



Risk

Your Future
Quality of Life and
Financial Independence
should not be left
to chance!

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WHAT IS INSURANCE?

It's simply the transference of a risk from yourself to the Insurer.

By paying the Insurance Company a fee (premium) you enter into a contract to have the risk transferred from yourself to the insurer. The insurer issues you a policy that details your cover and the cost.

If the loss or event occurs, you receive a financial payout by making a claim to the Insurance Company, in accordance with your policy document.



TIP:

When completing an application for cover you should answer all questions truthfully to the best of your knowledge. This can save a lot of problems and delays at claim time.



TIP:

Having your insurance policies with one company can save on policy fees and could entitle you to a multi-policy discount that can be as high as 15%.



TIP:

A level premium structure could save you a small fortune over the life of your policy. Ask your advisor to give you a Stepped vs Level comparison.



TIP:

A qualified risk specialist can help you tailor a range of cover to suit your circumstances and your budget.

HOW DOES INSURANCE WORK?

RISK:

We all face possible risks of sickness, accident, loss of life. These events nearly always result in a financial loss.

PREMIUMS:

We can pay an amount of money (premium) to an insurer for insurance cover should those risks occur at some point.

BENEFIT:

Should the event happen and it satisfy's the insurance companies definition of a claim you will receive the insured benefit for a period of time as shown in your policy or a lump sum payout.

CLAIM:

When an event occurs, you contact your insurance advisor claiming the benefit from your insurance policy. You are making a claim.



TIP:

If you need to make a claim as a result of sickness or accident, the waiting period will normally start from the day you first see your Doctor or attend a hospital as a result of the condition. Don't delay in reporting your condition asap as it could cause a delay in payment.



TIP:

You are only covered for the events specified in your policy and the insurer will only pay the amount of benefit set out in the policy. Make sure your policy covers the things you need to protect and will pay enough money for your needs.

WHAT INSURANCE SHOULD I CONSIDER?

Your insurance requirements can be quite different at each stage of your life. The amount of cover you need is influenced by:

- Your level of income
- Your assets (belongings)
- Your liabilities (debts)
- Your personal circumstances (whether married, children, dependents).



Some of the risks you should consider covering:

- Income—loss/inability to work as a result of sickness or injury.
- Your Disability or that of a family member.
- Your Death or that of a family member.
- You or a family member suffering a Major Illness
- Your fixed business expenses
- A Key Person in your business
- Business succession as a result of sickness, accident or death.

PROTECT YOUR MOST IMPORTANT ASSET — YOUR INCOME!

Income protection can insure you against the loss of your income due to sickness or accident. You are normally restricted to insuring 75% of your taxable income, plus any super and some fringe benefits. The cost of this type of cover is based on:

- Occupation
- Age
- Gender
- Smoking status
- Monthly benefit
- Waiting period
- Benefit period

Waiting Period:

The time you wait before you are officially on claim. You do not receive any benefit during this time. Normal waiting periods are 14 days, 1 month, 3 months, 1 year & 2 years.



TIP:

An early accident option on some income protection policies means that you could be on claim after 3 days if unable to work because of an accident.



TRAP:

Most Insurance Companies pay a benefit 30 days in arrears. If you have a 30 day waiting period you receive nothing for the first 30 days and your first payment will normally be received after 60 days.

Benefit Period:

The maximum amount of time you will receive a benefit for on a continuous claim. The normal benefit periods are 2yrs, 5yrs and to age 65.



TRAP:

If you select a 2yr or 5yr benefit period, your policy will end once you have been paid a claim continuously for this period of time.



TIP:

Because the cost of income protection is tax deductible, the difference in premium between a 5yr benefit and one that pays to age 65, might be a few dollars a day after tax deduction.

Agreed or Indemnity Policy?

An Agreed Value Policy guarantees the monthly benefit at the time of claim, as long as you have correctly stated your earnings at the time of application. The benefit you receive will not be reduced even if your income has dropped at the time of claim.

An Indemnity Policy is a cheaper option but will only pay a maximum benefit of up to 75% of your gross taxable income at the time of claim. If your income is likely to fluctuate you should avoid this type of policy.



TRAP:

The so called cost savings on an Indemnity Policy could be insignificant if you have a claim only to realize your monthly benefit is not paid in full because your income has reduced. Even worse you have been paying for a monthly benefit you might not receive.



TIP:

Even if you are currently in a secure, employed job you should not automatically take out an Indemnity Policy. What if you change jobs or decide to start your own business where your income could be lower for a period of time.

Definition of Total Disability:

Insurance Companies use different definitions when deciding if you meet their requirements for a Total Disability Claim on an Income Protection Policy.

