



HELP ME – SHOULD I CANCEL MY LIFE INSURANCE?

Antoinette and Ian Greig have been looking at the family budget and are thinking about stopping their personal insurance cover to help cut costs. Adrian gives them some timely advice.

Did you know that over 60% of Australians are underinsured? That's the majority of our nation's population who do not have enough cover should the unforeseen happen.

My dad was never a big fan of insurance. He always felt that insurance guys were conmen and that he was so fit that he would live to 100 anyway. He died two years ago at age 59 and mum was left with the mortgage (albeit a small one), little cash and a sad heart.

When I met with Antoinette and Ian I gave them an emphatic “no” when they considered cutting out their life insurance cover.

If there was every a family that needed personal insurance cover then it was the Greig family. They have 4 children ranging in age from 5 to 14 that all go to a private school and they have a mortgage in excess of \$350,000. Ian is the sole breadwinner and works in the construction industry. The only personal insurance cover the family had was life insurance of \$200,000 for Ian.

The major reasons for underinsurance in this country are the perceived cost, “I’m covered by Workers Comp already” and a “she’ll be right” mentality. Ian and Antoinette were no different.

So I posed a simple question to them ... “what would happen if Ian was run over by a bus tomorrow?” After all, the majority of accidents and deaths occur away from the workplace.

The answer was simple. Antoinette would have to go and get a job to support the kids to put food on the table and help provide them with an education. The kids would probably have to go into the public school system. It would be almost certain that she would have to sell the family home as she wouldn't be able to meet the repayments.

I suggested that the basic cover that they need to consider is the mortgage plus an amount that will provide an income to perpetuity. As the household needs

approximately \$30,000 per annum, then based on 8% return they need an additional \$375,000 (together with the \$350,000 for the mortgage) in life cover.

It is also important that Ian covers his income. I stressed that people tend to cover their house, car and contents, but rarely cover the most important reason for these assets. Income protection insurance is effectively a 24 hour, 365 days cover for 75% of your income up to age 65.

I then asked them what would happen if Antoinette was run over by a bus? Ian would probably have to reduce his hours at work to care for the kids, resulting in a lower income especially without any overtime that he currently enjoys. It was agreed that it was a good idea that Antoinette should be covered too.

To get more adequate insurance cover for the Greigs, the extra premium after tax was just under \$75 per week. The majority of it can be paid by their super funds and means that they would only have to do sacrifice Pay TV in order to help secure the family's finances.

GOLDEN RULES WITH PERSONAL INSURANCE

- **Make it a priority in the budget** – insurance should ALWAYS be one of the first items in any family budget ... not one of the last. No exception.
- **Think about your last gasp of air** – when considering your insurance cover, you should be thinking about the look on your family's faces if they are not financially protected when you die
- **People do get run over by buses** – it is never planned, but people do die unexpectedly. Cover the worst case scenario.
- **Don't lie in insurance applications** – by not telling the truth to the underwriter at application may jeopardise your payout when you need it most.
- **Cover the mortgage ... and a little bit more** – the basic cover that every Australian should have is their mortgage. Also think also about schooling, child care, everyday household running costs and lost income.
- **Protect your income** – what would happen if you couldn't work for a couple of months? Do you have enough of a buffer to cover your mortgage repayments? Cover is tax deductible.
- **Get your super to pay for it** - to help with cashflow, get your superannuation fund to pay for your life insurance coverage.
- **Check the terms and conditions** – if you are unclear then talk to a licenced financial adviser or life insurance broker

It doesn't matter what your current financial position is, if you're still in the workforce your most valuable asset is you and your ability to earn an income.

While most of us think to insure our homes, cars and boats against damage or loss, too many fail to protect against illness or injury...the very things which can jeopardise financial security.

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Now if you're sitting back thinking "I've got workers' compensation so I'm covered if something goes wrong", think again. More than half of all serious accidents happen outside of work, so if you're injured or become ill there's a good chance workers comp won't cover you.

So imagine what would happen then, to you and your family, if you couldn't work for a couple of months. Would you be able to cope with obligations like your mortgage, car repayments or personal loan? Likewise, how would your family cope if you were off work for a number of years, or worse, permanently disabled?

If it's not something you've thought about before it may be a good idea to do some homework on income protection insurance. There are hundreds of policies offering different levels of cover, and most people can claim their premium payments as a tax deduction.

The amount of income protection insurance you'll need will depend on the salary you'll want to insure. Most policies cover around 75 per cent of your income at the time you take out the policy, and will cover you until you're able to work again, or up until the maximum benefit period contained within your policy.

But, before you make a decision it's a good idea to shop around, get a few quotes and make sure you understand what you're covered for. According to the corporate watchdog, ASIC, most people only read their policy when they need to make a claim and by this time it's often too late if the policy doesn't cover what's being claimed.

Some key questions worth asking potential insurers include: What will I be covered for under the policy?; What isn't covered for under the policy?; How much will be paid after I make a claim?; How long is the waiting period after I make a claim?; And what will the insurance premiums cost?

Also, remember when taking out any insurance policy, you should carefully check the terms and conditions, and the way the key terms within the policy are defined. If you're unclear and want to make sure your insurance bases are covered, it's always best to speak to a reputable licensed financial adviser or life insurance broker.