EMOHRUO

Financial Services Pty Ltd™

"Your partners on the road to financial success"

Personal Insurance Guide

Our contact details

Practice Name:	Emohruo Financial Services P/L
Phone:	(02) 8205 1228
Email:	info@emohruo.com.au
Website:	www.emohruo.com.au

Authorised Representative and Credit Representative of AMP Financial Planning Pty Limited ABN 89 051 208 327 AFS Licence No. 232706

Understanding your protection needs

Personal insurance

The term **personal insurance** refers to insurance policies that you take out on yourself to provide protection against events like death, permanent disability, sickness and injury that prevent you and your family from meeting your financial commitments and lifestyle requirements. The most common types of personal insurance are:

- Life insurance;
- Total and permanent disability insurance;
- Trauma insurance, and
- Income protection.

Importantly, insurance does not remove the risk of you suffering an illness, disability or premature death, but it does provide you and your family with peace of mind if something does happen.

Everybody's circumstances are different however, insurance is important for everybody and will need to reviewed as you move through different stages of your life. Your need for insurance will be influenced by how much you earn, change in living costs, your assets and liabilities, your marital status and the number of dependants you have, all of which may change depending on your life stage.

Life Insurance

Life insurance provides a lump sum benefit upon the death or diagnosis of terminal illness of the insured person to the policy owner. The required level of insurance depends upon your financial circumstances and should take into account your outstanding debts, end of life expenses and the ongoing lifestyle requirements of your surviving dependant family members. Term life insurance policies can be held as a standalone policy, or within superannuation.

Total and Permanent Disablement Insurance (TPD)

Total and permanent disablement insurance (also referred to as TPD) provides for the payment of a lump sum benefit in the event the insured becomes totally and permanently disabled as a result of illness or injury and is unable to work again. The definition of total and permanently disabled varies among insurers and the definitions in the PDS should be carefully considered.

Total and Permanent Disablement (TPD) contracts are normally attached to term life policies and can also be held inside or outside superannuation. Payment of a lump sum TPD is generally made in circumstances where the insured is:

- Unlikely to ever return to work;
- Has lost a limb(s) or sight; and/or
- Unable to perform basic daily living activities.

Trauma Insurance (Critical Illness)

Trauma or critical illness insurance is designed to pay a lump sum on the diagnosis of an insured medical event as defined in the policy. Trauma policies can cover specific medical conditions, including the following:

- Heart Attack
- Coronary By Pass Surgery
- Malignant Cancer
- Stroke
- Paraplegia/Quadriplegia
- And many more.

Note: Events and definitions vary from policy to policy.

Trauma insurance is usually taken out to assist in the payment of medical costs associated with the recovery from such an illness. It may also include an allowance for the necessary adjustments to be made to the home in the event of an associated disablement from the illness. It is important to understand the specific conditions that are covered and those that are not as well as any waiting periods that may apply for the particular policy that you are applying for. The conditions and benefits available under trauma vary widely and the principal criteria for assessment should be the quality of the policy as opposed to price.

Income Protection

Income protection insurance provides cover for income lost due to the inability to work through sickness or accident. They pay a regular income stream either fortnightly or monthly depending on the policy provisions, rather than as a lump sum.

The amount of cover you can purchase is ***usually*** restricted to 75% of the monthly income earned prior to the insured's disability or illness. It is important to note that income earned refers to income generated through personal exertion or labour. Income generated via investments is not covered under these policies. Some superior policies acknowledge the role of salary packages in determining income. Many policies only consider PAYG salaries, thereby leaving the insured at a substantial financial disadvantage if unable to work. Many contracts further allow a per centage to be paid into a superannuation fund of the client's choice, effectively providing for an amount to continue to build retirement savings.

Income protection benefits payable are subject to a waiting period, which can range from 14 days to 2 years. The waiting period will directly impact that premium payable, and this should be weighted as a consideration along with the impact on the insured's financial position, should the waiting period prove to be too long for their existing financial resources.

