key financial planners
secure your future

A guide to managing personal risk and protecting your wealth

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?

It's not something anyone likes to think about. But life's uncertain. You might not always have the luxury of the income you currently have. You could fall sick. You could have an accident. But when that happens, you don't have to eat into the wealth you've worked hard to create.

That's why a sound financial plan will help you create wealth and preserve it. Your financial adviser can help you structure your financial plan so that if you're not able to work, you can still maintain your standard of living and keep your investments.

Your financial plan is all about helping you keep control of your wealth, so you can make the most of it when you retire. It should also ensure your family is taken care of when you're no longer around to take care of them.

Ultimately, your financial plan is about providing you and your family with peace of mind.

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 as risk insurance may pay an ongoing income or lump sum 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 medical expenses, 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 can generally pay you up to 75% of your monthly income if you can't work due to illness or injury until 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.

How much do you need to protect your financial plan?

Perhaps the best way to decide how much you need is to estimate what you'd need to pay off your debts and how much you'd need each year to cover living expenses.

You may have enough accumulated wealth to cover you if you couldn't work for any length of time. But having the right insurance cover means you won't need to whittle away your investments.

Use the quick calculator as a rough guide. Remember, this doesn't take into account inflation or all the expenses you're likely to have to pay out. Your financial adviser will help you work out the right amounts.

When you've estimated these figures it will give you an idea of the total insurance cover you need.

Quick calculator

Long-term debts		$
Mortgage		
Car loan		
Credit/store cards		
Other loans		
Total needed to pay off debts	(A)	

Monthly living expenses		$
Rent		
Rates		
Telephone/electricity/gas etc		
Food		
Clothing		
Travel (car/bus/train)		
Entertainment (holidays/eating out etc)		
Monthly total	(B)	
Yearly total **(B x 12)**	(C)	
Number of years to be covered	(D)	
Total amount needed for living expenses **(C x D)**	(E)	
Total estimated cover needed **(A + E)**		

Inside or outside of superannuation?

You can potentially benefit from tax deductions and cheaper costs when you hold certain insurance within superannuation. For this reason many super funds now offer insurance as an option in their products. However, there may be tax payable on insurance proceeds where you hold it through your superannuation.

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.

Ultimately, your financial plan is about providing you and your family with peace of mind.

Contact Key Financial Planners for further information on 08 8561 2400 or visit www.keyfinancial.net.au