

# Insurance

*...don't think about it when it's too late*

## If something goes wrong – how would you cope – would there be enough money?

Insurance - it's more than just peace of mind - it's money when it's most needed.

## Why do I need insurance?

Insurance provides money when you can't, for your care as well as the financial needs of your beneficiaries. It can:

- pay off debt - mortgage, car, credit cards, personal loans; or
- pay ongoing costs – daily living needs including food, clothing, power, as well as education, health care and lifestyle maintenance.

Earning an income is one of your greatest assets. You probably insure your car and home, why wouldn't you insure your ability to provide for the future?

## Types of personal insurance

### Life insurance

- Death **(D)** cover provides a lump sum if you die or are diagnosed with terminal illness; and
- Total & Permanent Disability or Disablement **(TPD)** cover provides a lump sum if you are totally and permanently disabled and unable to work again.

**Income protection (IP)**, also called salary continuance, provides a taxable monthly benefit if you are temporarily unable to work due to disability or illness.

**Trauma (T) cover**, also called critical illness or recovery money, provides a lump sum if certain health events happen including malignant cancer, heart attack or stroke.

## How much is enough?

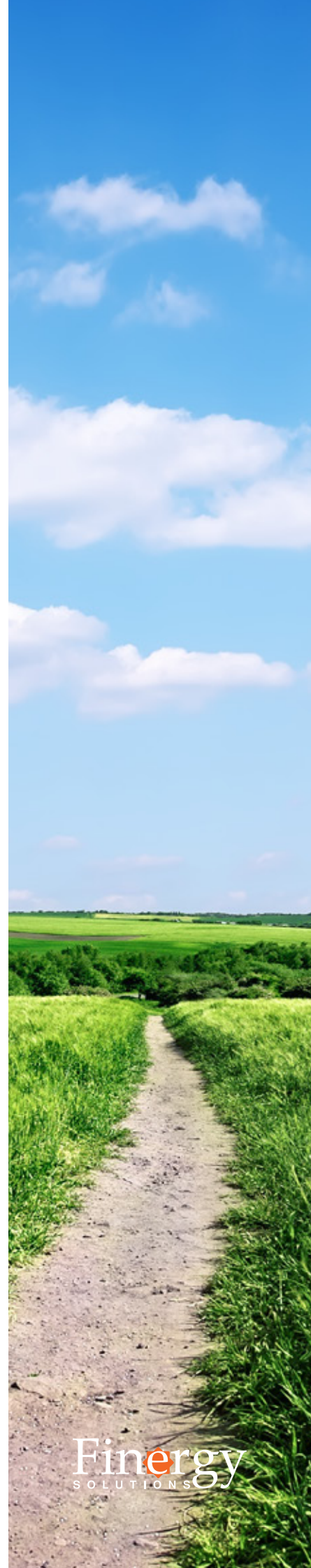
Your own circumstances dictate what's needed so everyone's is different. Seeking professional advice is highly recommended.

Here are some useful but very general ideas you could think about...

### D&TPD

Rule of thumb for age groups:

- 30's = insurance of generally 10 to 13 times your taxable income; and
- 40's = insurance of generally 6 to 9 times your taxable income.



## IP

A 40 year old earning \$40,000 pa (increasing 5% each year) will earn around \$1.9 million by age 65. Generally, you can insure for 75% of your work income.

## Trauma

Affords you the choice of better quality medical care and treatment eg non pharmaceutical benefit medicines (expensive drugs) and minimises the financial pressure of the recovery.

## Calculators

Many insurance companies and super funds have self help, online calculators that can give you an indication of the level and types of insurance you need to think about.

## Cover in super

Many of us have some sort of insurance cover in our super account. Some benefits of having your insurance in super includes:

- premiums are effectively paid with before tax dollars;
- you may be enjoying group discounted rates negotiated by your employer; and
- premiums are paid out of your super account, not your purse or wallet.

Having life insurance inside your super can be tax effective, cost effective and cash flow friendly.

Accessibility to and taxation of TPD benefits in super can be restrictive.

Unlike life insurance and trauma, IP is generally tax deductible when held outside of super. Benefits and features can often be superior. Your personal circumstances will dictate what's best for you.

Trauma cover is generally not available in super and is not tax deductible.

## Any questions? Want some help?

One of the great benefits being in the staff super fund is having access to advice and assistance from the super specialists at Finergy Solutions, our super fund advisers. For all the help you need on any super matters, simply call or email Finergy.



## Case study - a super way to insure

Chris has a well paid job and is keen to properly insure, maximise super savings and reduce tax.

Chris has some life insurance and IP with a two year benefit period which was provided automatically through the employer super fund. It's not enough to provide long term for partner Taylor and to pay off debts in case of an unforeseen tragedy.

With some help, Chris decides to increase the D&TPD cover in super as the rates are cheaper and far more tax effective.

IP with a two year waiting period and a benefit period to age 65 is taken outside of super to complement the IP in super. The cost of this is tax deductible.

Chris salary sacrifices up to the maximum contribution level of \$25,000 pa. Chris now has the level of life insurance needed, at discounted and tax effective rates and also has a lower taxable income thanks to the salary sacrifice and IP outside of super.

Not to be forgotten, Taylor also needs insurance cover but doesn't earn nearly as much as Chris.

Chris decides to boost Taylor's super by using the contribution splitting strategy to transfer some of last year's contributions to Taylor's account. Because Taylor also qualifies for the maximum government co-contribution they contribute a further \$1,000 personally to the account which will be matched by \$500 from the government.

In effect, Taylor's insurance cost is largely or completely paid for by Chris's tax effective salary sacrifice and the government co-contribution.

### Think about this:

- your needs do change, so review your cover regularly – have you recently married, extended the family, increased debt?
- some super funds allow you to transfer your other non super insurance into your super account;
- contribute extra to your super so your savings are maintained;
- nominate your beneficiaries – rules apply;
- understand any tax implications of benefit payments;
- read the Product Disclosure Statement;
- IP in super often has a two year benefit period. Consider applying for a longer period eg up to age 65;
- does your super insurance change as your age and/or salary changes. Don't get caught short;
- what happens to your insurance when you leave your employer – automatic transfer, continuation option?
- IP can have different waiting periods. The longer the waiting period the cheaper it usually is;
- consider the financial impact of losing your partner and how insurance could help;
- multiple super accounts could mean you're over insured and wasting money; and
- don't let an insurance payment tip you over the maximum super contribution limit.



Please contact Finergy Solutions with any questions:

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