Count

Fact file

Protecting you and your dependants: what you need to know

Insuring your car, home or other possessions makes sense. So why do so few of us insure ourselves? If illness or injury stopped you from working for an extended period, could you keep paying your bills? Personal risk insurance provides peace of mind that if the unexpected occurs, you and those who depend on you will be provided for.

What is personal risk insurance?

Personal risk insurance is an important way of ensuring you and your dependants will be financially supported in the event of serious illness, disability or death. If your ability to earn an income is affected, a personal risk insurance policy may enable you to maintain your current lifestyle and continue supporting those who depend on you.

Do you need insurance?

While we recognise the emotional impact of events such as serious illness or death, the financial consequences can be equally devastating.

If the unexpected did occur, having personal risk insurance can go a long way to helping you meet your basic living expenses such as your mortgage, groceries, petrol or school fees.

Depending on the event, you may also need to cover significant medical expenses, rehabilitation, modifications to your home or services to help maintain your lifestyle.

Types of personal risk insurance

There are four main types:

- **Life insurance:** a lump sum payable on death or terminal illness. This can help support your dependants to maintain living standards or pay off debts.
- **Total and permanent disability (TPD) insurance:** a lump sum to help support you if you are totally and permanently disabled due to illness or injury.
- **Income protection/salary continuance insurance:** a monthly income stream to help support you if you are unable to work because of illness or injury whether it be permanent or temporary.
- **Trauma insurance:** a lump sum to help support you if you are diagnosed with a specified major medical condition (eg heart attack, stroke or cancer).

Life insurance

Life insurance can help provide financial assistance for a family if they lose the homemaker or breadwinner.

In a business situation, life insurance can help protect against the loss of a key employee or business partner.

Total and permanent disability (TPD) insurance

TPD is designed to help meet one-off and ongoing living expenses such as paying your home mortgage, as well as cover special expenses such as medical and rehabilitation costs.

To receive a TPD insurance benefit, you must satisfy specific criteria to establish the genuine nature and extent of the disability (this can vary between insurers). These criteria usually include a range of permanently disabling conditions specified in the policy, such as paraplegia, as well as more general criteria relating to your total and permanent inability to work.

Income protection/salary continuance insurance

Income protection insurance, also known as salary continuance insurance if held through superannuation, pays a monthly benefit of up to 75% of your pre-tax salary if you are disabled due to an illness or injury for longer than the nominated waiting period. Since a salary continuance policy is held through superannuation, you must also satisfy the "temporary incapacity" condition of release before the benefit can be paid.

Income protection/salary continuance benefits begin after a predetermined waiting period (eg 30 days, 90 days, or two years) that you nominate when you take out the cover. Generally, a longer waiting period means a lower premium however it also means you'll have to wait longer before you are eligible to receive a benefit payment. The policy will continue to pay the benefit for as long as you remain unable to work up to a maximum predetermined period. This can be a set timeframe such as two years or age based (eg up to age 65). Policies with a longer potential benefit period generally have a higher premium.

It is important to note that different policies may have different features and you should speak to a financial adviser for the most appropriate insurance to suit your circumstance.

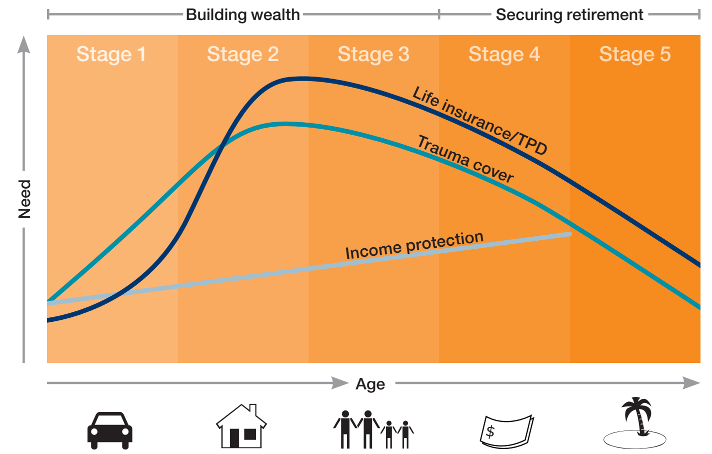
Trauma insurance

Trauma insurance provides a lump sum payment if you suffer a serious, debilitating medical condition (as specified in the policy you choose) such as heart attack, cancer or stroke.

Trauma insurance is designed to help people cope with the financial impact of a traumatic event as they recuperate. Generally, you will receive the trauma benefit provided you survive for a set period after incurring the condition.

What kind of insurance do you need and when?

As your lifestyle and financial position change over time, so do your risk insurance needs. For example, during the years when you are supporting a young family or paying off a large mortgage, you will likely want more protection than later years when you may have downsized homes and your children are in the workforce. The diagram shows what type of insurance may be required most during each phase of life.



Can you afford personal risk insurance?

When you consider your existing financial commitments and level of savings, how long could you be without an income before you would need to sell the house or change schools?

The cost of premiums for any personal risk insurance policy reflects both the risk (probability) of an insured event occurring and specific features of the policy. Some typical 'risk factors' are your age, the state of your health, your occupation and the type of recreational activities you participate in. Some of the policy features may include:

- the amount of benefit payable upon claiming
- the waiting period before benefits are paid
- how long benefits will be paid out for

Before taking out personal insurance, consider the policy features carefully and seek professional advice. And remember that a lower premium may indicate more restrictive conditions on claiming, particularly with a policy that is related to payment on illness or injury.

Insuring through superannuation

Acquiring life insurance through your superannuation fund can provide some tax concessions which are not generally available for life insurance policies held 'outside super'.

For example, by claiming a tax deduction for personal contributions to superannuation or making salary sacrifice contributions from your pre-tax income you can pay your insurance premiums tax-effectively. This could make it significantly cheaper (on an after tax basis) for you to insure through superannuation.

Note that these contributions are subject to the concessional contribution caps. If these caps are exceeded, a tax of 31.5% applies to the excess amount in addition to the standard 15%.

When insuring through superannuation, if life insurance benefits become payable they attract a tax liability if paid as a lump sum from a super fund to a non-dependant for tax purposes of 31.5%. However where life insurance benefits are paid to a dependant for tax purposes, they are tax free.

Benefits for income protection acquired through superannuation are taxed at normal marginal tax rates. TPD insurance may attract tax as a superannuation living benefit.

The importance of policy ownership

Whether you are taking out risk insurance yourself, with your spouse or with a business partner, ownership of the insurance policy is an important consideration. There are different policy ownership options available. Each one can give a different outcome in certain circumstances. We recommend you seek professional advice on the structure that suits your goals and objectives.

Speak to us for more information

Working out how much insurance you need is not easy. It's important to assess your needs in consultation with your Count Financial Adviser. They can tailor an appropriate selection of insurance policies to suit your individual circumstances.

17625/0312