The length of time the benefit is payable can vary from 2 years to age 65. However, should the insured recover and be able to return to work, the benefits payable will cease. It should be noted that as these policies provide for a replacement of taxable income, the regular payments from a claim under an income protection policy are usually taxable at the insured's marginal tax rate. On this basis, income protection premiums paid are generally considered to be an allowable tax deduction when held outside of superannuation. A rebate may also be available for some policies held within superannuation.

How do I know what is right for me?

When assessing your protection needs you are likely to identify with, and require that the following fundamental needs (where applicable) be addressed:

- Debt
- Income replacement
- Consideration for dependants (children, elderly parents, partners)
- Medical expenses
- Any relevant goals and objectives that impact your protection needs

An important element that you need to consider when assessing your protection needs is what level of support you could require should you suffer an insurable event, in addition to your fundamental needs, in order to maintain your current financial and lifestyle goals and standard of living. This is referred to as holistic protection needs.

Holistic protection needs

In addition to your fundamental protection needs there are several other elements you can consider to protect yourself and your family that may help provide greater financial and lifestyle choice at claims time, such as:

- Education costs / school fees (private vs public vs Catholic)
- Childcare (e.g.: before and after school care, nanny, babysitting)
- Funeral cost (burial vs cremation)
- Potential renovation costs to help support a health event (e.g.: ramps, widening door frames, adjustments to motor vehicles)
- Emergency funds (e.g.: financial planning costs, legal costs)
- Home support (cooking, cleaning, nursing/personal care, gardening)

Insurance in super

When insurance is held in super, the super fund owns the policy. You must first meet the insurer's policy definition, such as death, total and permanent disability (TPD) or terminal illness, to qualify for the insurance benefit payment. If the claim is successful, then the insurer releases the proceeds to the policy owner, the fund. This means that the proceeds are paid into your super account. In order for these proceeds to be subsequently released from the fund, you must then meet a specified super condition of release (e.g. death, permanent incapacity, retirement, temporary incapacity or terminal medical condition).

It should be noted then that certain types of insurance held outside super can allow for additional features and benefits that insurance products held inside super cannot offer. For example, there are legislative restrictions imposed on the types of TPD and income protection cover that can be held in super. Certain types of insurance (e.g. new trauma policies) are not allowed to be held in super at all unless they have been grandfathered.

Payment of insurance premiums

One of the advantages of holding insurance in super is the ability to use various funding methods to meet the cost of the premiums. Depending on your situation, the premiums can be funded using:

- Pre-tax (salary sacrifice or personal deductible) contributions.
- After-tax contributions (personal or spouse contributions).
- Accumulated super savings or super guarantee contributions.
- Contribution splitting with your spouse.
- Enduring partial rollover facility (where a product provider permits this).

Benefits and disadvantages

There are some benefits to having insurance products in your super, rather than outside of your super fund. Some of the advantages may include:

- Premiums paid from your super fund may be more tax effective (e.g. using salary sacrifice contributions to pay for the premiums).
- You can use super guarantee contributions or existing super savings to maintain the cover without impacting your personal cash flow. Please note that in the medium to long term this option may erode your retirement savings (discussed further below).
- Tax deductibility of insurance premiums for the super fund. Trustees can generally claim 100% of the insurance premiums as a tax deduction for term life, certain TPD and income protection policies. This means that the total cost of premiums to you is less than what it would have been outside of super.
- Depending on your circumstances, there may be tax, estate planning and Social Security advantages to having insurance in Super.

