

Are You Insured?

By Noel Whittaker

Unfortunately, most Australians have a blasé attitude to insurance. While they would not dream of leaving their house uninsured, they are extremely tardy when it comes to areas such as life insurance and income replacement insurance. There seems to be a general belief that a sudden accident or serious illness is something that happens to someone else, but I bet you know far more people who have suffered a serious illness than people whose houses have burnt down.



The cost of this neglect is highlighted by a recent Lifewise/Natsem Underinsurance Report, which claims 95% of families do not have adequate insurance. This serious level of underinsurance is expected to cost the Federal Government \$1.3 billion over the next ten years. According to the report, 18 Australian families lose a working parent every day, while 235,790 parents of working age suffer a serious illness or injury every year. Over 17,000 of these are forced to stop working, either permanently or for an extended period of time. The report points out: 'Lifestyle is determined by income, where people live, whether a dwelling is owned or rented, where children go to school, where and how often people eat out and if holidays are taken. It is usually the first casualty when the worst happens, and can often lead to devastating consequences for affected families.'

Case study:

A family has debts of \$400,000. The husband is the sole breadwinner, the rest of the family would need \$60,000 per year to replace his take-home pay. His life insurance should be around \$1,300,000, as they would require \$900,000 to invest after paying the debts.

The proceeds of a life policy are not taxable and the premiums are not tax deductible. However, by arranging the insurance through his superannuation, considerable tax savings could be made as the superannuation contributions are made from pre-tax dollars and the proceeds are tax-free if paid to a dependant. If he was 37-years-old and a non-smoker, he could purchase \$1,300,000 of death cover for just \$780 per year.

Of course, there is a possibility he may suffer a serious accident or illness that leaves him unable to work again. The life insurance policy will not pay out because he is not dead, but for an extra

premium he can add TPD (Total Permanent Disablement) to his life cover. This policy would then pay the full sum insured on his becoming disabled so all debts could be liquidated, the home modified if necessary, and a sum invested to give the family an income. The extra cost to add \$1,300,000 of TPD cover to his life policy would be just \$564 a year.

However, what happens if he suffers a serious illness, such as cancer, stroke or a heart attack but does not qualify as being totally and permanently disabled? This is the benefit of Trauma Insurance as it pays an agreed sum as soon as the critical illness is diagnosed to help the family cope. The good news is most people recover from such illnesses and so live to enjoy spending the proceeds of their own insurance. For him, the premium for \$100,000 of trauma cover is around \$166 a year. Income replacement insurance, which would pay him \$3,750 a month until age 65 after a 60-day waiting period could also be included for a tax deductible \$895 a year.

Think about it: for a total cost of just \$2,405 a year, the family has built a strong barrier around their finances and given them peace of mind. The cost is even lower when you take into account that \$1,344 that is coming out of his superfund and \$895 is tax deductible. Just do not delay because a tragedy could happen at any time. HOME



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