Life Insurance

MULCAHY & CO | P 03 5330 7200 | INFO@MULCAHY.COM.AU | 300B GILLIES ST NTH, BALLARAT

WHAT IS LIFE INSURANCE?

Life Insurance provides lump sum cash payment in the event of a death. Most policies will also pay on diagnosis of a terminal illness with less than 24 months to live.

Life cover will normally apply immediately after any cause of death whether it is through accident or illness, with the exception of a suicide occurring within the first 13 months of the policy being taken out.

For those who may be deemed ineligible for full life (accident and illness) cover there are limited Accidental Death or Accident Only Life Insurance policies available which will only cover death that has resulted from an accident.

Worldwide protection is also offered by insurers which will cover you anytime, anywhere in the world.

WHY DO YOU NEED LIFE INSURANCE?

The purpose of life cover is to ensure the financial safety of any dependents in the event of your death. The benefits of your policy can be used to pay off debts including your mortgage, cover funeral costs, cover costs of future education for dependents and replace any future income that has been lost as a result of your death.

HOW MANY INSURERS ARE OUT THERE?

There are over 50 Insurers within Australia for which we have access to all of them in order to find you the best policy to meet your needs.

WHO ARE THE BETTER PROVIDERS?

The better providers to take out policies with are the providers who complete medical underwriting at the time of the application. This ensures that there are no surprises when the time comes to claim on a policy.

HOW MUCH COVER DO I NEED?

Your need for Insurance will very much depend on what stage in your life you are at. Those with mortgages or a young family are a lot more vulnerable to a loss of income as a result of an unexpected death and will usually need more cover compared to someone who is embarking on retirement with a number of assets that can be used to pay off liabilities and who may not need to protect a young family anymore.

Things to be considered when calculating what your insured amount should be can be found below:

- Age
- Income
- Debt
- Any dependents and associated expenses
- Funeral costs
- Debts that occur from illness
- Your assets
- Any existing cover you may have

BEST WAY TO STRUCTURE YOUR POLICY?

A big decision to make is in regards to whether you take your policy out within your Superannuation or not.

Advantages of insurance through your Super fund can be found below:

- Nil personal cash flow implications, allowing your super account balance, employer super contributions and/or positive investment earnings to pay the premium, maximizing your ability to repay loans faster and pay for day to day living expenses.
- A 15% tax offset on the premium within superannuation.
- ‘Group insurance’ rates (generally discounted premiums).
- Ability to ‘salary sacrifice’ the annual premium, paying tax at a maximum rate of 15% compared to an individual’s marginal tax rate of up to 47% including Medicare levy.
- Ability to potentially have the ‘government co-contribution’ assist with paying the annual premium(s).
- Binding death benefit nominations to direct death benefit payments.
- Ability to pay the premium from after-tax income if so desired.

Disadvantages

- **Reduces your retirement balance** – Obviously, paying for your premiums through your superannuation fund is going to reduce the amount of money you are going to retire with.
- Any proceeds left to adult dependants will be taxed at 17% .

AVERAGE MONTHLY COSTS?

The cost of Life will depend on a number of factors including:

- Your age
- Your occupation
- Your health
- Your gender
- Your smoking status
- The amount you are insured for

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The table below aims to put into perspective the cost of life cover in comparison to other forms of cover.

Protection Type	Average Monthly Premium	Average Claims
Life Cover	$25.00	$299,275
Income Protection	$133.36	$29,662
Car Insurance	$73.09	$2,550
Home Buildings and Contents Insurance	$97.60	$3,400 for Buildings $2,700 for Contents

PREMIUM STRUCTURE

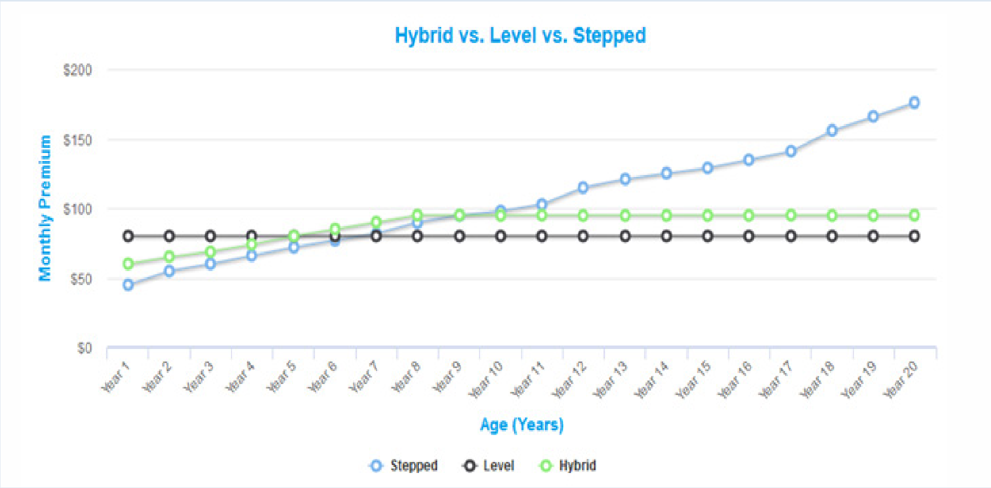
Premiums are usually paid in 1 of the 3 following ways – either a stepped premium which increases each year. A level premium which consists of a consistent payment each year typically to the age of 65 to counteract the perceived risk which increases alongside your age. The third option is a hybrid premium which is only available through a small number of insurers and combines both the level and stepped premiums. The table below from life insurance direct shows the difference in premiums paid over time between the 3.

