



# A guide to managing personal risk

A well-constructed financial plan has two parts – wealth creation and wealth preservation. Wealth preservation helps you protect your ability to create wealth.

Wealth creation is the part of your financial plan that helps you build the assets to meet your financial goals. Your goals may include saving for your children's education or a future overseas holiday, or having enough money to live comfortably when you retire.

Wealth preservation (risk insurance) helps you protect your ability to create this wealth. Your wealth creation plan will be based on the assumption you'll stay healthy and live to a certain age. But there may be unforeseen circumstances which can impact your plans. Risk insurance may help you to continue meeting your financial goals if you lose your ability to work or suffer a serious illness.

## Why have risk insurance?

Risk insurance shifts the financial burden created by personal risks to insurers who can afford to cover them by pooling the premiums paid by their customers. It provides peace of mind that you and your family are financially secure by paying an ongoing income if you can't work because you're temporarily or permanently disabled, or if you die.

## Different insurance for different needs

### Life Insurance

Life insurance can provide financial protection for your dependants if you die. The cost depends on the type of cover you choose. You should review your cover regularly to ensure you're not under- or over-insured.

The most appropriate policy is one that strikes a balance between how much premium you can afford to pay and favourable policy conditions. To decide how much cover you need, it's important to consider:

- your current assets and liabilities, especially the amount outstanding on your mortgage
- how much you'd need to maintain your family's standard of living
- whether you may need to pay for a housekeeper or day care for your children
- your children's school fees.

Life insurance can be used to repay debts, cover your dependants for the loss of your income and/or secure your business.

### Total and Permanent Disability (TPD)

TPD is additional to life insurance cover. It pays a lump sum if you can't ever work again because of illness or injury. TPD can be used to repay your debts, cover capital gains tax liabilities and cover your dependants for the loss of your income.

The precise definition of TPD and the conditions that must be met to receive compensation vary considerably between insurance companies. So it's important you understand the conditions under which the insurance company will pay a claim before taking out TPD cover.

### Income Protection

An income protection policy generally pays you up to 75% of your monthly income if you can't work due to illness or injury until the policy anniversary prior to your 65th birthday.

The premiums you pay on this type of policy are tax deductible. However, any payments you receive under the policy are classed as assessable income for tax purposes.

### Trauma Insurance

Trauma insurance pays a lump sum if you suffer a specified traumatic event such as the diagnosis of cancer or coronary disease.

The benefit is paid when diagnosis is confirmed, not when you die of the condition. This is important because it means you and your family have a lump sum you can use at your discretion, when you most need it. You could use it to pay for additional medical care, or to pay off the mortgage to relieve the financial pressure on your family.

## Inside or outside of superannuation?

You can potentially benefit from tax deductions and cheaper costs when you hold insurance within superannuation. For this reason many super funds now offer insurance as an option in their products.

But you should be aware that there's a wider choice of insurance cover available outside superannuation.

## Why should you understand the insurance cover?

When you take out insurance it's important to understand what you are covered for. You should look through the Product Disclosure Statement and any policy wording and if there's anything you aren't sure about, ask your financial adviser to explain it to you. This may help you avoid any complications if you or your estate needs to make a claim.

## Things you should consider

You need to be sure you aren't over-insured – or worse still, under-insured. The type and amount of risk insurance you may need depends on a number of factors such as:

- your personal financial circumstances and objectives
- your lifestyle needs
- how many dependants you have
- your age.

As your wealth grows and personal circumstances change, your need for insurance cover may also change, so it's important to review your insurance cover regularly.

Your financial adviser can help you assess your insurance needs as part of your overall financial plan.

This publication provides an overview or summary only and it shouldn't be considered a comprehensive statement on any matter or relied upon as such. This publication doesn't take into account your personal objectives, financial situation or needs. It's important for you to consider these matters before making any financial decision and we recommend you seek help from a financial adviser.

### IMPORTANT INFORMATION

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