The Most Common Total Disability Definitions are:

- Unable to do at least one of the important duties of your occupation necessary to producing income.
- You are unable to perform the important income producing duties for more than 10hrs a week .
- Unable to perform an income producing duty of your occupation.
- Unable to generate at least 80% of monthly earnings from personal exertion in own occupation.



Partial Disability:

Where you are able to work for a reduced amount of time and there is a loss of income. Some companies require you to be total disabled before they will pay a partial disability claim.

Definition of Partial Disability

- Suffered a reduction of 20% or more in the ability to generate earnings or perform income producing duties
- You have been totally disabled for at least 14 days or from the end of your waiting period
- Solely due to sickness or accident your monthly income is less than your pre-disability income

WHAT ARE YOU RISKING BY NOT HAVING INCOME PROTECTION?

What is your future earning capacity?

The table below gives you an indication of what you could earn by the time you reach 65, and how much financial risk you are taking by not insuring your income.

Current Income (pa)	AGE NOW			
	25	35	45	55
\$40,000	\$3,020,000	\$1,900,000	\$1,070,000	\$460,000
\$60,000	\$4,520,000	\$2,850,000	\$1,610,000	\$690,000
\$80,000	\$6,030,000	\$3,810,000	\$2,150,000	\$920,000
\$100,000	\$7,540,000	\$4,760,000	\$2,690,000	\$1,150,000

Assumes salary will increase by 3% pa and no employment breaks.



TRAP:

Due to the complexity of definitions which can vary depending on your occupation, always get the advice of a specialist.



TIP:

Some companies pay advanced benefits for certain injuries that don't require you to be totally disabled and they also waive the waiting period so you are on claim immediately.

What is your insurable income?

Gross Monthly income x 75% = \$.....

What Waiting period:

What benefit period:

TAKE CARE OF YOUR LOVED ONES

Life insurance provides a lump sum on death or diagnosis of a terminal illness, where you are unlikely to survive for 12 months.

It is designed to provide financial security to your surviving dependents. To achieve that you need to insure for an adequate amount of cover. This lump sum should take into account the:

- Clearing of Debts
- Replacement of lost income
- Final expense
- Any financial legacy for loved ones

To calculate a lump sum to cover the loss of income you can either:

- a) provide for a lump sum that reduces each year by the amount of income required for a set period of time, eg 10years x \$60,000 = \$600,000 or
- b) you can insure for a lump sum that can be invested at a return that will replace your lost income, eg 1,000,000 invested at 6% to produce an income of \$60,000 a year.

A common addition to life cover is Total & Permanent Disability (TPD). It is designed to pay you a lump sum if you are totally disabled and unlikely to return to work in the future. The Lump sum you insure should take into account an amount for:

- Clearing of debts
- Medical costs
- Alterations to your home, if required, due to your disability
- A special vehicle if required

There are different definitions of Total & Permanent Disability:

- (i) Any Occupation,
- (ii) Own Occupation,
- (iii) Modified definition for a Homemaker

Any Occupation: TPD normally states that as a result of your disability you have been continuously off work for a period of at least 3 months and with some companies 6 months. You are unlikely ever to be able to work at your usual or any other occupation you are reasonably suited to by the way of education, experience or training.

Own Occupation: Similar wording to the above with one important difference - You are unable to work at your own occupation and not be working in any occupation for a period of at least 6 months.

Modified definition of TPD for a Homemaker: Normally states that you are unable to do normal physical domestic duties (cleaning, cooking, meals , shopping, and taking care of dependent children).



TIP:

If your occupation is eligible, you should always go with an own occupation definition or at least find out the cost difference between own and any occupation.



TRAP:

If your current TPD cover is part of insurance taken out through super then you will have an Any Occupation definition because Own Occupation definition is not allowed to be owned inside a Superfund.

What amount of life cover will you need?

Clear your debts	\$.....
Replace your lost income	\$.....
Total amount of cover required	\$.....

DON'T LET A SERIOUS ILLNESS WIPE YOUR FINANCES OUT

Trauma cover, also known as critical illness or recovery, is designed to pay you a tax free lump sum on diagnosis of a specified medical condition.

It's about surviving an illness and giving you the cash so you don't have money worries on top of trying to deal with getting well again.