- The stepped premium continues to increase each policy anniversary date due to becoming a year older and ultimately closer to your date of death and more likely to suffer an injury or illness.
- The level premium is initially dearer although remains the same year in year out (minus CPI increases that you can decline if desired).
- The level premium is a hedge against inflation.

Considering the level premium remains constant this of benefit for cash flow purposes.

By opting for the level premium, you will lock in the premium rate until age 65 and possibly until age 70 with same premium.

Generally, the level premium option will work in your favour from a cost analysis if you intend on owning the cover for an extended period of time.



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CLAIMS PAID OUT

Below are the 2016 industry statistics of insurance payouts within Australia.

Totals Paid by Product:

Product:	Term	TPD	Trauma	IP/BEX	Total
$ Paid	4,050,608,290	1,720,887,618	784,112,922	2,649,308,406	9,204,917,236
Number of Claims	24,079	16,073	4,309	63,580	108,041

Average Lump Sum Paid Per Working Day

	Term	TPD	Trauma	IP/BEX	Total Per Day
Average $ per working day	16,202,433	6,883,550	3,136,452	N/A	26,222,435
Average number per working day	96	64	17	N/A	177

Some individual claims being paid out can be found below:

- **$441,000** – for death of 32-year-old construction worker as a result of a work accident.
- **$1,251,300** – for death of 40-year-old nurse as a result of illness.
- **$309,900** – for terminal illness of 48-year-old university lecturer.
- **$560,000** – for death of 48-year-old management consultant after accident working on car at home.
- **$210,600** – for terminal illness of 52-year-old homemaker.
- **$350,000** – for death of 52-year-old bank manager as a result of illness.
- **$1,870,500** – for terminal illness of 53-year-old doctor.
- **$1,276,300** – for death of 67-year-old taxi driver as a result of illness.

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What does being financially secure mean?

IT MEANS ASSESSING YOUR PERSONAL AND BUSINESS GOALS AND DEVELOPING A PLAN TO ACHIEVE THESE.

We have identified 10 key areas to help you become financially secure:

1. Goals & objectives
2. Estate plan
3. Risk plan
4. Asset protection plan
5. Taxation plan
6. Debt plan
7. Retirement and succession plan
8. Business plan
9. Superannuation plan
10. Investment plan

Setting goals and objectives and having strategies to achieve these is an essential element of becoming financially secure. Once you know what you are aiming to achieve and how you are going to get there, we then need to make sure you have a strong foundation in place to protect you, your family and other investments. A strong foundation needs an estate plan, risk, plan, asset protection plan, taxation plan and debt plan.

With the foundations in place we can then work on the strategies to achieve your goals and objectives. It may seem out of order that we have the retirement and succession plan at number 7 rather than 10. It is important that this is considered early and a plan is put in place. This assists to plan for this financially as well as keeping the communication lines open on the topic.

10 Steps *to becoming* Financially Secure

1. GOALS AND OBJECTIVES

Picture yourself in 10 years time... Where do you want to be? How are you going to get there? Being clear on your goals & objectives ensures you can develop a strategy to achieve them.

2. ESTATE PLAN

"What will happen when I'm gone?" Only assets owned in your name are covered by your will. Your Estate Plan protects your family from the potential threats that your Will does not.

3. RISK PLAN

Your Risk Plan addresses whether you need to save or insure to protect your family's financial security in the event of an injury, accident or death.

4. ASSET PROTECTION PLAN

An Asset Protection Plan makes sure your assets are owned in the right names or entities so you limit the risk of them being exposed to creditors.

5. TAXATION PLAN

A Taxation Plan structures your affairs so that you legally pay the least amount of tax and retain more of your income.

6. DEBT PLAN

A Debt Plan ensures your assets aren't over exposed to debt and structures your debt to maximise tax deductibility of the interest.

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7. RETIREMENT PLAN

Retirement is setting the date when you can choose to stop work. Your Retirement Plan details the income and assets you need (in addition to superannuation) to retire and outlines the steps to get there.

8. BUSINESS PLAN

Your Business Plan may be the main source of your wealth. The 5 Drivers to Business Success are the key to developing a business which will help you achieve your goals.

9. SUPERANNUATION PLAN

Many people miss out on the enormous tax benefits of superannuation. A Superannuation Plan will ensure you have a strategy to produce greater wealth at retirement.

10. INVESTMENT PLAN

An Investment Plan will increase your asset base, while focusing on preserving your capital and managing your risks, to meet your personal and financial goals.

We offer a free no obligation meeting to review your situation. Call us today on 03 5330 7200 and take advantage of this valuable offer.