Managing your personal risk

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What's your greatest asset? Life insurance forms a critical part of the financial planning process, providing financial security for you and your family. A sound financial plan will encompass both wealth creation and wealth protection.

Life is full of unforeseen circumstances which can affect your plans. Life insurance may help you to meet your financial goals and obligations if you lose your ability to earn an income.

Why is life insurance so important?

Life insurance shifts the financial burden from you to the insurance provider who can afford to protect you because of the pooled premiums paid by their customers. Put simply, life insurance is there to provide you with protection against the financial impact of an event such as death, disablement, serious illness or injury.

What type of insurance is available?

There are a range of insurance options available that can be tailored to suit your needs and personal situation. The most common types of life insurance include:

Income protection

In the event that you are unable to work due to illness or injury, income protection provides you with a monthly benefit. This is paid for an agreed period of time while you are unable to return to the workforce.

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.

Life insurance

Life insurance helps alleviate the financial burden your family may be left with after your death. Usually paid as a lump sum, your dependants may use this money to assist with medical costs, funeral expenses or help secure their financial future. The cost depends on the amount of cover (age, gender and smoking status are also determining factors) you choose. The level of cover you have should be reviewed regularly to ensure it remains suitable.

To make a decision on how much cover you require, you should consider the following:

- your children's school fees
- services you would require if you were unable to care for your children, such as a nanny
- how much your dependants would require to meet their day-to-day living expenses, and
- current liabilities, such as your mortgage.

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Total and permanent disablement (TPD)

This is generally taken as an optional extra within a life insurance policy, but can also be arranged as a stand-alone policy. In broad terms it provides a lump sum in the event of a permanent disability that prevents you from returning to work. This lump sum can be used at your discretion to provide for your dependants, to compensate for the loss of your income, repay your debts or cover capital gains tax liabilities.

There are certain conditions that need to be met to receive a TPD benefit payment; these vary significantly between insurance providers. Before taking out TPD insurance it is important that you understand the conditions under which the insurance company will pay a claim.

Trauma

Trauma insurance is generally paid as a lump sum upon diagnosis of an eligible condition (eg cancer, heart disease), and the funds can be used at your discretion. You can use it to pay for additional medical care or to pay off the mortgage and relieve the financial pressure on your family.

This benefit is paid to you when you are diagnosed with an eligible condition. This will ensure that you and your family have a lump sum to cover rehabilitation, carer costs or just day-to-day expenses when you most need it.

Things to consider

Should you get your life insurance within your superannuation fund?

Many superannuation funds will provide you with the option of purchasing insurance through the fund. You can potentially benefit from tax deductions and cheaper costs when you hold insurance within a superannuation fund.

There is, however, often a wider choice of insurance cover available outside of your superannuation fund.

Understanding insurance definitions

It's important to understand your cover as it may help you avoid any complications if you or your estate need to make a claim. You should read and understand the product disclosure statement along with the entire policy document. If there's something you are unsure about, ask your financial adviser to clarify it for you.

How much cover do you need and what type?

You should ensure your cover is adequate and that you are not over, or under, insured. The kind of life insurance that you need depends on a number of factors such as your:

- lifestyle needs
- dependants, and
- personal financial circumstances.

Your financial adviser can help you select the most appropriate life insurance option and provider, and can review your insurance cover regularly to make sure it remains appropriate to your ongoing needs.

Day to day living expenses		$
Multiply by 20	x 20 =	$
ADD to that:		
Repayment of debts/ mortgage		$
Cost of children's education		$
SUBTRACT:		
Value of your existing investments (super etc)		$
Approx. level of life cover you require =		$
SUBTRACT:		
Existing life insurance you have		$
Amount of top-up life cover you require =		$

This table is for illustrative purposes only. You should seek advice from a financial adviser to ascertain your specific insurance needs.
This illustration does not take into account inflation or indexation on earnings.

For more information, please call DMFS Financial Advisers on 1300 364 650.

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