Understanding
Insurance

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How to read this document

Managing your finances to meet your day to day requirements as well as your long-term goals can be a complex task. There are all sorts of issues you need to consider such as taxation, legislation, protecting your wealth and assets, associated costs and the inherent risks of investment. When undertaking a financial plan it is important that you understand how these issues will impact on you and what you should expect over time.

Your financial adviser will provide you with a Statement of Advice (SOA) which sets out the details of the advice and how it will meet your goals and objectives.

This document provides some additional information to help you understand the financial planning concepts discussed in the SOA in relation to **social insurance.**

It is very important that you read this document to help you understand the benefits of the strategies recommended to you, and the associated costs and risks.

If you do not understand anything or need further clarification, please contact us.

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Insurance

Below is an overview of the common types of personal and general insurance cover available.

Personal insurance

The common belief that 'it won't happen to me' often results in many people having a sound plan for wealth creation, but not an adequate plan to protect the very thing that generates the wealth – themselves!

How death, disability or illness affects your ability (or your family's ability) to realise your lifestyle goals and objectives will depend on the wealth protection strategy you have in place.

By taking out insurance you can provide some financial protection for your family's personal needs. Insurance can be structured to provide for such things as the repayment of your debts upon death or disability, financial assistance for dependants, and protection against the loss of income.

Income protection insurance

Income protection insurance (also known as salary continuance) is designed to provide a regular income in the event that you are unable to work due to sickness or injury. Generally, income protection insurance provides a regular income during a period of disablement for up to a pre-determined and agreed benefit period. The benefit amount payable is up to 75% of your income.

Factors to be aware of

- The shorter the waiting period and the longer the benefit payment period, the more the insurance will cost.
- Income protection insurance is important when borrowing to invest (gearing), as it can help meet interest payments if you are unable to work due to illness or injury.
- You should ensure your insurance cover is adequate for your needs. Under-insurance can present a serious problem.
- Within superannuation, income protection insurance can generally only be established with a maximum two-year benefit payment period.

Life insurance

Life insurance can be critical for a secure financial future. In simple terms, you insure yourself for a particular amount, and in the unfortunate event that you die, the insurer pays that amount.

The lump sum payment can be used to help with the repayment of debts, the covering of future needs (for example, the cost of children's education or long-term care), and providing funds for investment to generate an income, or to keep your business afloat.

Life insurance may be obtained via a superannuation fund.

Factors to be aware of

- You should ensure your insurance cover is adequate for your needs. Under-insurance can present a serious problem.
- Changes in your personal circumstances (ie taking on additional debt) often necessitate higher insurance levels.
- Death benefits received via a superannuation policy may be taxed.

Total and Permanent Disability insurance

Total and Permanent Disability (TPD) insurance will provide a lump sum payment should you suffer an illness or injury which totally and permanently prevents you from working again.

There are broadly two main definitions of Total and Permanent Disability:

- **Own occupation** – The insured must show that they have a total and permanent disability that prevents them working in their own occupation which they disclosed when applying for this cover.

  'Own Occupation' is a more liberal definition of disability, because even if you can work in another occupation, you may still be eligible to receive disability benefits. Because it is relatively easy to qualify for benefits under this definition of disability, insurance companies are limiting the availability of this type of coverage. Own occupation coverage is often more expensive, and may only be available to individuals who have a clean medical history and work in a relatively risk-free occupation.
- **Any occupation** – The insured must show that they are totally and permanently disabled and unable to work in their usual, or any other occupation for which they are reasonably suited by their education, training or experience.

'Any Occupation' is often the cheaper option, however it can be more difficult to meet the requirements of this type of disability definition.

Some insurers have a third definition available to clients –a 'homemaker' definition. Payment of benefits under this definition would be based on the proviso that the insured, through sickness or injury, is unable to do any normal physical domestic duties and will never be able to do so again.

Factors to be aware of

- You should ensure your insurance cover is adequate for your needs. Under-insurance can present a serious problem.
- Changes in your personal circumstances (ie, taking on additional debt) often necessitate higher insurance levels.

Critical illness insurance

Critical illness insurance (also known as trauma insurance) provides a lump sum benefit in the event that the life insured suffers a 'critical condition' as defined by the insurance provider. Critical illness cover is designed to help you financially recover from a trauma or crisis, such as a heart attack, stroke, cancer or other life threatening conditions.

Factors to be aware of

- You should ensure your insurance cover is adequate for your needs. Under-insurance can present a serious problem.
- Within superannuation, critical illness cover is not available.

Tax deductibility of insurance premiums

The premiums payable on income protection policies are generally tax deductible, however, the income payments received will be taxed at the applicable tax rate.

Generally, death, trauma and TPD insurance premiums paid are **not** tax deductible, but when a claim is paid the benefits are not subject to tax.

Death, TPD and income protection insurances purchased through a superannuation fund are completely deductible to the fund. Furthermore, you can usually fund the insurance premiums via a tax-deductible superannuation contribution if you are self-employed, or out of your employer contributions made to your superannuation fund.

Death benefits – dependent beneficiaries

In the event of your death, the policy proceeds will be paid into your superannuation account. The proceeds together with your accumulated super balance will then be paid **tax-free** to your nominated beneficiary(ies) and/or your estate.

Alternatively your beneficiary(ies) could choose to have some or all of your benefit paid as a tax-effective pension if that is their preference and they are eligible to do so at that time.

Death benefits – non-dependent beneficiaries

In the event of your death, the policy proceeds will be paid into your superannuation account. The proceeds together with your accumulated super balance will then be paid to your nominated beneficiary(ies) and/or your estate.

If your superannuation is paid to a non-dependent beneficiary(ies) on your death, it is anticipated that tax will apply.

Insurance (continued)

General insurance

Health insurance

All Australian citizens currently have a level of medical cover through the Medicare system. Under Medicare the Commonwealth Government will cover your accommodation and medical expenses in a public hospital. However, you will not have your choice of doctors, and where your condition is not life threatening, you may experience lengthy waiting periods.

Private health insurance gives you the opportunity to choose your doctor and hospital, and can ensure you avoid waiting periods for elective surgery. Depending on the policy, private health insurance may also cover expenses relating to dental, physiotherapy, pharmacy and optical needs. To encourage the adoption of private health insurance, the Federal Government has also introduced a 30% health insurance rebate. This rebate may be claimed in your taxation return or via a reduced health insurance premium. If you are a high income earner and you do not have adequate private health cover, your income may also be subject to the Medicare surcharge, in addition to the general Medicare Levy payable with your annual tax assessment.

Home and contents insurance

With burglaries and natural disasters a regular occurrence, home and contents insurance is important to have. Home insurance alone covers your home from damage. You can also structure this type of insurance to protect the contents within and around your home. Considerable discounts may be gained by combining home and contents cover in this way.

Car insurance

Each day, cars are involved in accidents or stolen. You can minimise the impact of such events by putting in place car insurance. Car insurance is generally offered at a number of different levels of cover. These include comprehensive, third party property damage, fire and theft. Comprehensive cover is preferred, as this insures you for a wide range of events or occurrences. Third party insurance only insures you for damage caused to someone else's car or property.

Residential investor insurance

Investing in a property can provide substantial rewards through rental income and capital gains. This type of insurance protects both the property's income as well as the property itself.