Personal Insurance

Financial planning is about protecting your wealth as well as building your wealth.

It is easy to think that you won't get sick or hurt and ignore the need to protect the very thing that generates your wealth - your own health and your ability to work. But if an accident or serious illness does occur, the impacts can be devastating.

It's worth remembering that no matter how much expert advice you receive, or how well you manage your finances, there is always a risk that you could suffer an early death or serious illness or injury. Where that leaves you and your loved ones in the future depends on the wealth protection strategy you have in place.

Risks you could face in the future may include:

- Emotional, physical or mental trauma
- Death or serious illness
- Loss of income due to temporary or permanent incapacity
- Damage to your house or other personal assets
- Theft of, and/or damage to business assets
- Public liability and/or professional indemnity risks

Your financial plan should include a strategy to minimise risks that could jeopardise both your present and future plans. In simple terms, if you cannot afford to lose something then you should try to protect your exposure. Insurance can provide a cost-effective protection mechanism.

This may take a combination of personal, general and health insurance policies. There are many different aspects to insurance and it is best to tailor a package that suits your needs as well as your budget.

How the Strategy Works

Personal risk insurance protects your wealth accumulation strategy by providing financial assistance if you are no longer able to earn an income due to disability, trauma or death. The money received can help with medical bills, loan repayments and living expenses.

Many people often underestimate the importance of personal insurance which has led to a problem with underinsurance in Australia. It is important that you consider having enough cover to replace your income and cover expenses so that the personal tragedy does not create financial tragedy.

You can apply for insurance to cover you in the event of death, temporary or permanent disability, or trauma (critical illness). Outlined below is a brief outline of types of personal risk insurance.

Life Insurance

The most common type of cover is life insurance (term life insurance). Life insurance will pay a lump sum to your estate or specific beneficiaries in the event of death or in some cases, on diagnosis of a terminal illness.

The advantage of life insurance is peace of mind that your death will minimise any financial hardship for your loved ones. Life insurance can be used to pay off debts, provide an income for dependents, cover funeral expenses and generally assist in maintaining your family's lifestyle in the event of your death.

With this type of cover, your family would not be burdened by debt and may be protected from selling assets to pay debts or cover living expenses.

Total and Permanent Disability Insurance

Total and Permanent Disablement (TPD) may prevent you from working and may require expensive medical treatment and ongoing care.

TPD insurance aims to provide a lump sum if you suffer an illness or injury and you:

- Are permanently unable to work again or
- Are unable to care for yourself independently, or
- Suffer significant and permanent cognitive impairment.

TPD insurance pays a lump sum which can be used to pay for medical expenses, ongoing care costs and to meet living expenses for you and your family.

The definition of TPD can vary and may include options for a range of occupations, including homemakers. Options that you can choose from include:

- Any Occupation TPD: The benefit will be paid if you are unlikely to be gainfully employed in any business, profession or occupation for which you are reasonably suited by your education, training or experience. This definition is generally less expensive than an Own Occupation definition but for some people, it may be harder to meet.
- Own Occupation TPD: The benefit will be paid if you are unlikely to ever be gainfully employed in your own occupation. Own Occupation TPD provides a generous definition as it is specific to your occupation and is particularly suitable for specialist occupations. The premiums for this type of definition are more expensive than Any Occupation TPD.

You should discuss your circumstances with your financial planner.

Trauma Insurance

A serious illness or injury can prevent you from working for a period of time and may require expensive medical treatment.

Trauma insurance (also known as critical illness, crisis or recovery insurance) aims to provide a lump sum upon the diagnosis of a specified illness or injury such as life-threatening cancer, stroke or heart attack. Trauma insurance pays a lump sum that can be used to pay medical expenses and reduce any financial pressure while you focus on recovery. This payment is made regardless of whether you are able to return to work and is designed to relieve financial pressure at a time when you are under great stress.

Child Trauma insurance can be added to your policy to cover a seriously ill or injured child. This provides a lump sum to help you cover medical treatment and eases financial worry for parents who may need to take time off work to provide care.

Income Protection Insurance

Income Protection insurance aims to minimise the financial impact of sickness or injury by replacing income lost during a prolonged absence from work. A monthly benefit will assist you to meet living expenses and debt repayments.

Income Protection policies usually replace a percentage of your pre-tax income after a waiting period. The benefit payable and how income is assessed will depend on the terms of the policy. For new individual income protection policies issued from 1 October 2021, APRA's sustainability measures generally limit benefits to 90% of earnings for the first six months of a claim and 70% thereafter, although certain superannuation contribution and rehabilitation benefits may be treated separately.

Waiting period: This is the time period that you must be off work before an income benefit is payable. Waiting periods range from 14 days to two years. Generally, the longer the waiting period, the lower the cost of the income protection insurance.

Benefit period: Starting at the end of the waiting period, the benefit period is the maximum time the benefit is paid. Options range from two years, five years or until a specified age such as age 65.

Types of contracts include:

Agreed value: Under an agreed value policy, the monthly benefit was determined when the policy commenced based on the insured person's income at that time. New agreed value income protection policies have not been available since 31 March 2020. Existing policies may continue to operate under their original terms, subject to the applicable policy conditions.

Indemnity value: The monthly benefit paid may differ to the monthly benefit insured as it will depend on your earnings at the time of a claim. The monthly benefit received will be based on your gross income at the time of claim up to the monthly benefit insured. Details of proof of income will be required at the time of claim.

Premiums paid personally for insurance that protects employment income may be tax deductible. A personal deduction is generally not available where the policy is held through superannuation and the premiums are deducted from superannuation contributions or the member's account. Payments received to replace salary or wages generally need to be included in your tax return. Tax treatment depends on the policy structure and your circumstances, so you should seek taxation advice where required.