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Fact Sheet

Wealth Protection

This fact sheet explains...

- What is term life insurance?
- What is total and permanent disability insurance TPD?
- What is trauma insurance?
- What is income protection?
- Holding insurance within superannuation
- Holding insurance outside superannuation
- Case study Sam and Kelly

Insurance is designed to provide you with financial protection and assistance for events that can impact on your financial position. Failure to adequately cover these risks may result in an inability to maintain your desired lifestyle and to achieve your goals and objectives in the event of any unforeseen occurrences.

Below we have provided you with an overview of the different types of insurances available.

What is Term Life insurance?

Life insurance pays a lump sum in the event of the insured's premature death.

Why do I need Life insurance?

To provide a lump sum cash amount to:

- Cover costs such as funeral expenses, legal fees associated with the implementation of your Will and Government charges (the government has first claim on your estate for unpaid income tax).
- Repay debts such as your home mortgage and personal loans.
- Provide a lump sum to replace your income. The lump sum can be used to establish an income stream to support your spouse and/or children to enable them to continue their lifestyle and also to provide them with a degree of financial security.
- Provide a lump sum to cater for the ongoing need to provide housekeeping and child minding for your family in the event of your death. The lump sum can also be used to generate replacement income for your spouse in the event they take time off work.
- Provide a lump sum to educate children

What is total and permanent disability insurance TPD?

TPD provides a lump sum benefit in the event that you become totally and permanently disabled. Payment for lump sum TPD may be made if the conditions of the policy are met:

- If you are unlikely to work again in the future; or
- If you are unable to perform basic daily living activities.

Why do I need TPD?

- To cover your mortgage or pay other debts
- To provide an income stream for you and your dependants or to supplement any income streams you may receive
- To meet medical costs
- To meet the costs of a modified lifestyle, e.g. nurse or carer and home and car modification

What is Trauma insurance?

Trauma cover , also known as Crisis or Critical Illness insurance, is designed to provide a cash lump sum payment if you suffer a certain specified medical condition for the first time (e.g. serious heart attack, stroke, cancers, kidney failure etc). Trauma extends to your injuries and, depending on the policy, premature death.

Why do I need Trauma insurance?

An example is best used to illustrate the effectiveness of having trauma insurance in place. Suppose you have a mild heart attack and are seriously ill but you are able to return to work after two months. It is possible that you will not be as productive as before, or be able to manage the stress associated with working to your previous levels again.

TPD will not payout immediately, as in many cases you are able to work and do not meet the definition of "totally and permanently disabled", or have not met the lengthy waiting period. Also, depending on your income protection policy and waiting period chosen, this may also not begin to pay you an income for some time, and again you may not meet the policy payment conditions.

Trauma cover is required in these instances, as it pays out on the actual occurrence of the incident. This will ensure that you have the funds available to seek the medical treatment that you require, time off work and hopefully return to good health, without the pressure to earn an income right away.

What is Income Protection?

An Income Protection policy replaces a portion of your income if you are unable to work due to accident or illness. This is defined by the Total and Disability definition of the policy. This definition varies depending on the policy. It can be based on such things as:

- Being unable to perform at least one important income producing duty of your regular occupation;
- Not currently working in any gainful occupation; and
- Being under the care of a medical practitioner.
- In the event of disability and after your selected waiting period, the insurer will make regular payments to you, either for the term of the benefit period or until you are able to return to work.

Income protection is not available to people who are unemployed.

Why do you need Income Protection?

For most people, their most valuable asset is their ability to earn an income. Every working Australian has a 1 in 2 chance of being disabled for 3 months or more before reaching age 65. The average Australian household can survive without an income for just over 1 month (Australian Bureau of Statistics National Health Survey 2004-05).

Having Income Protection insurance in place effectively allows you to protect your most valuable asset. It will enable you to pay for regular living expenses whilst you are unable to work.

Do you know the risks?[1]

- More than half of the Australian population suffers from a Priority condition (asthma, cancer, cardiovascular health, diabetes, injury, mental health, arthritis and musculoskeletal conditions).
- Cardiovascular disease affects more than 3.7 million Australians and kills one Australian almost every 10 minutes.
- 1 in 2 men and 1 in 3 women in Australia will be diagnosed with cancer before the age of 85.
- In Australia nearly 400 people sustain a spinal cord injury every year.
- Long-term disability and the inability to earn an income other than from government benefits could cost a middle income family almost $1 million in lost income over 20 years.

How can I access cover?

You can gain access to cover either inside or outside of superannuation.

