

# THE IRISH 30

Financial Wellbeing Part 4

Personal Insurance: Protecting your financial future

Monday 7th June at 7pm

## Important Information

The information contained in this presentation are general statements and should be relied upon as a guide only, as your individual circumstances can be quite different. This presentation has been prepared without taking into account your objectives, financial situation or needs and because of this you should consider the appropriateness of any statements made, to your situation , before taking any action.

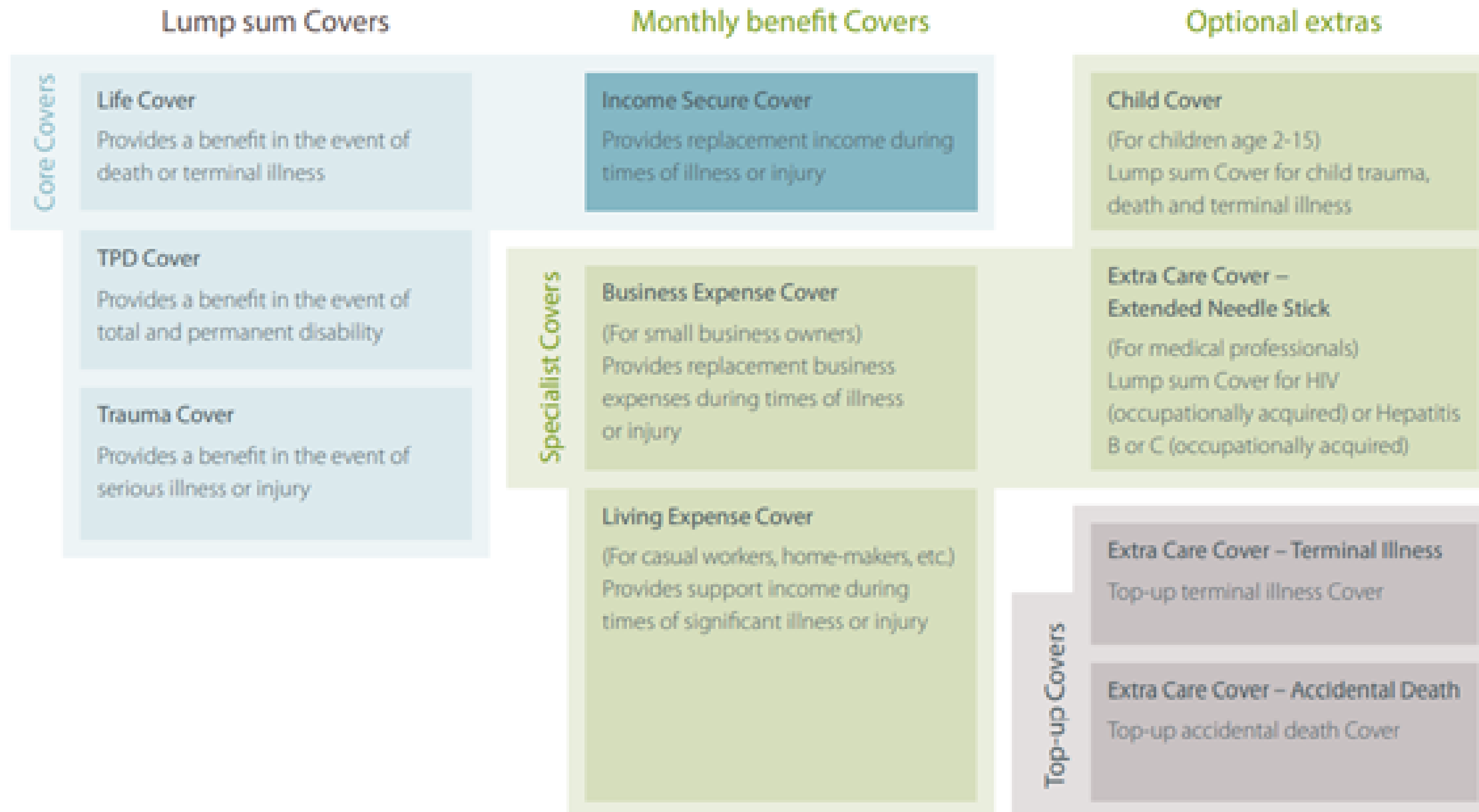
You should seek advice about how the relevant laws impact on your particular circumstances before making a decision based on this material.

