



Client Fact Sheet

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Understanding Financial Protection

Financial protection can be considered as one of the most important aspects of planning for and protecting your future. Not many people consider how their family would cope financially should they die, become disabled or suffer a major trauma event.

Additionally, there is also the risk that an income-earning spouse could become unable to work for an extended period of time due to illness or injury. Many people do not consider the consequences of their income ceasing, or the impact this has on financial commitments such as mortgage repayments and other miscellaneous expenses, which do not necessarily stop when your income does.

Financial protection insurance can be established with a sum insured to enable you to clear your liabilities, make up for lost income for a specified or unlimited number of years, cater for funeral costs or medical expenses, and pay for ongoing rehabilitation amongst other things. The benefit of financial protection is that it allows the insured person to nominate a level of cover that reflects their specific needs and circumstances (e.g. a 25 year old single male with a car loan and a 35 year old male who is married with 3 children and a mortgage would most likely require substantially different levels of cover).

Additionally, it is also important to insure any non-income earning spouses against death, disablement or a major trauma event as their input into activities such as home maintenance and child care may be greatly affected should they become unable to perform these tasks. Insurance can provide additional funds to pay for professionals to help towards completing these tasks.

Types of Personal Insurance

There are various types of insurances available. The more common insurances are listed below:

- Term Life Insurance
- Total and Permanent Disablement Insurance
- Trauma Insurance
- Income Protection Insurance

We believe these insurances are of vital importance for most individuals and families.

Term Life Insurance

Research has shown that the majority of Australians are underinsured or do not have life insurance at all; this is alarming considering the increasing debt levels amongst Australians.

Term life insurance is considered the most common insurance policy to be held by an individual due to its simplicity and low cost compared to the alternative insurances available; if the insured dies or contracts a terminal illness, a lump sum benefit may be paid to assist with a variety of expenses such as clearing the mortgage, covering debts and providing for children's education (subject to individual circumstances and the sum insured).

The cost of life insurance is paid by means of a regular premium. The cost of the premium is calculated based on life expectancy as well as the insurance company's risk assessment of an individual. In simple terms, the older the person, the higher the premium. If the person is a smoker or likes to participate in hazardous activities, the higher the risk and the higher the premium. The insurance company also takes into consideration medical history.

The premium is generally indexed in accordance with the Consumer Price Index (CPI), or a formula based on the CPI. Therefore the cost of premiums usually increases throughout the duration of the policy even if paying a level premium.

Term Life Insurance can be held inside or outside the superannuation environment.

Superannuation Life Insurance

Superannuation Life insurance is similar to Term Life insurance however it is treated as a life insurance policy that is held within the superannuation environment.

Holding Term Life Insurance inside the superannuation environment can be beneficial for people who would prefer to pay premiums out of their superannuation balances or contributions as opposed to their disposable income.

Within superannuation, the premiums are tax deductible to the superannuation fund. Holding insurance through super can prove advantageous if you are self employed, as you can claim a tax deduction on your contributions into the superannuation environment (regardless of what the funds were intended for). Additionally, if you have a low-income earning or non-working spouse, you may be able to claim a tax offset if you contribute to their super.

The availability of the benefit is subject not only to the conditions applicable to standard life insurance, but also to superannuation legislation.

There are further advantages and disadvantages of holding policies both inside and outside of superannuation. We therefore recommend that you consult with your financial planner regarding what would be in your best interests.

Most life Insurance policies have the option of paying a benefit early should you be diagnosed with a terminal illness with no chance of remission or recovery. This will help to cover medical costs and the loss of your income if you are no longer working. It would also help to clear your debts as initially intended when you implemented the policy.

How to decide if you require Life Insurance

You must take into consideration a number of factors, such as your current level of debt, the importance of your income to support ongoing living expenses for your family, and any future expenses you anticipate, such as funeral costs, children's education expenses, and medical bills.

There are various formulae that can be used and generally they take into account your age, the age of your dependants and your current income, lifestyle and debts, including a mortgage.

When considering insurance for any non-income earning spouses, it is prudent to remember that generally a breadwinner will often only have two choices upon the death or disablement of a homemaker. They can choose to take leave from their own job to look after the household, or employ someone else to do it.

Both of these options require funds to cover the expenses involved, and both will have a negative impact on the household income even before accounting for the medical costs if the homemaker is critically ill or totally disabled.

Total and Permanent Disablement Insurance

The chance of suffering an illness or injury between the age of 35 and 65 that will lead to total and permanent disability is about one in ten.

Source: General Reinsurance Life of Australia

Most people understand that accidents can occur to everyday people going about their everyday business, however most people believe that they will not be affected. The important thing to understand is that it can happen to anyone at anytime and, depending on the severity, could prevent you from ever working again. Total and permanent disablement (TPD) cover provides you with a lump sum benefit in the event you become totally and permanently disabled, rendering you unable to earn an income.

TPD cover is insurance that can usually be taken as an addition to a term life policy. It can, however, also be established as stand alone cover. A lump sum benefit is generally payable when medical professionals have established that, in their opinion, you will never be able to work again.

The definitions of TPD can vary between providers, and it is strongly recommended that these conditions are examined by yourself prior to application to ensure that they comply with what you believe would prevent you from working again.