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

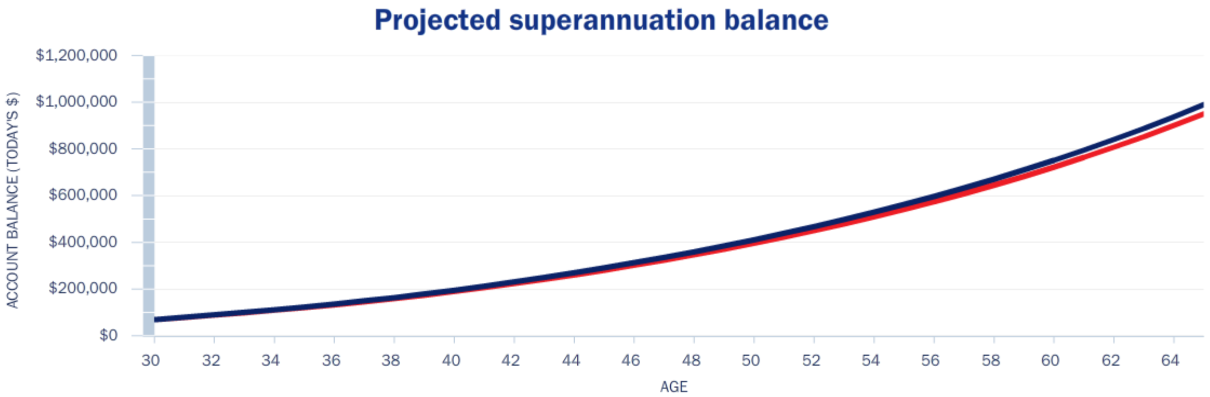
- Unless you are making additional contributions to super to pay for the premiums, funding insurance premiums via super may reduce your overall super balance.
- Potential limitations on the level of cover and types of benefits (particularly certain TPD and income protection policies)
- It can introduce additional complexity as super rules can be complicated.
- There may be a delay in the payment of insurance benefits as the money will be paid by the insurer to the super fund first. The trustees can then pass the benefit to you or your beneficiaries in accordance with the fund's rules and the Super Industry Supervision Act.
- Super death benefits can only be paid to dependants under superannuation law.
- There may be tax payable on the withdrawal of super following your death or disability, even after an insurance claim, depending on your circumstances.

Case study – The impact of insurance on your retirement balance

The following scenario shows the possible impact on a super balance where insurance premiums are funded through Super. In the scenario the client has insufficient personal cash flow to fund insurance premiums. It has been determined they require $500,000 of Life and TPD insurance to cover the cost of their existing home mortgage. The decision has been made to hold and fund the insurance via the client's super account.

In addition to the items noted in the assumptions, the analysis below is based on the following:

- The client holds the insurance cover from age 30 till age 65
- An existing super balance of $70,000
- Annual insurance premium of $540
- A Level premium structure
- An annual salary of $80,000
- Only super guarantee contributions are being made with no additional super contributions.



	AT AGE 65	DIFFERENCE
SUPER BALANCE WITH INSURANCE	$ 950,905	
SUPER BALANCE WITHOUT INSURANCE	$ 990,404	(+ $ 39,499)

Outcome

Premiums alone have reduced the client's super balance by $39,499 over the 35-year period.

Trade off considerations

The client has the benefit of insurance cover and the associated premiums have not affected their personal cash flow; however, their overall super balance is reduced.

Assumptions

- Gender - Male
- Age 30
- Non-smoker
- Occupation - Accountant
- 85% growth investor (total return of 7.25% pa)
- Salary indexed at CPI (2.3% pa)
- Insurance premiums indexed at CPI (2.3% pa)
- Super guarantee (SG) of 9.5% pa now and incorporates future legislated SG changes
- Need for ongoing review

Need for ongoing review

There are advantages and disadvantages to having insurance inside super. Please discuss the issues relevant to you with your adviser to help you make an informed decision.

Importantly, the purpose of super is to help you save for your retirement. As mentioned, funding your insurance premiums via super without making additional contributions to pay for the premiums will reduce your overall super balance. It is therefore important to regularly review the suitability of holding insurance cover through super. You need to consider:

- Is your current cover amount still right for you?
- Are you in a position to make contributions to super to fund insurance premiums?
- If you are nearing retirement do you need to review your super savings strategy?

Your adviser can help you determine if your situation remains appropriate.

Underwriting

When the insurer assesses an application for insurance, all decisions are subject to underwriting terms and conditions for policy approval. Part of the underwriting process will be to consider various risks to the insurer such as:

- Existing or possible health conditions of the insured;
- Risks associated with the occupation of the insured; and
- Other risks, including whether or not the insured is a smoker, and dangerous hobby activities such as skydiving, or motor cross racing.

The underwriter's assessment of these risks may increase your premium in the form of a loading. The insurance company will notify you whether a loading is applicable or if they require additional information such as a medical report. At the time these recommendations are made, we are unable to ascertain what the decision of the underwriters of the insurance companies may be as all insurance applications will be determined on a case by case basis.

