Personal Risk **Insurance**

While death, disability, illness or accident is not something anyone likes to think about, it's important to make sure everything is in order in case something happens to you.

Protecting yourself and your family.

There are risks in every aspect of life, but many risks can be insured against.

Most people insure assets such as homes and cars, but many don't insure their most valuable asset – their ability to earn an income. Many people also have inadequate (or sometimes no) life insurance, which can leave their family in a difficult position if they die.

Wealth protection related risks:

The main financial risks you and your family are likely to face are:

1. Permanent or temporary loss of income.
2. Inability to fund additional costs resulting from unexpected accident or illness.
3. Inability to finance the standard of living you are accustomed to

Generally, the optimum level of cover for you is the maximum that the life insurance company will accept based on financial evidence. However, in many cases this is simply not affordable. To be able to determine an appropriate level of cover, you need to consider the following:

- Your level of income.
- Your relationship status.
- Your outstanding debts.
- The number of financial dependants you are responsible for.

Income protection (salary continuance)

Income protection pays you a regular income on a monthly basis if you can't work due to an accident or illness. The optimum cover has a short waiting period before benefits are paid, pays 75% of salary and remains in force until your 65th birthday (you can usually also insure your super contributions).

The shorter the waiting period and the longer the benefit payment period, the better the cover, however the higher the premium cost will be. Premiums are tax deductible to you if cover is held personally while all benefits paid are fully assessable for tax purposes. The insurer will pay in accordance with their definition of 'disabled', and this is an important consideration when selecting a policy.

Lifestyle would consider this to be the most important insurance for working adults as generally speaking, your ability to earn an income is your greatest and most valuable asset. You should have the best cover you can afford.

Life insurance

Life insurance provides a lump sum of cash upon the death of the life insured. This can help to provide for the cost of living of your family if you die, fund the repayment of debt, or cover future needs such as children's education or long–term care.

To calculate the level of life cover, you need to understand how much income your family would need if you died.

You can have life cover either within super or as a non–super policy. The benefits of having this cover within super may include:

- Your employer Super Guarantee (SG) payments can be used to fund the premiums.
- the premiums for life cover within a corporate super plan are generally cheaper because of group discounts (especially for smokers).

Life insurance may also come with terminal illness cover. This pays a lump sum if you're diagnosed with a terminal illness with a limited life expectancy (usually 12 or 24 months depending on the policy).

Total and permanent disablement (TPD)

A permanent injury or illness can make it difficult or impossible to return work. TPD insurance can provide a financial safety net to help support you and your family, and pay for medical and rehabilitation costs.

TPD insurance pays a lump sum if you become totally and permanently disabled because of illness or injury.

Each insurer has a different definition of what it means to be totally and permanently disabled. It is important to check the definition of disability (what you are covered for) with your insurer and/or your super fund. Generally TPD will cover you for either:

- Your own occupation — you're unable to work again in the job you were working in before your disability. This cover is more expensive and is only available outside super.
- Any occupation — you're unable to ever work again in any job suited to your education, training or experience. This cover is cheaper but has a higher threshold to claim, so it's less likely to pay out.

Total and permanent disability (TPD) insurance is generally only offered as an extension to life insurance. Becoming totally and permanently disabled represents a major risk.

The disadvantage of having life cover within super can be:

The beneficiaries of a super fund are restricted to/determined by the requirements of legislation and the super fund’s trust deed. Generally, your spouse, children, and financial dependents are allowable beneficiaries. This is a complex area, and you need to consult with the trustees of your super fund to understand your options.

Critical illness cover (trauma insurance)

Critical illness or (trauma) insurance is the other important insurance cover you need to consider.

It provides a lump sum of money on diagnosis of a range of serious illnesses such as cancer, heart attack/conditions, major head injury or stroke. Premiums are not tax deductible but the proceeds from the policy are tax free.

The cover is designed to help people recover financially from such a trauma or crisis. This money could be used for out of pocket health care costs, medication, physiotherapy, the need to make modifications to the home, or for treatment overseas.

Trauma cover benefits are paid on diagnosis. Many people now recover from major illnesses; therefore their life insurance is of no use in this instance. A benefit payment allows the insured to return to work at an appropriate time, and to have funds during a time of financial need.

Cancer (47%) and cardiovascular conditions such as stroke and heart attack (18%), comprise 65% of all trauma claims*. The insurer generally covers many other critical illness conditions on top of the above mentioned.

You should consult the relevant product disclosure statement for further information on these conditions.