There are generally two types of TPD options available: “own occupation” or “any occupation”.

“Own occupation” provides a TPD benefit if by reason of accident or injury you are unable to work again in your own occupation.

“Any occupation” provides a TPD benefit if you are unable to work again in any occupation for which you are suited by education, training or experience as a result of accident or injury.

TPD insurance is available inside or outside the superannuation environment. Although the benefit of holding the funds within superannuation are that the premiums come out of your fund balance or contributions as opposed to your disposable income, the disadvantage is that the policy will cease as a result of you exiting the superannuation fund. The availability of the benefit will also be subject not only to the conditions applicable to standard TPD insurance, but also to superannuation legislation.

There are many factors to consider when determining whether to hold TPD insurance inside or outside super. Therefore you should discuss this with your financial adviser before making any decisions.

The premiums for TPD insurance are affected by factors such as age, health, smoking habits and occupation. Upon making a claim the insurance provider may also wish to have you examined by their own private medical professionals to ensure that your claim is valid.

Trauma Insurance

As people are becoming more aware of the statistical chances of suffering a critical condition or major trauma, the need for trauma insurance is becoming more of a priority. Trauma insurance is paid when a person has received a confirmed diagnosis of a “qualifying condition” as set out in the insurance policy. It is generally paid as a lump sum upon diagnosis, and can be used to cover lost income, medical and rehabilitation costs, and other varying expenses such as mortgage repayments.

The occurrence of a major trauma can affect both the physical and emotional wellbeing of individuals and their families, and a lump sum can help towards easing the stress during what is most likely to be troubling times.

A “qualifying condition” for trauma insurance varies between providers; however the more common medical conditions are:

- Heart Attack
- Major Head Trauma
- Cancer
- Stroke
- Open Heart Surgery

It is important to note that the qualifying conditions will vary between providers, and the trauma event is only considered to be “triggered”, and a subsequent payment made, upon receipt of a certificate from a qualified medical professional.

Trauma insurance is not generally offered within the superannuation environment.

Premiums vary depending on the level of cover you require, your age, and your medical history.

Trauma insurance is available to persons who are not currently employed, unlike some other forms of insurance.

Why obtain Trauma Cover if I already have Term Life, Total and Permanent Disablement, and Income Protection?

If someone was to have a mild heart attack, then became well enough to return to work after three months (once they had fully recovered), they may not be able to claim under their Term Life, Total and Permanent Disablement or Income Protection policies (dependent on waiting periods) as the illness was not sufficiently long-lasting or resulting in an inability to ever work again.

Trauma insurance can help to fill the gap between Term Life, Total and Permanent Disablement, and Income Protection insurance, and encompass scenarios not covered by other policies.

If you have a family history of serious illness, or even a high risk/high stress job, trauma insurance may be a beneficial policy to obtain.

Income Protection Insurance

What would happen to your expenses and lifestyle should you become unable to work for an extended period of time due to an illness or injury? After sick leave provisions and any accrued leave you may have within employment have been exhausted, you may find that you cannot cover your ongoing expenses.

We tend to take for granted our ability to work and earn an income, and do not consider the prospect of being unable to do so. However, losing your income could have devastating effects on your future plans and financial security.

Income protection is an insurance policy that has the potential to provide you with a portion of your employment income for a specified period of time or until you are able to return to employment (subject to conditions). The benefit is paid on an ongoing basis, and not as a lump sum, and is taxable as normal income. Income protection policies generally pay up to a maximum percentage of 75% of your employment income. It is only eligible for persons who are in employment (including self-employed persons), and the premiums are fully tax deductible.

Similar to life insurance, the premiums are based on factors such as your age, medical history, and smoking habits; however they are also substantially influenced by the type of employment you are involved in. For example, a coal miner would have a higher risk of being injured whilst at work in comparison to an office worker who stays indoors most of the day.

Another factor affecting the premiums is the waiting period and benefit period selected on the policy. The waiting period refers to the length of time you are unable to work before benefits will be paid; for example, if you believe that you would survive without employment income for one month, you may require a policy with a waiting period of one month or more. Most policies offer waiting periods from 14 days up to 2 years. Selection of a waiting period will vary depending on the individual, how much leave they have owing at work and the level of liquid funds they may have. The shorter the waiting period, the higher the premium.

The benefit period is the length of time you will receive a benefit payment. It can range from 1 year to up to age 65 (both the waiting and benefit periods will depend on the provider). Again, the benefit period selected will vary depending on the individual.

A client can mix and match different policies to ensure that they are fully covered. For example, if you have an existing income protection policy within your employer superannuation fund that has a benefit period of 2 years, you could then obtain an additional income protection policy that has a waiting period of 2 years and a benefit period of up to age 65.

Superannuation Income Protection Insurance

Income Protection can be taken out within the superannuation environment. Many providers limit the benefit period to 2 years; however some providers offer benefit periods up to age 65.

Having income protection within the superannuation environment may be beneficial for cash flow purposes, as the premiums can be deducted from your superannuation account balance or contributions. If the benefit period is only 2 years you may be short of income should you be unable to work for a longer period.

It is however, important to take into consideration if premiums are being deducted from your superannuation balance over time and will affect your retirement savings, as opposed to utilising your disposable income to fund the policy premiums.

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