Duty of Disclosure

Before you enter into a life insurance contract, you have a duty to tell the insurer anything that you know, or could reasonably be expected to know, may affect their decision to insure you and on what terms.

You have this duty until the insurer agrees to insure you.

You have the same duty before you extend, vary or reinstate the contract.

You do not need to tell the insurer anything that:

- reduces the risk they insure you for; or
- is common knowledge; or
- they know or should know as an insurer; or
- they waive your duty to tell them about.

If the insurance is for the life of another person and that person does not tell us everything he or she should have, this may be treated as a failure by you to tell us something that you must tell us.

If you do not tell the insurer something

In exercising the following rights, they may consider whether different types of cover can constitute separate contracts of life insurance. If they do, they may apply the following rights separately to each type of Cover. If you do not tell them anything you are required to, and they would not have insured you if you had told them, they may avoid the contract within three years of entering into it.

If they choose not to avoid the contract, they may, at any time, reduce the amount you have been insured for. This would be worked out using a formula that takes into account the premium that would have been payable if you had told them everything you should have. However, if the contract has a surrender value, or provides cover on death, they may only exercise this right within three years of entering into the contract.

If they choose not to avoid the contract or reduce the amount you have been insured for, they may, at any time vary the contract in a way that places them in the same position they would have been in if you had told them everything you should have. However, this right does not apply if the contract has a surrender value or provides cover on death.

If your failure to tell them is fraudulent, they may refuse to pay a claim and treat the contract as if it never existed.

Insurance features

There are a number of different features which can be added to an insurance policy which can enhance the coverage provided or reduce the premium. Where the feature is provided at an additional cost, it is important for you to decide whether you are prepared to pay a higher cost for your insurance to have this option in place. The table below outlines a number of features to be considered when obtaining an insurance policy.

Indemnity (Income Protection)	With an Indemnity policy, the insured is usually not required to provide financial evidence at the time of applying for insurance. In the application to the insurer, the insured estimates their current income and the premium is based on that estimate. Should the insured then make a claim on the indemnity policy, the insured will at that time be required to provide financial evidence with regard to their pre-disability earnings. The benefit payable will be based on the pre-disability earnings of the insured, and not necessarily the amount stated in the initial application. The amount payable will be the lesser of the insured's actual earnings prior to claim or the amount stated on the policy schedule.
Stepped Vs Level (Life, TPD, Trauma & Income Protection)	For all of the insurances policies discussed, the premiums payable can be calculated on either a stepped or a level basis. A stepped premium means that the annual cost of the insurance policy increases with the insured's age. The actuaries for the insurance provider calculate the additional likelihood of a claim being made as the insured ages and build that into the premium each year. A stepped premium would be cheaper for someone younger, who is willing to pay smaller premiums now, and accepts that as they get older, the premiums will continue to increase. A level premium means that the cost of the insurance policy does not increase due to the insured's age increasing. The actuaries still build in the additional likelihood of a claim being made as the insured gets older however this is built into the cost of the premium from day one. A level premium would be more expensive than a stepped premium for a younger person however the insured has the peace of mind to know that their insurance premiums will not increase with age. As the insured's age approaches 60 the premiums for insurance can become extremely expensive if the premiums are stepped, and therefore the benefits of having paid additional money for level premiums when the insured was younger will certainly become evident as the insured ages. The decision as to which type of premium is most appropriate should be based on affordability and certainty.
Any Occupation (TPD)	An "Any Occupation" policy will only make a benefit payable to the insured where the defined event results in the insured being unable to work in any occupation for which they are reasonably suited by education, training or experience. By taking an Any Occupation policy, the insured takes the risk that a benefit may not be paid because the medical advice states that the insured is capable of working in some capacity, whether or not that capacity is equivalent to the occupation in which the insured was previously working in. Preferably, the insured should always aim to have an Own Occupation policy (held outside the superannuation environment only). Whilst Any Occupation policies tend to be less expensive, the financial ramifications should a claim be made in the future can potentially far outreach the cost of the additional premium. Own Occupation policies are only available to certain occupations, and these are usually listed in the PDS. You should refer to the PDS for the specific occupations available for an Own Occupation policy.

