept there have been some very important recent developments people should be aware of.

You should:

Review your insurance cover and levels regularly.

Revisit the structure of your insurance to ensure it suits your circumstances.

Consider your beneficiary designations to make sure they reflect your wishes.

Make sure you are not paying too much.

Make sure you will get what you need if you need it. – Many people inadvertently insure themselves for the incorrect amount especially in the area of income protection and the insurance company could pay them less than they thought they should get.

We provide a complimentary insurance review service so why not come and see us for a second opinion at no cost to you.

This article is produced for general information purposes only and is provided in good faith. This article does not contain investment or insurance advice and is not to be relied on as a substitute for professional financial advice. Such advice should be sought prior to any implementing any strategies. Whilst the information contained herein is considered reliable, responsibility is not taken for errors, omissions or inaccuracies.