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The end of the Financial Year is near

We are now in a position where we can clearly see the end of the financial year.

We should all be taking time out to consider this question.

Have I done what is necessary to put me in the best financial position from a tax point of view?

The usual strategies of:

Making deductible super contributions where appropriate

Establishing geared investments and boosting franking credits

Delaying the sale of assets where a gain has been made

Prepaying interest on investment loans

Investing in other tax effective investments

Should all be considered carefully. Are they appropriate for your circumstances?

Whilst these are all important considerations another area we should be reviewing at this time of year is our insurance arrangements. Prepayment of insurance that is an allowable deduction can be a sensible and tax effective strategy for many people.

Income Protection

By far the most important policy you can have in place is income protection. If you need your income to survive financially, income protection is essential. It provides a base for any other lifestyle or investment activity we undertake.

This type of policy provides a replacement income (usually up to 75% of your earnings from your personal exertion) should you become sick or have an accident.

Income protection is usually 100% tax deductible. It is considered by the tax office to be a necessary expense incurred, when obtaining income and deductions are then allowed under section 51(1) of the income tax assessment act.

Paying your premiums now will give you a tax deduction against this year's income, when you complete your tax in the new financial year.

It can be worthwhile to pay the annual payment now, if you need the deduction this year as you will get the deduction and you will save money because monthly payments are usually higher due to frequency loadings being applied.

Allianz Australia Research

I was shown an article by one of my staff this week and I was shocked at the outcome of the research.

Allianz Australia commissioned the research to try and understand the reasons for the dramatic underinsurance epidemic we have in Australia.

The research showed:

Over 40% of people surveyed found insurance very difficult to take out. (The forms and underwriting process can be a nightmare if you are not used to it.)

Over 40% of people did not trust insurance companies.

80% of respondents did not wish to deal with an adviser to take out life insurance.

This is no doubt because of past practices and perceptions people hold of insurance agents.

It is however extremely concerning, as it could lead to even more people not trusting insurance companies due to them structuring their insurance incorrectly or not answering the many questions correctly.

Perception is reality, as they say, though. We as an industry have to learn how to deal with this and most of the answers will come from listening very carefully to our customers.

If you are not happy with the advice your insurance adviser provides you get a second opinion. It is vital that the cover works for you if and when you ever need it.

Do you have the right cover for you?

There are two main types of policies available. Cancellable and Non Cancellable. The names are not as most would think.

The cancellability (if that is a word) relates to whether the insurance company can cancel the cover.

Where possible I would always recommend my clients have a non cancellable policy.

This simply means that no matter how many times you claim on the policy the insurance company can never cancel your cover.

A cancellable policy quite often gives up to 2 years cover and then if the condition persists, the insurance company is under no obligation to offer cover into the future.

A non cancellable policy can cover you up to 65 or 70 years of age and no matter how many times you claim.

Then you have agreed value vs. indemnity policies.

Agreed value is the best in most circumstances because even if your income goes down in the future the value of your insured benefit is agreed, however there are sometimes a few more hoops to jump through in order to get the cover locked in.

Indemnity policies suit people who are on a stable income and are usually up to 20% cheaper than agreed value policies. The insurance company looks at the income you were earning prior to your claim and base the benefit payment on this amount.

There can be a few traps for the unwary here. If your income reduces for any reason, this can have a negative impact on your cover.

I had a client once who had 3 months off without pay and subsequently was injured. His policy only covered 75% of the amount he was insured for which was already; only 75% of his normal income.

Make sure the type and level of cover are correct!

I see many situations where clients and their advisers have incorrectly structured cover levels.

Many have overstated the level of cover inadvertently. Sometimes it is a case of confusing gross with nett earnings.

Other times it has to do with their structure.

Partnerships – I had a client who was an electrician. His wife worked in the business running the office primarily. He paid his wife $40,000 per year to do her job and he earned $80,000 per year.

Their previous adviser had put policies in place for each of them. Whilst this seems to be the correct way to go on the surface it is completely wrong.

They should have insured the husband only for 75% of $120,000, as all income would stop should the husband be unable to work.

Insurance companies generally look at what they call personal exertion income. In this case he generated all of the income from his personal exertion and then paid his wife.

If he took ill or had an accident his wife's income would also certainly stop. The previous adviser had established two policies, one for the husband and one for the wife. This was completely wrong for their situation.

As always we would love to help and we do listen carefully!

For a complimentary appointment call 3252 9990 or visit www.rodneygibson.com.au.

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