Some of the more common conditions covered are:

- Cancer
- Heart Attack
- Stroke
- Loss Of Limbs or Sight
- Organ Transplant
- Multiple Sclerosis
- Coma
- Blindness
- Chronic liver or lung disease
- Loss of limbs or sight
- Loss of speech or hearing
- Advanced diabetes

Ideally, take out an amount of cover to clear your debts & give you a lump sum to go toward medical costs. However, in a lot of cases (due to cost) just a lump sum to fund medical expenses and time off work is taken. You can normally add Life Cover and Total & Permanent Disability to a Trauma policy.

The important points you need to look for in a good trauma policy are:

- The definitions & type of conditions covered
- Whether you can re instate the policy 12 months after surviving a trauma and
- Being able to include your children in the policy.



TIP:

When calculating your amount of cover, you also need to factor in the possibility of your spouse / partner having to give up work for a period of time to help in your recovery and to look after any children.



TRAP:

You may think that private health insurance will give you enough financial protection but private health insurance only covers hospital stays and some medical expenses. It does not cover lost income, debts or rehabilitation and long term care.



TIP:

The premium you pay for trauma / recovery is not normally tax deductible except in certain business protection solutions and the benefit you receive will normally be tax free.

What amount of Trauma Cover will you need?

- What will you need to clear debts \$.....
- Lump sum toward medical costs \$.....
- Total amount of cover required \$.....

YOUR BUSINESS, YOUR OVERHEADS

Business expense insurance will pay a monthly benefit to assist with the day to day running expenses of your business if you are unable to work due to sickness or injury.

Examples of expenses that can be covered under a business expenses policy include:

- Accounting and audit fees
- Bank charges
- Electricity, property/water rates
- Equipment hire and motor vehicle leases
- Interest payments
- Business related insurance premiums
- Office leasing fees
- Rent or mortgage payments
- Salaries of staff not producing revenue
- Fees for memberships of prof. associations
- Net cost of locum.

The benefit period:

Usually 12 months. This gives you time to determine whether you are able to return to work or make new arrangements for the running of the business. By ensuring your business is kept afloat while you are disabled, you are given an option of still having a business to sell.



TIP:

The premium you pay for business expense insurance is tax deductible. Due to the cost effective premium for this type of cover you should look at a waiting period of 14 days, so you will be paid a claim sooner.



TRAP:

Business expense cover is an indemnity policy that covers what your business expenses are at the time of claim. Because of this you should review your monthly benefit on a regular basis to make sure you are not over insured or under insured.



What are your fixed expenses?

Accounting and audit fees \$ _____

Bank charges \$ _____

Electricity, property/water rates \$ _____

Equipment hire and vehicle leases \$ _____

Interest payments \$ _____

Business insurance premiums \$ _____

Office leasing fees \$ _____

Rent or mortgage payments \$ _____

Wages staff not producing revenue \$ _____

Fees for professional memberships \$ _____

Net cost of locum \$ _____

**Based on the above examples of expenses,
what amount should you insure for**

\$ _____ a month

STRATEGIES IN ACTION

Insurance is more than just personal protection. It can be used to solve business succession, estate planning and loan cancellation issues.

Key Person Insurance

A key person is a business owner or employee whom are critical to the ongoing revenue and profitability of the business. The key persons have a direct impact on company earnings or whose expertise are crucial to the business. The two types of Key person Policies protect the Business Cash flow and protect Business Capital.

Key person (Revenue): Ensures your business continues to operate by compensating your business for loss of revenue following the disability or death of the key person. The policy can also include the costs of finding a suitable replacement.

Key person (Capital): Helps to pay out any loans or debts of your business following the disability or death of the key person in the business.

The main benefits are to help you:

- Offset a drop in your business revenue
- Provide your business with the money to find a suitable replacement
- Continue with your business without significant interruption
- Provide an amount of capital to repay loans
- Protect your business from a forced sale



TRAP:

You will need the advice of a suitable accountant to advise on tax issues regarding premium deduction and tax payable on the insurance benefit received.



TIP:

You can insure a key person for loss of life, total & permanent disability or suffering a trauma / critical illness.

BUY-SELL INSURANCE

Buy-Sell insurance is taken out in conjunction with a Buy-Sell Agreement, which is similar to having a Will for your business. The Business Owners enter into a written agreement to plan what they will do with their interest in the business should any of the owners:

- Die
- Become Disabled or
- Suffer a Trauma.
- It can also include Retirement or Resignation.

The agreement provides a mechanism for the terminating business owner, or their estate, to sell their interest in the business and the continuing owners to purchase that interest. The agreement will also detail how the interest in the business will be funded, and this is where Buy – Sell Insurance could be required.



TRAP:

If a business doesn't have a Buy-Sell agreement and a trigger event occurs, it can result in cash flow problems, legal issues and a loss of value in the business if it has to take out a loan to fund the purchase of the terminating owners shares.



