



## Building on Solid Foundations

**“...most people also underestimate the likelihood of making a claim”**

Imagine building the finest of houses on a few piles of loose bricks. It really wouldn't be a good idea, would it?

The first time some stormy weather came along, the whole house would shake and likely topple over. Yet a surprising number of people build their financial plans on foundations that are no more secure than loose bricks or piles of sand.

Survey after survey reveals that most people are under-insured. According to the Investment and Financial Services Association (IFSA), 60% of people with dependant children have insufficient insurance to look after their loved ones for more than a year, if they were to die, and only 4% have the level of cover recommended by actuaries.

One reason may be that insurance can be expensive, and its value isn't usually appreciated unless a claim is made. Or, as increasing costs of living and interest rate rises put pressure on the household budget, insurance may be one of the first things to be cancelled.

Unfortunately, most people also underestimate the likelihood of making a claim, and many allow their insurance policies to lapse. This can cause major financial distress if an insurable event arises, and the appropriate cover is no longer there.

### Editorial

Achieving financial security. There are many ways in which our financial planners can help you with this goal.

Superannuation is the most important long term savings vehicle, providing a low-tax environment in which to build wealth, and a tax-free income stream after you reach the age of 60.

We can help you build wealth outside of superannuation, to save towards pre-retirement goals such as holidays, a new car, or school fees. We can also assist with debt management, so you can pay off your loans more quickly and reduce the amount of interest you pay.

Financial security is built up over time. It results from having a good financial strategy, which in turn is underpinned by the ability to earn an income. However, even the best strategy will come undone if the income that supports it is interrupted by an accident, illness or the death of a breadwinner. At IFFP we can't stop these things from happening, but we can help you protect yourself from their financial consequences.

An effective insurance strategy lies at the heart of every sound financial plan. In this issue, we explain the important role insurance plays in supporting your goal of financial security, and outline the key types of insurance and the role each has to play.

**David Haynes**  
*General Manager*

Insurance is the foundation upon which every sound financial plan should be built. Insurance won't stop the pain of illness or injury, and it can't restore a deceased loved one to life.

However, it can relieve you and your family of the financial burden that would otherwise result when tragedy strikes.

There are many different types of insurance, which cover most of the risks of living. Personal insurances include Life, Disability and Major Illness Insurance. General insurance covers our homes, cars, and other possessions.

On the following pages, we look at the most important types of insurance, and how they help to protect you in your quest for financial security.

#### THIS ISSUE...

Building on solid foundations

Covering all bases

Female? Financial fitness tips



# Covering All Bases

## FIRST BASE – Income Protection

What would your future look like if suddenly you were unable to work?

For most of us, the ability to earn an income is our most valuable asset. Depending on your age, your future income may well be worth far more than a house and its contents, a car, a boat and a holiday home all combined.

Yet few people properly insure their income, and if illness or injury prevents them from working, financial hardship often results.

With around half of us likely to spend more than three months off work due to ill health during our working lives, Income Protection insurance should be the first item on the personal insurance shopping list.

Income Protection, or Temporary Disability Insurance or Salary Continuance, will pay you a regular amount, usually up to 75% of your normal income if you are unable to work due to illness or injury.

Benefits are taxable, and commence after a waiting period. Payments continue to be made until you return to work, or until the benefit period expires. The waiting period and the benefit period are selected at the time of application.

Income Protection insurance can be expensive. This reflects the fact that it is the most frequently claimed insurance. For example, at the age of 35 you are 10 times more likely to be disabled from an illness or injury than you are to die from it. Most super funds and financial organisations offer this insurance option.

Income Protection is tax-deductible to any employed or self employed person outside of a superfund. While the premiums can be higher, the tax deduction reduces the out of pocket cost, and the cost can also be further reduced by adjusting both the waiting and benefit period.

The advantage to having it paid through your super fund is that the premiums can be cheaper. This is because the super fund claims the tax deduction and passes that on as lower premiums.

## SECOND BASE – Life & Permanent Disability

Life Insurance pays a lump sum benefit if the person insured dies. But what happens if they don't die, and can never return to work in an occupation to which they are suited? Total and Permanent Disability

***“Who’s going to look after the kids if their primary care givers were to die?”***

(TPD) insurance can help ease the financial burden of loss of income to the insured by providing a lump sum payment.

Most people underestimate the level of life insurance they need. The insured sum should be enough to clear net debt, cover future expenses such as school fees, and provide an adequate replacement for the income that the deceased would have earned through to their normal retirement age.

For a breadwinner with young children, an appropriate amount may be well in excess of \$1 million. Primary care givers should also consider insurance: who's going to look after the kids if they were to die?

