PERSONAL INSURANCE

Personal insurance is a way to protect your partner, children and other dependants from financial hardship in the event you pass away or become seriously ill or injured.

If you work part-time, full-time or are a homemaker, your passing or disablement could leave your family struggling to pay bills like the mortgage or rent, utilities and school fees and may result in increased expenses if someone is required to look after the children, complete domestic chores or care for another family member.

Personal Insurance can temporarily replace most of your regular income or pay a lump sum to help with:

- Mortgage or rent payments
- Meeting day-to-day living expenses
- Rehabilitation costs, etc.

With so many insurance types to choose from, how do you know which or if all of them is right for you?

Types of personal insurance

There are four main types of personal insurance to consider.

Depending on your circumstances, total protection may require you to take out one or all four types of cover (see comparison table below).

The terms, conditions, limits and exclusions of the various types of insurance often differ between insurers.

Life cover

Life cover (also referred to as 'term life insurance' or 'death cover') pays you (or your nominated beneficiaries) a one-off lump sum of money if you pass away or are diagnosed with a terminal illness.

The funds can be used to pay off debts and provide your family with an ongoing income stream.

Total and Permanent Disability (TPD) cover

TPD cover pays you a lump sum should you become totally and permanently disabled and unable to work in either your 'own occupation' or 'any occupation' ever again.

For more information, read our TPD cover fact sheet.

Trauma cover

Trauma cover (also known as 'critical illness insurance' or 'recovery insurance') pays you a lump sum in the event that you have sustained a specified injury or are diagnosed with a specified illness (e.g. cancer, stroke or heart attack).

Income protection

Income protection (also called 'salary continuance cover') pays you a monthly benefit for a set period of time if you suffer a serious illness or injury and cannot work in your usual occupation.

	Death or terminal illness	Total and permanent disability	Specified serious illness or injury	Serious illness or injury that prevents you from working
Life Cover	✓	✗	✗	✗
TPD Cover	✗	✓	✗	✗
Trauma Cover	✗	✗	✓	✗
Income Protection	✓[1]	✓[1]	✓[1]	✓

1. While income protection can help if you get seriously sick or injured, it only pays you up to 70% of your pre-tax monthly income for a limited time (e.g. two years); and may not cover death. It may cover the diagnosis of a terminal illness. That's why, depending on your circumstances, you may wish to consider complementing income protection with other types of cover that can pay you a one-off lump sum large enough to enable you to settle your debts (e.g. mortgage) and meet your long-term living expenses.

How much personal insurance do I need?

There's a methodology used to calculate how much cover you need. Using this process, a Modoras planner will ensure you take out the optimal level of cover (not too little and not too much).

When working out the amount, you and your planner will need to consider things like your:

- **Debts** — what you owe on your mortgage, credit card, car, personal loans, etc.
- **Assets** — investment property, savings, superannuation, shares, etc.
- **Dependants' future expenses** — the ongoing housing, food, utilities, transport, education, insurance, medical and other bills your loved ones would still need to pay for in your absence.
- **Current cover** — the amount of personal insurance you have within existing policies that you intend to maintain (inside and outside super).

How can I pay my premiums?

There are two types of personal insurance premium: stepped and level. You can choose one or the other or — if the insurer offers it — a combination of both (i.e. a hybrid premium).

Be aware that life insurers can reprice premium rates at your policy anniversary — they're not necessarily fixed or guaranteed.

Also, even if you choose a level premium, you may be required to start paying a stepped premium when you turn 65 or 70.

Stepped premium

Your premium is recalculated each year based on your age at your policy anniversary.

This means your premium increases every year as you get older (and the likelihood of you making a claim increases).

It can be the most cost-effective option if you hold cover for only, say, 5 to 10 years.

The maximum age you can start a policy with stepped premiums is generally higher than it is for level premiums.

Level premium

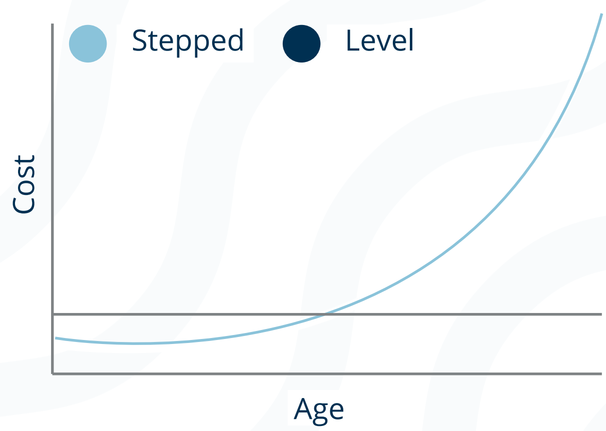
Your premium is based on your age when your policy commences.

The premium is averaged out over several years: It does not increase as a result of your age at each policy anniversary. This makes budgeting easier.

While they're more expensive than stepped premiums in the early years, level premiums become cheaper in the later years, when you most need the cover.

The earlier you 'lock in' a level premium, the more you're likely to save, as the younger you are the lower your premium is.

It can be the most cost-effective option if you need cover for decades to come.



How are claims paid?

On acceptance of your life, TPD or trauma cover claim, your benefit amount will usually be paid as a tax-free lump sum to the policy owner.

Income protection benefits are typically paid monthly in arrears — in other words, you're likely to receive your first benefit payment 30 days after serving your nominated waiting period. These benefits are treated as assessable income and taxed at your marginal rate.

How often should I review my personal insurance?

It's a good idea to review your personal insurance regularly. We would suggest aiming to do this annually, and more often if your personal and/or financial circumstances change.

For example, if you take out a home loan or start a family, you may decide to increase your life, TPD and/or trauma cover. On the other hand, if you've paid off your mortgage and/or your kids have left home, you may decide to reduce your cover.

And if you change jobs or get a promotion, you may wish to reassess your income protection. Your planner can help you make these decisions and keep you protected.

Get expert advice!

Personal insurance can be complex and knowing which one or if all should be applied for can be challenging. To give you and your family peace of mind, we recommend you call us on 1300 888 803 to book a free consultation with one of our financial planners. After all, there could be plenty at stake.

Complete financial care is a phone call away.

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