Generally, insurers use the following as a guide to the maximum insurable amount

Income protection

75% of income

Life cover

$2,000,000

TPD cover

$2,000,000

Critical illness cover

$1,000,000

*SOURCE: CommInsure 2017

Insurance inside your super fund

Most super funds offer Death, TPD and Salary Continuance insurance for their members as part of their super accounts

Advantages

- In many cases insurance is provided automatically without the need for medical underwriting. This means you may be covered for pre-existing conditions or avoid loadings and exclusions which may be applied if you had to complete an application for cover.
- Premiums can be funded from employer or personal contributions or by using your existing super fund balance, which may assist in managing cash flow and affordability of premiums.
- You may benefit from income tax savings by claiming a tax deduction for personal contributions or by contributing via a salary sacrifice arrangement, using pre-tax salary, which may provide cost savings on premiums.
- Premiums may be cheaper in super than outside super. An assessment of cost versus benefits, terms and conditions under the policy should be undertaken.
- The trustee of the super fund will generally withhold PAYG tax on benefit payments before the monthly Salary Continuance benefit is paid.
- It is important to ensure you have nominated a beneficiary to receive your superannuation benefits, including life insurance benefits. If you would like more information on nominating a beneficiary please contact us.

Disadvantages

- Premiums can erode retirement savings if you don't make extra contributions to negate premium cost.
- Contributions made to fund premiums count towards your contribution caps.
- The taxable component of a superannuation lump sum benefit is taxed at a maximum of 20% (plus Medicare levy) if paid to a member under preservation age. If a member is between preservation age and 59, the first $225,000 (2021/22) is tax free with the remainder taxable at a maximum of 15% (plus Medicare levy).
- Ancillary benefits such as critical illness or trauma benefits cannot be provided as benefits through super are limited to a non-commutable income stream in substitution for the income you were receiving before incapacity.
- Payments may be delayed as the benefit needs to be transferred from the insurer to your super fund to you.

Protecting Your Super legislation

In February 2019, the Federal Government passed legislation to support the 'Protecting Your Super' Package introduced in the 2018/19 Budget.

The Protecting Your Super and Putting Members Interests First Packages introduced several measures that are designed to ensure that members' super balances are not eaten into by unnecessary fees and charges.

The new law requires super fund trustees to:

1. only start insurance cover for members where they have reached a balance of $6,000 and are age 25 or older. (however, you can opt in to having the cover when you join a new fund);
2. turn off a member's default insurance when their account has been inactive for more than 16 months;
3. protect low balance super accounts by setting a limit on the fees that can be deducted each year; and
4. transfer low balance inactive accounts to the Australian Taxation Office (ATO) to enable multiple accounts that a member may hold to be consolidated into their main account.

Importantly, the legislation does not take into account whether cancelling insurance and the low balance transfers to the ATO best suit someone's personal circumstances.

If you have an inactive account and would like to keep your insurance cover, then you can do so in one of two ways. You can activate your account simply by contributing to your super.

1. You can do this as a contribution or rollover, and it doesn't matter how much the amount is, or who pays it.
2. Alternatively, you can provide an election in writing to keep your cover.

Continuation options

You may be able to continue insurance cover you have within any group insurance policies (inside or outside of super) when you leave an employer. It is important to investigate this option at the time of leaving the employer, as there is usually a 90-day time limit within which you can apply for continuation.

A continuation option allows you to continue the cover you have in place through your employers or your employers default superannuation fund without the need for detailed medical evidence.

Stapling of superannuation accounts

A stapled super fund is an existing super account which is linked, or 'stapled', to an individual employee so that it follows them as they change jobs.

From 1 November 2021, if you do not choose a superannuation fund when you join a new employer, they must use your existing 'stapled' fund as your default fund. The change aims to stop new super accounts from being opened every time an employee starts a new job.

It is important to consider if a new employer's default fund may offer benefits that are superior to your stapled fund, and to make an active decision as to what is going to be best for your personal circumstances.

General insurance

Your super fund must pay your benefit after your death to the beneficiaries you have nominated and in the proportions you have specified. The only reason your payment will not be made is if your nomination is invalid or is in breach of a Court Order.

Two witnesses must sign your binding nomination. A witness is anyone over the age of 18, and cannot be anyone you have nominated as a beneficiary.

Health insurance

Private health insurance is another important consideration, not only is it potentially good to have, without it you may be taxed more.

The Medicare levy surcharge is a levy, or an extra tax, on Australian taxpayers who do not have private hospital cover and who earn above $90,000 for individuals and $180,000 for couples or families, increasing by $1,500 for each additional child after the first.

The surcharge is calculated at a rate between 1% and 1.5% of taxable income (depending on your income level). It is in addition to the Medicare levy of 2%, which is paid by most Australian taxpayers. It is important to consider if private health insurance is appropriate and affordable for you.

For more information, please contact us.

1300 349 188
contact@yourlifestyle.com.au
yourlifestyle.com.au

Lifestyle
Your life your way