## THIRD BASE – Trauma Insurance

Trauma Insurance fills a gap between Income Protection, Life and TPD Insurance. It was designed by a doctor who found that his patients' recoveries were hampered by their concerns over the financial burden caused by major illness.

Trauma Insurance pays a lump sum benefit on the occurrence of a specified condition such as cancer, heart attack or stroke. It often provides a benefit when neither Income Protection nor TPD Insurance claims can be made.

Unlike Income Protection, where the benefit is paid if you are unable to work, regardless of the nature of the illness, trauma payments are based

upon the specific illness, not the degree of disability.

Trauma Insurance is designed to cover out of pocket medical expenses and other costs associated with major illness, and to allow recovery to take place without financial worry. It isn't a replacement for the other types of personal insurance, and a comprehensive insurance portfolio will include Life, TPD, Income Protection and Trauma Insurance.

### A Super Way To Insure

Most superannuation funds (and many industry funds) offer Life and Permanent Disability Insurance. Some funds also offer Income Protection cover, though often with limited benefit periods.

There are a number of advantages in holding life insurance via your industry super fund.

Industry super funds can often negotiate wholesale insurance rates, so premiums for superannuation life insurance are often lower than can otherwise be obtained. In addition, premiums are paid from your superannuation balance.

Whilst this reduces your ultimate retirement benefit, the effect is usually small, and by relieving the strain on the household budget, you may be able to increase your overall

savings. The main advantage of superannuation life insurance is that the premiums are tax-deductible to the fund, which ultimately reduces your cost of insurance.

When you join a superannuation fund, you may be offered a minimum level of insurance. This is rarely enough to provide proper cover, and it's up to you to request an increased level of insurance. The forms for this are often included with the original information pack, or you can request an application form from your fund at any time.

Depending on your age, medical history and the level of cover you require, you may also need to undergo a blood test or medical examination.

When leaving a superannuation fund, you should investigate what happens to your insurance cover. You may be offered a "continuation option", which is an ongoing policy provided by the insurance company.

If you don't take this up within the short period that the offer covers, you may find yourself without insurance.

If this happens, and if there has been a change in your health, it may be difficult and cost much more to obtain replacement cover in the future.

### HOME BASE

#### – General Insurance

Most people insure their house and contents, motor vehicles and other possessions. The key here is to make sure that all possessions are covered for full replacement value.

Many insurance companies provide guides to help you work out an appropriate level of insurance cover. Don't forget valuables like jewellery, antiques or artwork, which often have to be separately noted in the cover.

#### Getting It Right

Insurance is a complex area. Policies vary in their detail, and insurance companies differ in their approach to processing both applications and claims.

Each type of insurance has a role to play, and it is a job for an expert to work out the right amount of each insurance for you.

You should also seek expert advice whenever you consider allowing a policy to lapse, to ensure you are fully aware of the potential consequences.

Your IFFP financial planner can analyse your insurance needs and recommend a portfolio that's right for you and your budget. Call 1300 138 848 for an appointment.

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## Female? Over 45? Fabulous? Take our Tips for Financial Fitness

Women, on average, live longer than men. They play a key role on over 85% of all purchasing decisions and many also look after the household finances.

Yet many women are not financially well off. Single women in particular reach retirement with low superannuation balances.

This leads to a high reliance on the Age Pension, and at only 25% of average male weekly earnings, that's far from a comfortable retirement.

Some planning can help with this. Whether you're single, partnered or divorced, our **Over 45, Fabulous and Financially Fit** fact sheet will set you on the road to financial health. It's packed with tips on:

- ◆ **Getting debt under control.**  
Reduce your debt as quickly as possible by consolidating it into a lower interest loan, or paying down high-interest debt first.
- ◆ **Making the most of superannuation.**  
Get the government to give you up to \$1,500 every year, and gain other tax benefits on superannuation contributions.
- ◆ **Ensuring a fair outcome in divorce.**  
Around one third of marriages end in divorce. A spouse's superannuation now forms part of the property that can be split upon relationship breakdown.
- ◆ **Avoiding sexually transmitted debt.**  
Women are often affected by debt incurred by their husbands, partners and children.
- ◆ **Learning about financial matters and money management.**  
Knowledge is power, and the more you know about money, the better off you're likely to become.
- ◆ **Taking control of your spending.**  
Work to a budget, have clear goals, and make sure any spare money is working as hard as possible for you.
- ◆ **Finding the best financial advice.**  
We live in a complex financial world, and expert guidance goes a long way to helping you get to your destination. We can help you obtain the advice that's right for you.

**“Single women in particular reach retirement with low superannuation balances.”**

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Please send me the “Over 45, Fabulous and Financially Fit” fact sheet.

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