TIP:

The level of cover should be reviewed yearly to ensure the sums insured reflect the market value of each owners business interest.



TIP:

A successful Buy –Sell agreement will normally involve your accountant , a lawyer and an insurance specialist.

The sum insured on these policies will generally be the value of each owners shares in the business.

DEBT REDUCTION & GUARANTOR PROTECTION INSURANCE

Debt Reduction or Guarantor Protection Insurance can be used to protect business owners and guarantors from the serious financial effects of giving a guarantee on a loan and then an event occurs which makes it difficult to make good on the liability. If a director signs a loan guarantee, they have usually secured this loan against their personal assets. The guarantee is only removed when the loan is repaid in full.

The purpose of this type of cover is to protect the guarantor and their estate. The insurance policy will provide the funds to extinguish the guarantee and this will release the guarantor and their estate from the lenders security of their personal assets.

If a trigger event takes place with respect to a director or guarantor, the business debt guaranteed by that person is fully repaid. A lender will normally be able to call on the guarantee in the event of death, total disability or trauma.



TIP:

You will need to determine how much of the business debt should be repaid to release the personal guarantee and any other personal securities.



TRAP:

Most bank loans or overdraft guarantees are 'joint and several'. This means that every guarantor is 100% liable for the loan, regardless of their share of the business and the personal assets used as security.



TIP:

If all business owners have taken out debt reduction / guarantee protection insurance, a written agreement should be in place to set out all parties obligations.

INFORMATION YOU NEED TO PROVIDE THE INSURANCE ADVISOR

Name:	
DOB: <i>(dd/mm/yyyy)</i>	___ / ___ / _____
Occupation:	
Qualifications:	
Gender: <i>(circle)</i>	Male / Female
Smoking status:	
Gross Income:	\$
# of Dependents:	
Debts:	\$
Assets:	\$
Medical History:	
Current Medication:	
Current Insurance Policies:	
Notes:	

FREQUENTLY ASKED QUESTIONS

I'm not sure whether I need insurance?

You might not, if you don't rely on your income to maintain your standard of living and pay bills and if you have no spouse or dependents, you might not need insurance. It's probably worth speaking with a qualified advisor to go over your situation.

How often should I review my insurance?

Changing jobs, moving home, increasing debts or birth of a child are just a few reasons to review your cover.

I've had a major illness am I uninsurable?

You should discuss the illness and insurance cover you are looking for with an advisor as they will be able to speak with an insurance underwriter on your behalf. You may have to settle for an accident only policy.

I'm self employed, how much income protection cover can I apply for?

You can insure your gross taxable income from personal exertion, this can include any income paid to a spouse as income splitting.

I've had my policies for 5 years and the cost keeps going up every year?

It's normally because you have a stepped premium that increases each year with your age. You need to ask your advisor to do a comparison with level premium as this could save you a fortune in the long term.

My life policy is inside super, how do I make sure my dependents get my life benefit?

You can make a non-lapsing binding nomination that instructs the trustee who to pay the benefit too.

I have insurance policies with four different companies, is this wise?

There are a few potential issues that include, having to complete different claim forms if you have a claim, not getting larger sum insured discount and some companies offer a multi-policy discount as well. A review will let you know what benefits could be possible.

I'm self employed and confused by my 30 day wait on my income protection policy?

If you have a 30 day wait, you normally won't receive any money for 60 days, because the first 30 days you get nothing and then you get paid 30 days in arrears. If this is too long you need to look at a 14 day wait or an early accident option where you could be on claim after 3 days if you have an accident.

I want to transfer my personal life policy into a DIY superfund, is this ok?

No, this 'in specie' transfer could make your fund non-complying and result in all sorts of tax issues, you need to cancel the policy and get it re-issued with your DIY super fund as the owner.

I'm self employed but my accountant says I can't claim my life insurance as a tax deduction?

If your life policy is owned by a super fund then you can claim the premium as a deduction as it is treated as a super contribution. Be aware of contribution limits and suitable beneficiaries.



Is there any benefit in paying my premium yearly?

Yes there can be several benefits, the first is there will be an average saving of 8% by paying yearly instead of monthly. Also by paying your income protection yearly means you can claim the full cost in the financial year you made the payment.

Features, benefits and cost of insurance have gone through considerable change in recent years. There are also tax and legislative changes that make a regular Insurance Review even more important. Contact us to see how you could benefit from a review.

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You should not act on the information, rather it is designed for you to contemplate whether you should obtain professional advice if an issue may be of relevance, having regard to your objectives, financial situation, needs and circumstances.

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