

FactFile

Protecting yourself and your family:

what you need to know

Personal risk insurance is crucial to protecting your lifestyle and the people who depend on you. How would your family cope if you were unable to work due to illness or injury? Could they cover mortgage repayments and school fees if you were to die? Personal risk insurance provides peace of mind that if the unexpected occurs, you and your family will be secure.

What is personal risk insurance?

When protecting your family financially, you should look at your areas of greatest vulnerability, such as your mortgage, other debts, regular household expenses and, if you're self-employed, your business.

Insurance is never a luxury. You may go for years without making a claim, then one day the unexpected happens. No one can eliminate the devastating emotional impact of serious illness, disability or death, but if you have to deal with money problems as well, the situation can be much worse. Having money available when you need it most is what makes insurance so valuable.

There are four main types of personal insurance:

- **Life insurance:** a cash lump sum payable on death to help support your dependants.
- **Total and permanent disability (TPD) insurance:** a cash lump sum to help support you and your dependants if you are totally and permanently disabled due to illness or injury.
- **Income protection insurance:** a monthly income stream to help support you and your family if you are sick or injured and can't work.
- **Trauma insurance:** a cash lump sum to help support you and your dependants if you suffer a specified major medical condition.

Life insurance

Life insurance usually pays an agreed amount as a lump sum upon the insured person's death or terminal illness. This can help provide financial independence for a family if they lose the homemaker or breadwinner. For example, a life insurance payment could help a family cover mortgage repayments, repay personal debts, cover funeral expenses and pay for the children's education.

In a business situation, life insurance can help protect against the loss of a key employee or business partner.

Total and permanent disability insurance

If a person is totally and permanently disabled, they probably won't ever be employed again in the work they are qualified to do, or perhaps in any kind of work. TPD insurance pays a lump sum benefit for total and permanent disability due to illness or injury. It is designed to help meet one-off and ongoing living expenses, as well as cover special expenses such as medical and rehabilitation costs.

To receive a TPD insurance benefit, you must satisfy specific criteria to establish the genuine nature and extent of the disability (this can vary between insurers). These criteria usually include a range of permanently disabling conditions specified in the policy, such as paraplegia, as well as more general criteria relating to your total and permanent inability to work.

Income protection insurance

Income protection insurance (also known as salary continuance insurance) pays a monthly benefit of up to 75% of your pre-tax salary if you are unable to work due to illness or injury. Income protection may pay benefits for temporary conditions that affect you for weeks or months as well as for long-term illnesses.

Income protection benefits begin after a predetermined waiting period that you nominate when you take out the cover. Generally, the longer the waiting period the lower the premium. The policy will continue to pay the benefit for as long as you remain unable to work – up to a maximum predetermined period. This can be a set time frame such as two years, or be age-based, for example up to age 60. Generally, the longer the potential benefit period, the higher the premium.

Income protection premiums are usually tax deductible as an expense incurred in earning your income.

Trauma insurance

Trauma insurance provides a lump sum payment if you suffer a serious, debilitating medical condition (specified in the policy) such as heart attack, cancer and stroke. Generally, you will receive the trauma benefit providing you survive for a set period after incurring the condition.

Receiving a lump sum can help people cope with a traumatic event and deal with issues they may have to face, such as:

- a change of employment to a less demanding role
- servicing a mortgage and other debts
- making home modifications if required
- paying for medical expenses.

The cost of premiums

The cost of personal insurance premiums is generally related to the level of risk associated with the insured event. This can include factors such as:

- your age
- the state of your health
- your occupation
- the type of recreational activities you participate in.

Other factors that may affect the cost of premiums are the type of benefit being paid and whether you have included extra benefits such as coverage for specific injuries, events or diseases on the policy.

Before taking out personal insurance, consider the policy features carefully because the exact circumstances in which a benefit is payable can vary. A cheaper premium may indicate more restrictive conditions on claiming, particularly with policies relating to payment on illness or injury.

Insuring through superannuation

Funding your life insurance through your superannuation fund can provide various tax concessions not generally available for life insurance policies held outside of super. In addition, the same tax concessions that apply when investing in super also apply when purchasing insurance through a superannuation fund.

You may be entitled to claim a tax deduction for personal contributions made to superannuation. In addition, salary sacrifice contributions to super can be used to fund your insurance premiums. Using either of these methods means you will effectively pay your insurance premiums from pre-tax income. This could make it significantly cheaper (on an after-tax basis) for you to insure through superannuation. Note that these contributions are subject to the concessional contribution caps. Life insurance benefits may attract a tax liability if paid from a super fund. For income protection via superannuation, these benefits are usually taxed at normal marginal tax rates. Term insurance may attract tax of up to 30% if paid to a non-dependant, while TPD insurance may attract tax as a superannuation living benefit.

The importance of policy ownership

Ownership of the insurance policy is an important consideration. For example, if you are the 'life insured' and sole owner of the policy, the proceeds would form part of your estate, and may take weeks or months to be paid to your dependants. However, if the policy is jointly owned with your partner, the claim would be paid directly to the beneficiary on your death.

Apart from owning a policy by yourself or with your partner, a policy can also be owned by your business partner, your private company or trust, or your superannuation fund on your behalf. This allows the insurance to be set up for specific purposes, for example, to allow a business partner to buy out a deceased partner's share of their business.

Speak to us for more information

If you would like to know more about personal risk insurance, talk to your financial adviser. They can give you more detailed information on the best approach for your situation.

Important information

This general advice has been prepared without taking into account your particular financial needs, circumstances or objectives. This advice is based on Financial Wisdom Limited's understanding of current law as at 2 September 2008, and is based on its continuance unless stated otherwise. While every effort has been made to ensure the accuracy of the information, it is not guaranteed. All investments are subject to risk, including loss of income and capital invested. You should obtain professional advice before acting on the information contained in this publication.

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