# Quick Facts…

## The importance of insurance

Insurance is used as financial protection for a variety of personal and business purposes – for example, to protect income, repay debts, or provide for dependants. To minimize the loss that may result from your death or serious disability, it's important to implement suitable protection strategies.

**Protect your greatest asset – your income**

What is your greatest asset? Your home and its contents? Your car? Your life? Many people insure these assets, yet, all too often they don't adequately protect what is potentially their greatest asset – their ability to earn an income.

Take a moment to consider what could happen to your lifestyle if you were unable to work for an extended period due to illness or injury. Your expenses could quickly run down your savings. You may even need to sell your investments to make ends meet.

By taking out income protection insurance you can protect your greatest asset and avoid putting your family's lifestyle at risk.

If you suffer an illness or injury and are unable to work, income protection insurance can pay you a monthly benefit (usually 75% of your pre-tax income) to replace lost earnings. You can generally claim these premiums as a tax deduction.

You can choose a range of benefit payment periods, with maximum cover usually up to age 65. You can also choose a range of waiting periods normally between 14 days and 2 years.

**Eliminate Debt**

If you're like most people, you've used debt to finance a range of lifestyle purchases, including the family home. However, if you die, the loan repayments will still need to be made, even though the salary your family has relied upon is no longer available.

Your loan documents may even contain a clause that requires immediate repayment if you die or become disabled. However, sometimes this is not feasible, and the only option may be to sell the underlying asset to repay the lender. When this asset is your family home, your dependants could be in the unenviable position of either having to re-finance the loan or sell and downgrade their residence.

**Maintain your family's lifestyle**

You also need to consider whether your family will be able to meet their ongoing expenses.

Death, permanent disability or a serious medical condition can have a big impact on a family's finances and standard of living. If something should happen to the main breadwinner, the emotional strain could be significant.

**Protect the homemaker**

It's also potentially dangerous to overlook the insurance needs of the person who predominantly takes care of the home and the children.

If something should happen to the homemaker, the family can suffer financially, as well as emotionally. Despite advances of modern technology, there are still plenty of things that need to be done around the house and hiring someone to provide home help and child care services can cost a lot of money.

To protect your household (and avoid putting a big dent in the budget) it's important to include the homemaker when developing suitable insurance strategies for your family.

**Keep your business running**

While income protection insurance should still be considered, it's also important to protect the very thing that generates your income – your business.

By taking out business expenses insurance, you can cover certain ongoing expenses and keep your business running while you recover.

If you are self-employed or in a small partnership, business expenses insurance can help you meet 100% of your share of eligible business overheads, should you be unable to work due to illness or injury.

This can help keep your business afloat and ensure that, in the worst case scenario, there is still a business to sell should the need arise.

Expenses that can be covered with this type of insurance typically include, amongst other things, office rent and mortgage payments, equipment or vehicle leasing costs and utility bills such as electricity, heating and water.

**Cover the key person in your business**

The most valuable business asset is the one that produces the most profit – your staff. Material assets can be easily replaced, staff can not.

The loss of a key staff member can have a substantial impact on profitability, operational management and the goodwill of your business. Many businesses also find there are no suitable candidates readily available within the organization and it can take substantial time and money to recruit and train an external replacement.

By covering your key person, you can help fund the loss of a valuable employee by providing an injection of cash for a revenue or capital purpose.

**Establish a Will for your Business**

Establish a Will for your business by creating what is known as a Buy / Sell Agreement.

A Buy / Sell Agreement is a legal contract which can facilitate the orderly transfer of a person's share in a business to the remaining owners when certain trigger events occur (such as death or serious disability).

To help fund the transfer, the agreement normally uses life insurance so that sufficient capital becomes available to buy out the departing owner's share in the business.

# INSURANCE CASE STUDIES

### Case Study

Sam earned a net annual salary of $45,000 and his wife, Jane, earned $30,000. They had a mortgage of $150,000 and other debts totaling $15,000. Their accumulated superannuation was estimated at around $25,000.

Sadly, Jane died and Sam had to reduce his work to part-time hours in order to look after their toddler, Ben. Sam's annual income was consequently reduced to $15,000 a year. However, he required $40,000 a year. In addition, Sam needed an immediate $20,000 for funeral and other costs.

Fortunately, Jane had life insurance cover of $500,000. This allowed Sam to pay off all debts and costs, and provided a lump sum that he used to supplement his part-time salary.

Sam was able to work part-time and care for Ben until he was old enough to care for himself after school. Eventually Sam was able to return to full-time work and save for his son's further education and living costs.

### Case Study

David, a 51-year old accountant, was married with two teenage children. During a routine medical examination, David's doctor discovered that David had small amounts of rectal bleeding. Subsequent tests revealed that David had bowel cancer.

David stopped work immediately to undergo surgery. His private health insurance allowed him the choice of hospital and surgeon with the recommendation of his doctor. The surgeon removed the section of bowel affected by cancer and David then underwent chemotherapy.

David had income protection insurance that covered him for 75% of his income, which he used to cover many of his family's ongoing living expenses. Three years before diagnosis of the cancer, David's financial adviser had recommended that he purchase a trauma insurance policy (he already had adequate life insurance through his work superannuation fund).

In addition to receiving the ongoing income from his income protection insurance, David's trauma insurance policy provided a lump sum payment of $200,000 when he was diagnosed with cancer. This payment allowed David's wife to take 3 months off work to care for him, and it also allowed them to meet some of the costs and household expenses while David was unable to work.

David continued treatment for several months and made a complete recovery and was able to return to work.

### Case Study

Brian worked for a major national retailer. He was in his twenties, married with a mortgage, a young child and another baby on the way. At work he began feeling very tired and began displaying symptoms of Multiple Sclerosis although his supervisor incorrectly thought he was lazy. When he was finally diagnosed many months later he was advised to leave work. His supervisor was glad he was leaving and wasn't very sympathetic. He was given a termination pay from his employer. He made a claim on his Life & TPD policy. It was accepted and he received a payment which was enough to pay out his mortgage making life a lot easier for him and his family as well as a significant sum that was used to establish an income stream.

### Case Study

Max is 35 and married with two children aged four and two. His wife Sarah stays at home caring for the family. They have a $140,000 mortgage, $4,000 owing on credit cards and a car loan of $6,000. Max's superannuation policy includes just $50,000 life cover. If something were to happen to Max, the family would be in financial difficulties.

After speaking to his financial adviser, Max decides to take out a $1 million life insurance policy and $200,000 trauma and disability insurance. If he were to die, the family would have $900,000 to live on after all debts were paid. Max's adviser also pointed out that if Sarah died, he would need money to take care of the home and children. As a result, they decided to take out $500,000 life cover and $400,000 trauma cover for Sarah.

### Case Study

Arthur is 55 and earns $120,000 pa as a sales representative. His children are now 22, 19 and 17, with the youngest about to start university. Arthur has no debts and is comfortably set up with a quality home and possessions. He has $200,000 life cover in his super fund and plans to retire at 65.

Arthur is concerned that if something happens to him before he reaches retirement, he might have to sacrifice his home and eat into his retirement savings. After speaking to his financial adviser, Arthur decides to take out a further $200,000 in life cover and $200,000 disability cover. Importantly, Arthur also takes out income replacement insurance that would pay him $7,500 per month to help him maintain his lifestyle.