

Personal insurance concepts

Help protect your family's living standard

If you have a financially dependent family, you should ensure you have enough insurance to maintain their living standard in the event of your death or disability.

How does the strategy work?

If you die or become disabled and can't work again, the emotional strain on your family can be quickly compounded by financial strain if you don't make suitable plans to help protect their financial future.

Without the ongoing income you earn from working, your family could struggle to cover the mortgage, pay their living expenses and meet a range of other costs.

By taking out life and total and permanent disability (TPD) insurance, you can ensure a suitable sum of money becomes available to your family to help:

- meet their immediate and future financial needs, and
- maintain their living standard.

How much cover do you need?

The amount of cover you may need will depend on your family's specific circumstances and what you want to achieve. Some key issues to consider include:

- How much of your income would your family need if you are no longer able to provide for them?
- How long would you like the income to be paid for?
- Would you like your mortgage or other debts to be paid off?
- Would you like to leave an inheritance for your children?
- Are there any costs that would need to be met, such as funeral or rehabilitation expenses?
- What investment assets would be available to help meet these needs?

Your financial adviser can take into account all these issues and help you identify how much life and TPD cover is right for you and your family.

Did you know?

Research conducted by Rice Warner Actuaries¹ found that the:

- median level of life cover held through super funds meets only 61% of the amount required to pay all non-mortgage debt and sustain the current living standard until age 65 or until children reach age 21
- median level of life cover held through super is only 37% of the amount required to replace expected net income and maintain current living standards until age 65, and
- median levels of total and permanent disability cover and income protection cover meet only 13% and 16% of their respective needs.

¹ Rice Warner Actuaries. 'Underinsurance in Australia'. 2015

Case study

Max (aged 45) is married to Rachael (aged 40) and they have two young children. Max works full-time, while Rachael is taking a break from work while she looks after their children.

Max currently has life and TPD cover in his super fund and some investments outside super. But he realises this won't be enough to ensure his family can maintain their living standard in the event of his death or long-term disability.

After discussing the family's needs and circumstances with his adviser, Max decides he would like take out additional life and TPD insurance so that enough money becomes available to help:

- pay out their mortgage, and
- provide an income to meet his family's living expenses for the next 20 years.

He has chosen a payment period of 20 years to ensure the income is provided until he would have retired (at age 65) and would no longer be earning a salary.

It would also be essential to ensure Rachael, as the primary care-giver, has enough insurance to help protect the family's lifestyle in the event of death, illness or injury.

To find out more about this important insurance need, ask your adviser for a copy of our **'Protect the primary care-giver'** concept card.

Note: This case study has been simplified to illustrate the important role that life insurance can play in helping the family to maintain their living standard in the event of death. Each person's situation is different and the approach used to determine the amount of insurance required may differ for people with different needs and circumstances.

Potential benefits of insuring in super

- If you buy life and TPD insurance through a super fund, you may be able to:
 - pay the premiums with pre-tax dollars, or
 - claim your contributions as a tax deduction, regardless of whether they are used in the fund to purchase investments or insurance.
- You could arrange to have your premiums deducted from your existing superannuation account balance without making additional contributions to cover the cost. This could make the insurance affordable if you don't have sufficient cashflow to fund the premiums outside super. However, this will use up super savings that would otherwise be available to fund your living expenses in retirement.
- If you die or become totally and permanently disabled, some (or all) of the benefit could be used to pay a concessional tax pension.²

Other key considerations

- When taking out life insurance, you should consider who the benefit will be paid to and how that will interact with your broader estate planning, including your Will.
- You should consider insurances that can replace up to 75% of your pre-tax income if you are temporarily unable to work due to illness or injury, or provide a lump sum payment if you suffer a critical illness.
- It's important to consider arranging suitable insurances for your spouse, even if they are not gainfully employed.

Seek advice

A financial adviser can help you ensure that you and your spouse have the right insurances in place to protect your family's lifestyle.

2. From 1 July 2017, the maximum amount that you can transfer to pension phase in your lifetime is \$1.6 million.

Important information and disclaimer

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