Type of Cover	Outside Super	Inside Super
Term Life	✓	✓
Total & Permanent Disability	✓	✓
Trauma	✓	✗
Income Protection / Temporary Salary Continuance	✓	✓

Holding insurance cover inside superannuation

Benefits	Disadvantages
Your superannuation fund may be eligible to receive a tax deduction for the insurance premiums paid	You must become a member of the fund and must continue to meet the government rules about who can be a member, and the trustee will own the policy on your behalf
By placing your insurance cover within superannuation, the premiums are paid from your superannuation account and will not be a burden on your cash flow	Death benefits arising from your insurance cover, through superannuation, may be liable for tax if paid to a non-dependant
Death benefits from your insurance cover held within superannuation will be tax-free if paid to your dependants	Your premiums being paid from within your superannuation fund will reduce your superannuation balance at retirement
Super funds often offer discounted premium rates, making it cheaper to hold cover within super than outside	Total and permanent disablement benefits arising from your insurance cover, through superannuation, may be liable for lump sum tax
You can make pre-tax contributions to superannuation to cover your insurance premium, effectively making them tax deductible	Some policies are not as comprehensive as those held outside of super
If eligible for the government's co-contribution you can make post-tax contributions to cover your insurance premium, effectively earning co-contribution on your insurance premium	Generally unable to access trauma cover

Holding insurance cover outside superannuation

Benefits	Disadvantages
Generally faster payout than that of cover inside of super	Premiums are paid for with your after-tax income, which may burden your cash flow
Can insure a couple on one policy, saving policy fees and allowing you to manage one easy premium payment	Premiums may be more expensive than those offered within super
Trauma cover is not offered inside superannuation	
Premiums for your income protection cover are tax-deductible	
You are the policy owner	
You can own a policy on someone else's life and vice versa	
Greater control over what additional features you wish to pay for on your policy	

How much cover do I need?

To determine the amount of cover you will need, your Financial Adviser will do a wealth protection analysis. Below is an example of an analysis for a married couple with 2 children - Sam and Kelly.

Case study - meet Sam and Kelly

Sam is 40 and a self-employed Accountant. Kelly is 38 and responsible for home duties. Sam and Kelly have two children.

Once the level of cover required has been determined, the next step is to consider any assets that could be disposed (sold) to reduce the amount of cover required (ie. superannuation, investments, cars, boats etc).

Life Protection analysis	Sam ($)	Kelly ($)
Clear Debts - home loan	400,000	400,000
Funeral Costs	10,000	10,000
Emergency Funds	10,000	10,000
Capital Needs	**420,000**	**420,000**
Plus education costs	200,000	200,000
Income Required (pa)	50,000 to 65	30,000 for 12 years
Income Replacement (lump sum)	**1,128,079**	**508,751**
Cover Required	**1,548,079**	**928,751**

TPD analysis	Sam ($)	Kelly ($)
Clear Debts	400,000	400,000
Medical/Lifestyle	150,000	150,000
Emergency Funds	10,000	10,000
Recovery Income	0	0
Capital Needs	**560,000**	**560,000**
Plus education costs	200,000	200,000
Income Required (pa) - 25% of income to 65 to top up IP	30,000 to 65	20,000 to 65
Income Replacement (lump sum)	**756,847**	**589,870**

Income continuation analysis	Sam ($)	Kelly ($)
Income	120,000	0
% of Income to cover	75.00%	75.00%
Super Maintenance Benefit	10,800	0
Cover Required (Annually)	**100,800**	**0**
Cover Required (Monthly)	8,400	0
Benefit Period	To 65	N/A

Trauma Analysis	Sam ($)	Kelly ($)
Repay half of debt	200,000	200,000
Recovery Income	(2 years' salary) 240,000	100,000
Capital Needs	**440,000**	**300,000**
Cover Required	**440,000**	**300,000**

Life risk analysis - Chance of one or both of you, by age of 65, suffering following:	Chance[2]
Death	17%
Death & Total & Permanent Disablement	31%
Death, Total & Permanent Disablement or Critical Illness	52%

Purchasing insurance - inside or outside super

Case study - Sam and Kelly purchase life insurance

With the help of their Financial Adviser it has been determined that Sam will require a $1,549,000 life insurance policy. Based on Sam's personal details and the recommended sum insured, the annual premium for the required level of insurance cover is $1,354 p.a (paid monthly).3

Sam can personally own the cover at a cost of $1,354 p.a in the first year. In the table below we compare paying for this insurance premium outside super versus salary sacrificing into super to cover the premium:

	Outside Super	Inside Super	Saving
Pre-tax income needed	$2,238	$1,354[4]	$884

If Sam paid the insurance premium outside super, he would need $2,238 in pre-tax income to cover the cost of the premium.

The benefit of the "inside super" strategy means that Sam only needs $1,354 in pre-tax income to cover the cost of the premium.

The difference is that **Sam saves $884 on his premium cost** ($2,238 outside super minus $1,354 inside super).

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What you need to know

[1]Sources: AMP.NATSEM Income and Wealth Report Issue 4, Cancer Council Australia – www.cancer.org.au, AIHW – Australia's Health 2008 - www.aihw.gov.au, Heart Foundation - www.heartfoundation.org.au, Australian Bureau of Statistics - www.abs.gov.au.

[2] Source MLC - based on Australian Life tables 2003-05

[3] Based on $1,549,000 AMP Flexible Lifetime Protection premium for an insured male aged 41 next birthday, non smoker.

[4] Assumes that no deduction for the premium for the ordinary policy applies and that the super fund can claim a full deduction for the premium. A tax credit is not available where premiums are funded with non-concessional contributions.

All income tax rates are those applicable in 2009/10

We assume that the insurance benefit will not be subject to income tax (i.e. it will be paid as a lump sum to a dependent for tax purposes)