If any financial product has been mentioned, you should obtain and read a copy of the relevant Product Disclosure Statement and consider the information contained within that statement in regards to your personal circumstances, before making any decision about whether to acquire the product.

# Personal Insurance – Overview

- Many people think you need a large income and huge assets (such as property etc.) before you need to worry about the expense of insurance. However, the opposite is often true as when you are younger and you have a lifetime of income and building wealth ahead you generally need the most amount of insurance.
- As you become older and it becomes more expensive, you should be building wealth (self-insuring) so you can lower the amount of cover you need
- Policies we will be covering today: Life; Total & Permanent Disability & Income Protection, Trauma (Critical Illness Cover) Plus Child Critical Illness
- General insurance:
  - Home & Contents** (Homeowners) **Contents Only** (Renters)
  - Car** (Third Party and Comprehensive) – Consider the market cost versus specified value and the maximum excess available.
  - Health Insurance** – Basics versus Added Benefits and carry out a market comparison
  - Work Cover** – Will only cover you for accidents that happen on site. Important to understand the details of what circumstances it applies to

# Personal Insurance – Types of cover



## Life Insurance

- Pays a lump sum (or installments) if you die or are diagnosed with a terminal illness
- You can choose the amount of cover and its most suitable for families who require cover for living expenses
- Often held in superannuation where you receive a tax deduction of up to 15%
- Not tax-deductible held personally

## Total & Permanent Disability

- Pays a lump sum (or installments) if you suffer a total & permanent disability and are not expected to ever work again
- You can choose the amount of cover and its most suitable for people with debts and dependents
- Often held in superannuation where you receive a tax deduction of up to 15%
- Not tax-deductible when held personally
- *Any Occupation versus Own Occupation*

➔ Superannuation offers Any Occupation which is a more restrictive term (meaning you need to meet the criteria of someone who cannot work in Any Occupation to claim the benefit).

➔ Held personally you can hold an Own Occupation policy, which means you cannot work in your Own Occupation only (specialist fields such as dentists/surgeons who cannot return to their role and wouldn't wish to do anything else, if they cannot work in that role they are qualified for)

## **Income Protection**

- Comprehensive cover available for most employees or self-employed persons, as long as they are earning an income.
- The amount of cover is generally 75% of your current income paid monthly. Some insurers will also pay Salary Guarantee which can bring it up to 85%
- Benefits paid if you are out of work for a specified period: usually 4 weeks, 12 weeks, or 2 years. The insurer usually pays for a period of either 2 years, 5 years, OR up to the age of 65 – plenty of flexibility to amend as required and save on premiums over time
- Agreed versus Indemnity: Agreed Policy (based upon situation at application) however now there is only Indemnity available (generally the best 12 months of the last 3 years income)
- Income Protection premiums can be claimed as a tax deduction in super and personally. Depending on your Marginal Tax Rate, it can be more beneficial to hold it personally
- Redundancy not covered in most instances

## **Critical Illness Cover (Plus Child Cover)**

- Trauma Cover can help you recover financially from a range of serious medical conditions, including cancer and heart attack. As this is the policy most people are likely to claim upon, it's often the most expensive.
- You specify the amount of cover you need. Clients usually start out with upwards of \$150,000 (depending on the amount of flexibility and medical choices they would like to have) and reassess over time.
- Child Cover protects families from the costs associated with childhood accidents and illness (including cancer, brain damage, and severe burns), allowing a parent to take time off work and assist with out-of-pocket medical expenses.
- Cover generally available up to \$100,000 and can only be set up when attached to an existing policy
- Cannot be held in super and no tax deductions available.



