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What is **Personal Risk Insurance**?

Personal risk insurances provide a financial benefit in the event of you suffering a serious injury or illness, or death. They include term life insurance, total & permanent disablement insurance, income protection insurance, and trauma insurance.

What is life insurance?

Term life insurance pays a lump sum on the death of the insured, or if the life insured is diagnosed with a terminal illness and has usually less than 12 months to live.

How much term life insurance do you need?

A recent survey by Rice Walker Actuaries found that only 4 out of every 100 Australians have adequate life insurance. And that 60% of families would be in financial distress just one year after the breadwinner died. * As a rough guide, the ready reckoner over page will help you calculate how much life insurance you and your spouse need.

What is income protection insurance?

This insurance is designed to replace your income if you are unable to work due to sickness or injury. It provides a monthly payment of usually up to 75% of your pre-tax income.

You can generally choose the waiting period (this is how long you must be unable to work before the insurance begins to pay you) and the benefit period (how long the policy will pay you if you are unable to work).

Importantly, the premiums for income protection insurance are usually tax deductible. The cost of this insurance varies based on the waiting period, the benefit period, your income and occupation.

How much income protection do you need?

Most people will earn a fortune between now and when they retire. And yet many

people fail to insure their most important asset – their ability to earn an income. This is despite statistics which show that:

- Every working Australian has a one in three chance of becoming disabled for more than 3 months before reaching age **,
- More than half of all serious accidents happen outside of work – when workers' compensation generally doesn't apply.

As a general rule of thumb, you and your spouse should insure the maximum of 75% of your pre-tax income, up to age 65. The waiting period can be extended until after your sick leave and long service leave etc. will be exhausted.

<p>Life Insurance ready reckoner</p> <p>This table is for illustrative purposes only. You should seek advice from a financial planner to ascertain your specific insurance needs. This illustration does not take into account inflation or indexation on earnings</p>	Day to day living expenses	\$.....per year
	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 cover you have	\$.....
AMOUNT OF TOP-UP LIFE COVER YOU REQUIRE =	\$.....	

Some people have basic income protection insurance through their employer or even superannuation. But this insurance generally pays a benefit for a maximum period of only two years and is a basic type of cover. This means if you are unable to return to work after two years you may not have a source of income. In some instances it may be appropriate to take an additional policy with a benefit period up to age 65.

What is trauma insurance?

Trauma insurance pays you a lump sum on the diagnosis of a specified non-pre-existing illness or injury, generally including heart attack, stroke, cancer, and paraplegia. This can be taken as a stand alone policy, or attached to a life insurance policy.

This insurance was created when it was realised that medical advances were resulting in patients increasingly surviving major health problems, but that the financial cost of survival was prohibitively high for patients (e.g. medical costs, medicine, time off work, rehabilitation etc.). In other words, patients didn't lose their lives; they lost their life savings instead.

How much trauma insurance do you need?

The chances of suffering a trauma are, unfortunately, quite high. For example:

- For a 45 year old, the risk of having a stroke before 85 is 1 in 4 for men and 1 in 5 for women^{^^},
- It is expected that 1 in 3 men and 1 in 4 women will be diagnosed with a cancer before age 75[#]
- For a 40 year old, the risk of coronary heart disease at some time in the future is 1 in 2 for men and 1 in 3 for women.^{^^}

You should consider purchasing enough trauma insurance to cover you and your spouse for:

- Meeting medical, pharmaceutical and rehabilitation costs not covered by your health fund, and
- Paying for a carer, and
- Funding modifications to your home that may be necessary due to permanent disability (e.g. replacing stairs with ramps), and
- Repaying debt, and
- Topping up your Income Protection policy payments, and

- Paying for extended time off work (so you can fully recover before you return to work).

It's not just the breadwinner who needs risk insurance

Families typically insure the breadwinner, but many do not insure the home-maker. However, if the home-maker dies and is not insured, the breadwinner and their children could be left financially vulnerable. Could the breadwinner afford to take extended time off work or take a less demanding but lower paying job so they could look after the children? Or could the breadwinner afford to hire a carer to look after the children?

If the home-maker suffers a trauma and is not insured, could the breadwinner afford to pay all the medical and rehabilitation costs? And take extended time off work so they could look after their spouse? Or could the breadwinner afford to hire a carer for the spouse?

* Reported in Money Management newspaper 3 August 2005

** Australian Institute of Actuaries - Interim Report of the Disability Committee 2000

^ Australian Bureau of Statistics National Health Survey 2001

^^ Australian Institute of Health and Welfare (AIHW) - Heart, stroke and vascular diseases Australian facts 2001

AIHW & Australasian Association of Cancer Registries - Cancer in Australia 2001

*Disclaimer

Before acting on any information you've may received during a strategic financial consultation, or read about on our websites, email communications, guides including our newsletters, you should consider the appropriateness of the advice, having regard to your own objectives, financial situation and needs.

If any products are discussed, you should obtain a Product Disclosure Statement relating to the products and consider its contents before making any decisions. It is recommended to seek advice from a qualified professional relevant to your particular needs or interests. (For instance, Tax Advice from a Tax Agent, Financial Advice from a Licensed Financial Adviser and so on and so forth).



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