

Protecting your wealth

Personal risk insurance in plain English



Issued July 2010

What is insurance?

Insurance is a form of protection – a way to protect yourself, your family and the things you own if something goes wrong. It enables you to replace or repair your assets, whether those assets are your belongings or your capacity to earn an income.

What types of insurance are there?

There are many types of insurance. Car or home/contents insurance allows you to insure your belongings. Personal insurance policies are an important part of your financial strategy, enabling you to insure yourself and your ongoing wellbeing.

Personal insurance provides protection against sickness, injury and death, and includes:

Life insurance

Total and permanent disability insurance

Trauma insurance

Income protection

While insurance doesn't remove the risk of something going wrong, it provides you and your family with protection, compensation and financial security if something does happen.

The amount of insurance you need is affected by:

- how much you earn
- the cost of living
- your assets
- your liabilities

- your relationship status (whether you are married, in a defacto relationship or single), and
- how many dependants you have.

Everybody's circumstances are different, but insurance is important for everybody. Your need for insurance will change as you move through the different stages of your life.

Life insurance

Life insurance protects your family by paying a lump sum if you die. Most people think that life insurance is only for the main income earner, but the person who takes care of the family is also a large contributor to the home and can be insured.

Life insurance

Can be purchased either inside or outside of superannuation

Many super funds provide life insurance. Your employer has an obligation to offer you a super fund that provides a minimum level of death cover. You can choose to maintain this cover, increase it or opt out.

Tax treatment

Outside super

- Premiums are generally not tax deductible.
- The benefit payment is tax free.

Inside super

- Premiums are tax deductible for the super fund.
- The benefit payment may be taxed, depending on who receives it.

Total and permanent disability insurance

Total and permanent disability (TPD) cover provides a lump sum payment if you suffer a disability before retirement and can't work again, or can't work in your usual occupation or chosen field of employment.

TPD insurance

Can be purchased as an add on, or as a stand alone policy

You can buy TPD as an add-on to term life insurance, or as a stand alone product.

You can also get TPD as an extra benefit from your super fund or as part of a trauma insurance product.

Tax treatment

Outside super

- Premiums are not tax deductible.
- The benefit payment is tax-free if paid to the injured person or their relative.

Inside super

- Premiums are tax deductible for the super fund.
- The benefit payment you receive is taxed.

Trauma insurance

Trauma (or critical illness) insurance provides a cash lump sum if you suffer a specified illness or injury such as a serious heart attack, stroke, cancer, or kidney failure.

Advances in medical treatment have increased the need for trauma insurance. The improved chance of survival means that although you are more likely to survive, you are also more likely to have substantial medical bills to pay. Trauma insurance is a way to make sure you have funds available for medical treatment and can take time off work to recuperate from your illness or injury.

Trauma insurance

Stand alone policy or additional options

Trauma insurance is usually purchased as a stand alone policy, but can be purchased with additional options, such as a TPD benefit.

Trauma insurance is generally not available through superannuation.

Cost

Trauma cover is relatively more expensive than other forms of life insurance because of the greater probability of a trauma event occurring.

Tax treatment

- Benefits are tax free.
- There is no restriction on how you use the payments.

Income protection

Income protection insurance (also known as disability insurance or income replacement) provides a monthly payment stream to replace lost income if you are unable to work due to injury or sickness. It can help you maintain a reasonable standard of living while you are unable to continue earning your regular income.

Income protection insurance is an important consideration for anyone who works and relies on an income. It is also important for self-employed people, small business owners or professionals whose business relies heavily on their ability to work.

Income protection insurance

Level of cover

- The maximum allowable cover is generally 75 per cent of your gross wage.

Benefit period

- The longer the benefit period, the higher the premium.

Inside or outside of super

- Income protection can be offered through your super fund or can be purchased as a stand alone policy outside of super.

Tax treatment

- Premiums are generally tax deductible.
- The payments received are considered income and are subject to tax.

Insurance as part of your superannuation

Life insurance, TPD insurance and income protection are all offered within superannuation. If your insurance is held within superannuation, the cost of the premiums is withdrawn from your superannuation balance.

Benefits of having insurance in your superannuation include:

- automatic acceptance – there's no need to complete medical checks
- cheaper cover – from the bulk discount available to superannuation funds
- Tax deductibility – some contributions to superannuation attract a tax deduction, so you may be able to pay your premiums by making tax deductible super contributions.

However, there are also some disadvantages of having insurance in your superannuation, including:

- limitations on the level of cover
- limitations on benefit periods for income protection insurance
- potential delays in the payment of benefits in the event of death
- high tax rates – superannuation death benefits paid to a non-dependant may be taxed at up to 31.5 per cent.

It is important to work out the best way to structure your insurance, whether inside or outside superannuation, or a combination of the two.

Keep your insurance up to date

Insurance is not static, and your need for cover will change as you move through different stages in your life. As part of the financial advice process, we regularly review your circumstances to make sure that your wealth and ongoing wellbeing are adequately protected.



Note: Any advice contained in this document is general in nature and does not consider your particular situation or needs. Please do not act on this advice until its appropriateness has been determined by a qualified adviser.

Need more information?

Contact your Genesys wealth adviser to arrange a consultation.