Wealth Alliance Pty Ltd (ABN 61 601 747 862)
PO Box 27, Glen Waverley VIC 3150
Phone: 0450848995 Fax: (03)90156590
Email: norman@wealthalliance.com.au

Guide to Life Insurance

Unfortunate events like sickness, injury, death and disablement can happen to anyone. Would you be able to survive financially if any of these events happen to you? Personal Insurance, or what is commonly known as Life Insurance, can provide the funds that you and your love ones will need in these critical times. Below are some guides about life insurance.

Types of Life Insurance

The 4 main types of life insurance in Australia include:

- Life cover: this provides a lump sum payout to your nominated beneficiary if you pass away.
- Total and Permanent Disability (TPD) cover: this provides a lump sum payout if you are totally and permanently disabled.
- Trauma or Critical illness cover: this provides a lump sum payout if you are diagnosed with specific injury or illness listed within the contract, such as cancer, heart attack, tumour etc,
- Income protection: this provides income stream payout to replace your income if you unable to work because of injury or sickness.

Parties to a Life Insurance Policy

- Life insured: the person whose life is being insured by the life insurance policy.
- Owner of the policy: the person who owns the life insurance policy. Policy owner has certain rights such as to elect or change the beneficiary, and to assign ownership to another person.
- Insurance company: a party to a life insurance policy who, in exchange for the premium payment, agrees to pay certain benefits.
- Beneficiaries: the person who is entitled to the death benefits if the insured person dies.

How much cover do I need?

There is no correct answer to this and it depends on how much cover you need and can afford. Generally, for life cover, you can consider the following aspects when calculating the amount of cover required:

- Liabilities to clear such as home loan, credit card debt and other personal debt
- Final expenses/funeral cost
- Estimated education cost for your child/children
- If you are the sole bread winner and do not want your spouse to have to work after your passing, you can estimate how much capital is needed to sustain your family’s lifestyle after you pass away.

For TPD cover, things to consider when calculating the amount of cover required include:

- Liabilities to clear such as home loan, credit card debt and other personal debt
- House modification cost to accommodate for disability
- Estimated education cost for your child/children
- Ongoing additional cost of living with disability. This can be medical or other expenses such as transportation cost, carer cost etc.
- Capital required to sustain your ongoing income requirement

For Trauma or Critical illness cover, this is generally estimated by looking at associated treatment cost for some common trauma event like heart attack, stroke and cancer. In addition, some people will also want their existing loans/debts to be paid off upon trauma event.

Income protection usually offers cover for up to 75% of your employment income for a specified period (e.g. 2 years or to age 65).

Types of Insurance Premium?

- Stepped premium: This is calculated based on your age and will increase each year as you get older. While stepped premiums are more cost effective in the short term, it will increase substantially as you get older and may become unaffordable at some point in the future.
- Level premium: With level premium, the premium cost is "averaged out" over a number of years. Generally, it is more expensive than a stepped premium in the beginning, but the premium does not change due to your age. Please note however that level premiums may increase over time due to inflation adjustments or changes to the insurer's fees.

Types of Income Protection

- Indemnity value: With indemnity value, while the insurer will take your declared income at the time of application however your cover will be calculated based on your income at the time you are making a claim. Therefore, if your income has reduced since you applied for the policy, your cover will also be reduced.
- Agreed value: With agreed value, your cover is calculated on your income at the time you apply for the policy. When applying for agreed value income protection policy, you may have to provide proof of income. Agreed value cover ensures that you know how much benefit you will receive, even if your income level changes.

Can I fund Life insurance premium by using my Superannuation?

Yes, you can have Life, TPD and Income protection insurance cover funded through your superannuation. While this will help you with your cashflow, but structuring life insurance within superannuation environment isn't without its drawbacks:

- Within superannuation environment, Life and TPD payout may attract tax. This will not be the case if you own and pay for the Life and TPD cover yourself.
- As you are not the owner of the insurance policy (usually the trustee of the superannuation fund owns the insurance policy in this arrangement), you may not be in full control over who will receive the death benefit.
- There may be some delay from the time of your death to the time the benefit reaches the beneficiary/ies. This is because the payment will get paid to your superfund first.

Please note that Trauma cover cannot be structured within or funded by your super

Group Insurance VS Retail Insurance

- Group Insurance is an insurance product offered by a superfund or employer to a group of people. The owner of the policy is usually the trustee of the superfund or an employer. A good example of this is the default insurance cover offered by industry funds such as Australian Super, REST, Hesta etc. With group insurance cover, the policy usually gets re-negotiated every 2 years with the insurer or reinsurer and this may impact the policy term and conditions of your insurance.
- Retail Insurance is an insurance product offered by an insurer to the life insured, which may be sold directly to the customer or offered through insurance broker and financial advisers. Unlike group cover, retail insurance is usually underwritten at the time of application. The terms of the policy

are locked in and cannot be change unless you are not being disadvantaged by the changes. This type of policy usually offers more flexibility, features and often better terms and conditions.

Cost comparison should not be the only consideration when purchasing life insurance. It is important for you to consider the ownership structure, tax implication, the level of cover, the terms and conditions of the policy etc. Please contact Norman Angwar at 0450 848 995 or at norman@wealthalliance.com.au for more information.

Disclaimer: This insurance guide is developed to help you understand the different types of personal insurance available and their general features. Please note that this guide is developed without taking into account your objectives, financial situation or needs. It should not be used, relied upon, or treated as a substitute for specific professional advice.