

29/09/2009

Written by: Tony Sirett, Managing Director, Rodney Gibson Financial Services Pty Ltd.

## **Life Insurance**

This is a subject that many people do not like think about too much. No one likes thinking of their demise. Many say to me they see it as a necessary evil though!

The fact is most people who rely on their income or the partner's income, desperately need insurance (life, disability & trauma) to protect their way of life.

Nearly every working Australian person has some insurance cover via their superannuation fund. Despite this we are one of the most underinsured nations in the developed world.

Australian Institute of Superannuation Trustees commissioned a survey and found:

- 50% of people are underinsured for life insurance
- 74% are underinsured for permanent disabilities
- 45% are underinsured when it comes to protecting their income.

We talk to many people who feel they are adequately covered by their super fund insurance arrangements. They say they have plenty of insurance in their super.

Rice Warner Actuaries however, estimate that the cover people have in their super represents only 20% of what they actually need. They go on to say this costs the Australian tax payer over \$250 Million per year, not including loss of future taxes, or provision of government housing.

The Investment & Financial Services Association commissioned research which showed that only 4% of Australians with dependent children had adequate levels of insurance cover.

This is hard to understand but we need to look at why this is the case.

89% of people surveyed by ING stated they would not be likely to have an accident that prevented them from working within the next 20 years.

80% also said they would not get sick?

83% felt they would not die

**If we turn that around more people thought they would die than have an accident or illness?**

The reality is it is not the person who is dead that endures the financial hardship. It is the dependents.

Life insurance can be more affordable than most people think. I did a quote this morning for \$500,000 of death cover for a 37 year old mother of 2 and the price was under \$25 per month. That sounds pretty inexpensive to me for that level of cover and it was going to be paid by her super fund.

Many Australians adopt the old “she’ll be right mate” approach. That is our way! Unfortunately we often hear about people who were not right and if your health deteriorates you may find yourself unable to get cover down the track. We need to ensure we are protecting our and our family’s future earning potential.

I know it can seem complicated to work out what is the right type and level of cover but we focus on assisting people to understand what a realistic and sensible level of cover is and make sure we structure it to their benefit.

Insurance should be viewed for the positives it can create rather than the negatives we often hear.

- It provides a better quality of life for many and a better chance at providing your family with the financial and emotional support they may need.
- With life insurance you can focus on living your life, being with your family and recovering if something happens instead of worrying about your finances and keeping a roof over your head.
- Insurance can give you the options to choose; to choose better treatment and to make decisions at your pace.
- Insurance may be the difference between, yes, I will focus on myself and, yes, I will make it and no we cannot afford to keep the house.

Make sure you insure your most valuable asset – your ability to earn an income. Even if you earn a modest income of say \$30,000 per year you will actually earn over \$1Million over the next 20 years if you take into consideration CPI and reasonable pay increases over time.

Let's look at the different types of cover a bit closer:

### **Life Insurance**

This is pretty straight forward and most people understand how this one works.

### **Permanent Disability**

This pays a lump sum amount if you suffer a permanent disablement that prevents you from working. There are three main types of policy available:

Own Occupation - If you are unable to work in your usual occupation you will be paid a benefit.

Any Occupation – If you are unable to work in any occupation.

Home Maker – If you are unable to perform normal domestic duties

In addition to these if you lose the sight of two eyes, the use of two limbs or any combination of these i.e. one eye and one foot you will be paid the full benefit.

Many policies are now including partial benefits if you lose the use of any one of these things.

### **Trauma**

This pays a cash lump sum if you are diagnosed with a major life threatening condition such as heart attack, cancer or stroke.

### **Income Protection**

This pays a benefit for any accident or illness that prevents you from doing your usual work.

Many do not know that Income Protection insurance is fully tax deductible.

Structuring Life & Permanent Disability Insurance correctly can mean that it also becomes a tax deduction.

It is wise to work with an adviser to establish the correct amount and also the best way to structure your insurance arrangements. Many advisers like us are happy to review what you have already and advise whether it is the best you can get.

Products are developing all the time and offering better and more appropriate cover.

We are also living longer which means the cost of life insurance has come down in recent years. If you have an older policy you may not be getting the benefits of more modern options.

Why not make an appointment? It won't cost you anything.

Disclaimer:

*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.*