# Personal insurance – how much do you need?

**Misconception: insurance companies want to give you as much insurance as possible (and pay you the least amount possible). This is why a Needs Analysis is so important as you can easily revisit each year and update when circumstances change.**

Not a comprehensive list but the common items we recommend clients consider:

- Mortgage on the home (In full or 50%)
- Mortgage on investment properties (if wishing to retain)
- Spouses' income needs – Where your income is required to meet living expenses
- Children's income needs – Education costs x Number of Years
- Funeral and legal expenses for Life Cover
- Medical expenses for TPD cover
- Emergency funds
- Whether you wish to include/exclude existing assets (e.g. superannuation and investment properties)
- Income Protection set at 75%-85% of income – if you earn lower but are insured for higher, you will not get a refund of premiums and you also will not get the higher benefit payout!
- Holding Income Protection can lower your TPD needs significantly as this will provide you a continued income on a regular basis

# Personal insurance – How can it be structured?

## **Inside / Outside Super**

- When held inside super the Fund trustee is the Policy Owner AND the insurer. To claim a person must first meet the insurers' conditions. If successful, proceeds go to the policy owner, in this instance the superfund.
- To access the funds in super, you still need to meet a 'condition of release' (death, permanent incapacity, or terminal medical condition). Pre 1 July 2014 it was more common for funds to get 'trapped' in super as the criteria did not align – nowadays this is a lot less common as policies are more restrictive in line with super conditions.
- Important to be aware of these older style policies as they are 'grandfathered' (protected) which means they can offer a better quality policy and may not be worth moving. (Example Own Occ TPD and Agreed Value IP/Trauma held in Super)

## **Stepped / Level**

- Stepped Policies are less expensive when you apply and become more expensive over time as you get older. Each year the premium increase as its recalculated for your age.
- Level Policies are more expensive, to begin with, however, they will only increase by CPI over time.
- There is usually a tipping point for clients where they can switch over and save, however as the industry has changed rapidly in recent years this is becoming more difficult to pinpoint. Often clients will opt for Level for the certainty it brings, however, these are not exempt from rate rises across the whole industry, which is something we have seen regularly as insurance companies struggle to keep up with payments.



# Personal insurance – Examples of the effects on Taxation when held in super/personally

## Personally held – Salary \$70,000

Life & TPD	Premium	Tax Deduction up to 15%	Net Cost
Within Super – No additional Contributions	\$1,000	\$150	\$850
Within Super – Additional Contribution made to pay premium	\$1,000	\$487.50	\$512.50
Personally Owned	\$1,000	\$0 - none	\$1,000

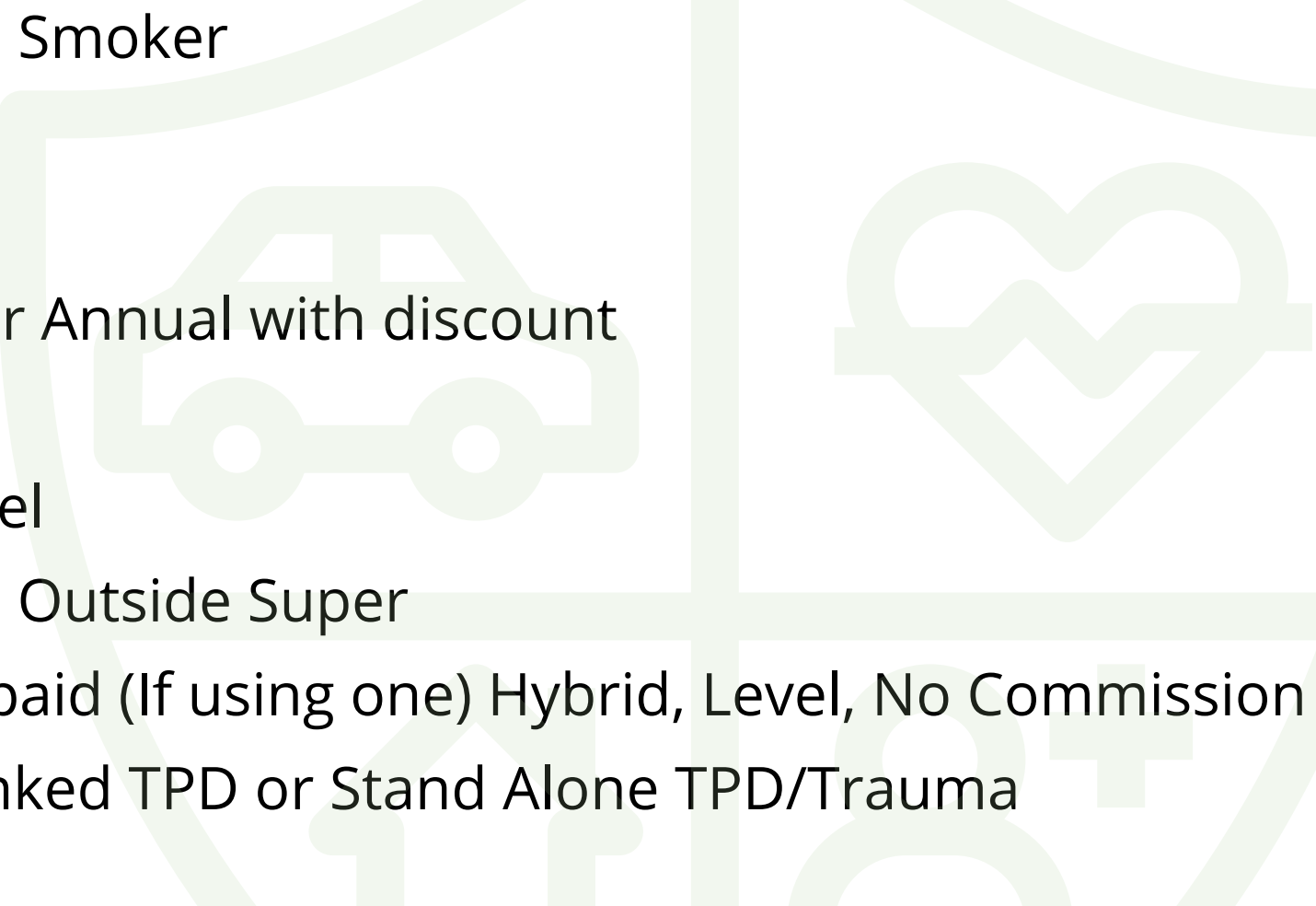
Income Protection	Premium	Tax Deduction (15% in Super / MTR outside super)	Net Cost
Within Super – No additional Contributions	\$2,000	\$150	\$850
Personally Held & Paid on MTR of 32.5%	\$2,000	\$650	\$1,350
Personally Held & Paid on MTR of 37%	\$2,000	\$740	\$1,260
Personally Held & Paid on MTR of 45%	\$2,000	\$900	\$1,100