Own Occupation (TPD)	An "Own Occupation" policy will require the insurer to take into account the insured's specific occupation when determining whether the insured is able to return to work. Example; Consider the case where the insured is a surgeon and has an Own Occupation income protection policy. If the insured were to lose his right hand in an accident, he would be unable to return to work as a surgeon. The fact that the insured can return to work in another capacity, for instance as a Consultant, will be irrelevant, and the insurer will still be required to pay the benefit. Please note that in the case of income protection insurance, whilst a benefit may be payable, the insurer will generally take into account income that the insured earns and will only pay the difference between that amount and the maximum benefit payable.
Linked Cover Vs Stand-Alone (Life, TPD and Trauma)	When obtaining more than one type of insurance such as Life, TPD and Trauma cover, you are able to nominate to have the cover linked or held as a stand-alone policy. Linked cover is usually cheaper but means if you are to make a claim on one portion of the policy, for example a trauma claim, the other insurances will be reduced by the amount of claim. This means, you may potentially lose the full value of your other insurance covers in the event of a successful claim. A Stand-Alone policy is more expensive; however, this structure means a successful claim on this cover will not impact on your other insurances. Generally, you only use linked insurance cover where your identified insurance needs have an overlap, for example, if you are covering outstanding debt in the event of Life, TPD and Trauma.
Indexation (Life, TPD, Trauma and Income Protection)	Cover is available as a fixed level or increasing level of cover. Including an indexation option onto your policy ensures the future value of your sum insured is protected against rising living costs and changes to consumer price indexation.
Indexed Claim/Increasing Claim (Income Protection)	This option ensures that in the event of a successful income protection claim, your monthly benefit is protected against rising living costs and changes to consumer price indexation.
Waiver Benefit (Life, TPD, Trauma and Income Protection)	The Waiver Benefit feature is an option which can be added to most policies. This feature allows for premiums to be waived in the event of a successful claim meaning that at a time when you may not be working, you are able to continue to have your insurance premiums covered.
Guaranteed Future Insurability (Life, TPD, Trauma and Income Protection)	The Guaranteed Future Insurability feature allows you to obtain increases in your insured amount without full underwriting when certain life events occur such as an increase in salary, a child being born or, you being married. The events covered differ between insurers and it is generally a built-in feature on the policies which offer the feature.
Partial Benefits (Trauma cover)	The partial benefits option allows you to receive a partial trauma benefit payment for conditions which would not usually qualify for a trauma claim. This amount is usually up to 20% of the insured value and will reduce your sum insured. The conditions covered and the actual name of this feature vary between insurers.
Trauma Reinstatement (Trauma cover)	The trauma reinstatement option allows you to reinstate your trauma cover after making a claim for one condition, usually after a qualifying period which varies between providers. The reinstatement will usually only apply for conditions which may arise in the future which are unrelated to the condition which was previously claimed on.
Extra Benefits (Income Protection)	The extra benefits option can provide additional payments which may cover specified costs associated with your illness or injury such as Accommodation, Advance Payment, Transportation and Nursing costs. The specified costs which are covered and the actual name of this feature vary from between insurers.
Life Cover Buy Back (TPD and Trauma)	The Life Cover Buy Back feature applies to linked cover and allows you to apply to have your life cover reinstated after making a claim on a TPD or Trauma claim after a specified qualifying period. Specific terms and conditions vary between insurers.
Advanced Cover (Trauma and Income Protection)	Most insurers generally provide a standard policy or an advanced policy, although some insurers may refer to the Advanced policy as Platinum, Premier or some other name to indicate a higher level of protection. These policies are generally more expensive,

	however, they tend to provide coverage for more events and provide more enhanced definitions meaning generally speaking, that there is a higher chance of being eligible for a claim at some point in your life.

Personal Insurance is an important aspect of any Financial Plan, as it helps to protect the overall strategy put in place for you to achieve your goals. We will work with you to ensure that the insurance you put in place continues to remain appropriate given your needs as determined by changes to your circumstances.

If you have any questions regarding the information outlined in this document, please discuss with your Financial Planner.