

Personal risk insurance management

Risk insurance forms a critical part of the financial planning process, providing financial security for you and your family. A sound financial plan will consider both wealth creation and wealth protection.

Life is full of unforeseen circumstances which can effect your plans. Risk insurance may help you to meet your financial goals and obligations if you lose your ability to earn an income.

Why should I consider risk insurance?

Risk insurance shifts the financial burden from you to the insurance provider who can afford to protect you by pooling the premiums paid by their customers. Put simply, risk insurance is there to provide you with protection against the financial implications of an event such as death, disablement, serious illness or injury.

What insurance types are available?

There are a range of insurance types available that can be tailored to suit your needs and personal situation. The most common types of risk insurance include:

Income protection

In the event that you are unable to work due to prolonged illness or injury, income protection provides you with a monthly benefit of up to 75 per cent of your salary. This is paid while you are unable to return to the workforce, potentially up to age 65.

The premiums that you will pay for this type of policy are tax deductible. However, any payments you receive as a result of this policy are classified as assessable income for tax purpose.



A sound financial plan will consider both wealth creation and wealth protection.

Life insurance

Life insurance helps alleviate the financial burden your family may be left with after your death. Usually paid as lump sum, your dependants can use this money at their discretion to assist with medical costs, funeral expenses or help secure their future. The cost depends on the amount of cover (age and smoking status are also determining factors) you choose and the level of cover you have should be reviewed regularly to ensure its ongoing suitability.

To make a decision on how much cover you require, you should consider the following:

- your children's school fees;
- services you would require if you were unable to care for your children, such as a nanny;
- how much you would require to meet your day-to-day living expenses; and
- current liabilities such as your mortgage.

Total and permanent disability (TPD)

This is generally taken as an optional extra within a life insurance policy, but can also be arranged as a stand-alone policy. In broad terms it provides a lump sum in the event of a permanent disability that prevents you from returning to work. This lump sum can be used in any number of ways at your discretion to provide for your dependants to compensate for the loss of your income, repay your debts or cover capital gains tax liabilities.

There are certain conditions that need to be met to receive a TPD benefit payment; these vary significantly between insurance providers. Before taking out TPD insurance it is important to understand the conditions under which the insurance company will pay a claim.

Trauma

Trauma insurance is generally paid as a lump sum upon diagnosis of an eligible condition (e.g. cancer, heart disease), and the funds can be used at your discretion. You can use it to pay for additional medical care, or to pay off the mortgage to relieve the financial pressure on your family.

The benefits are paid to you when you are diagnosed with – and survive – an eligible condition. This will ensure that you and your family have a lump sum to cover rehabilitation, carer or just day-to-day costs when you most need it.

Things to consider

Should I get my risk insurance within my superannuation fund?

Many superannuation funds will provide you with the option of purchasing insurance through their products, you can potentially benefit from tax deductions and cheaper costs when you hold insurance within a superannuation fund.

There is however, often a wider choice of insurance cover available outside of your superannuation fund, and you may experience delays in receiving your benefit.

Understanding insurance definitions

It's important to understand your cover, as it may help you avoid any complications if you or your estate need to make a claim. You should read and understand the Product Disclosure Statement along with the entire policy document. If there's something you are unsure about, ask your financial adviser to clarify it for you.

How much cover do you need and what type?

You should ensure your cover is adequate and that you are not over or, under insured. The kind of risk insurance that you need depends on a number of factors such as your:

- age;
- lifestyle needs;
- dependants; and
- personal financial circumstances.

Your Consultum financial adviser can assist you in selecting the most appropriate insurance options and providers, as well as reviewing your insurance cover regularly to make sure it remains appropriate to your ongoing needs.

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 insurance you have	\$	
Amount of top-up life cover you require =	\$	

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.

Did you know?

Your Consultum adviser is not aligned to any one insurance provider, and can therefore provide you with advice on a range of personal insurance including, life insurance, disability insurance, income protection insurance and trauma/critical illness insurance. We will always look to provide you with the most cost effective and appropriate cover for your specific needs.



Disclaimer and General Advice Warning

This FactFile was prepared by Consultum Financial Advisers Pty Ltd (Consultum), ABN 65 006 373 995, AFSL No 230323. The FactFile contains factual information and general financial product advice only. It has been prepared without taking into account any person's individual investment objectives, financial situation or particular needs. A person should not act on this information without first talking to a financial adviser. This information is given in good faith based on information believed to be accurate and reliable at the time of publication, including the continuance of present laws and Consultum's interpretation of them. Consultum does not undertake to notify recipients of changes in the law or its interpretation.

Consultum gives no warranty of accuracy or reliability, accepts no responsibility for any errors or omissions, including by reason of negligence. Consultum, its officers, employees or agents shall not be liable for any loss or damage whether direct, indirect or consequential arising out of, or in connection with, any use of, or reliance on, the information contained in this FactFile. The information in this publication (including tax rates) is current as at 15 July 2010.



David Mac Manus

CFP®, Dip FP
Senior Financial Adviser | Director
Risk Insurance Specialist
Authorised Representative

AUS Financial Advisers Pty Ltd
Level 8, 350 Collins Street Shop 4, 22-40 Bath Lane
Melbourne VIC 3000 Bendigo VIC 3550

P 1300 610 660 | F 03 5441 2112 | M 0467 485 058
E david@ausfinancialadvisers.com.au | W www.ausfinancialadvisers.com.au



David Mac Manus and AUS Financial Advisers Pty Ltd are
Authorised Representatives of Consultum Financial Advisers Pty Ltd.