Holding policies within Superannuation AND making an additional contribution to offset the premium amount will generally result in the same net outcome as if you held the policy personally. However ease of access can be significantly different so it's important to understand your options as the structure of the policy will differ.

# Personal insurance – Steps to Setting up your Insurance

1. Understand how much you need and what types of cover are relevant
2. Consider the ownership structures which are most appropriate to your situation
3. Ability to afford the premiums – if insurance was free, we would all have as much cover as possible! However, as this is not the case we need to balance what's needed with what is affordable
4. Once all of the above is considered, you will need to go through what is known as the 'underwriting process'. This will be a thorough medical questionnaire required by the insurer to understand the risks of taking you on as a client. If there are areas which are deemed too high risk, insurers have the ability to exclude or load the policy as they see fit. Different insurers will have different approaches and it's important to be as transparent as possible at the beginning to avoid issues later on.
5. Once the policy has been issued, they are guaranteed from that point forward which means no matter what health issues may come up in the future you will always be covered from the point you submitted the application. Your Policy Schedule is an important document which should be kept in a safe place as it outlines the basis of your cover.

# ISSUES THAT CAN AFFECT THE PREMIUM

- Smoker versus Non Smoker
  - Male/Female
  - Occupation Rating
  - Monthly Payment or Annual with discount
  - Age
  - Stepped versus Level
  - Inside Super versus Outside Super
  - How the adviser is paid (If using one) Hybrid, Level, No Commission
  - Linking Policies - Linked TPD or Stand Alone TPD/Trauma
  - Indexation
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# Top Tips

- Default insurance within Super – The Australian superannuation system often provides Life & Total and Permanent Disability (TPD) by Default. While it may not be the highest quality policy it is often cheap and as you don't have to go through 'underwriting' for the cover, it can be key for those with a list of medical issues.
- As a rule of thumb, insure the things you cannot afford to replace
- Spend approx. 3% of your income on insuring the other 97%+
- The importance of having a valid nomination on your policy/super
- Most policies will have minimum and maximum amounts of cover available and will expire at a certain age
- Most policies will not pay in the event of self-inflicted acts, suicide or acts of war and terrorism
- Once you have sufficient cover in place, clients find it brings them a feeling of security knowing their situation is protected and their families will be looked after should the worst happen and they pass away

**Any questions??**