

*Don't buy
or renew your*
**INSURANCE
POLICIES**
until you have
**READ THIS
GUIDE!**

Includes Tips & Tricks
that could save
you substantial **\$\$\$**
and help make sure
your claims get paid.

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• LIFE • INCOME PROTECTION • TRAUMA •

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WHAT IS INSURANCE?

It's simply the transference of a risk from yourself to the Insurer.

By paying the Insurance Company a fee (premium) you enter into a contract to have the risk transferred from yourself to the insurer. The insurer issues you a policy that details your cover and the cost.

If the loss or event occurs that is covered by your policy, you receive a financial payout by making a claim to the Insurance Company, with the help of your Adviser.



TIP

When completing an application for cover you should answer all questions truthfully to the best of your knowledge. The last thing you want is a claim declined because of non disclosure.



TIP

Having your insurance policies with one company can save on policy fees and could entitle you to a multi-policy discount that can be as high as 15%, and a large sum insured discount.



TIP

A level premium structure could save you a small fortune over the life of your policy. Ask your adviser to give you a Stepped vs Level comparison.



TIP

A qualified risk specialist can help you tailor a range of cover to suit your circumstances and your budget.

HOW DOES INSURANCE WORK?

Risk

We all face possible risks of sickness, accident, loss of life. These events nearly always result in a financial loss.

Cost of Cover

We can pay an amount of money (premium) to an insurer for insurance to cover those risks should they occur at some point.

Claim Benefit

Should an insured event occur and it satisfies the insurance company's definition of a claim, you will receive a monthly benefit for a period of time or a lump sum payout, depending on the type of policy you have.

Claim

When an event occurs, contact your insurance adviser to assist in claiming the benefit from your insurance policy. You are making a claim.



TIP

If you need to make a claim as a result of sickness or accident, the waiting period on income cover will normally start from the day you first see your Doctor or attend a hospital as a result of the condition. Contact your adviser ASAP to start your claim process.



TIP

You are only covered for the events specified in your policy and the insurer will only pay the amount of benefit set out in the policy. Make sure your policy covers the things you need to protect and will pay enough compensation for your needs.

WHAT INSURANCE SHOULD I CONSIDER?

Your insurance requirements can be quite different at each stage of your life. The amount of cover you need is influenced by:

- Your level of income
- Your assets (belongings)
- Your liabilities (debts)
- Your personal circumstances (whether married, children, dependents)



Some of the risks you should consider covering:

- Unable to work as a result of sickness or injury
- Your Disability or that of a family member
- Your Death or that of a family member
- You or a family member suffering a Major Illness
- Your fixed business expenses
- A Key Person in your business
- Transfer of Equity Ownership in your business

PROTECT YOUR MOST IMPORTANT ASSET - YOUR INCOME!

Income protection is designed to replace your income if suffering a sickness or accident. You can normally cover 75% of your taxable income, plus any super and some fringe benefits. The cost of this type of cover is based on:

- Occupation
- Age
- Gender
- Smoking status
- Monthly benefit
- Waiting period
- Benefit period

Waiting Period

The time you wait before you are officially on claim. You do not receive any benefit during this time. Normal waiting periods are 14 days, 1 month, 3 months, 1 year & 2 years.



TIP

An early accident option on some income protection policies means that you could be on claim after 3 days if unable to work because of an accident.



TRAP

Most Insurance Companies pay a benefit 30 days in arrears. If you have a 30 day waiting period you receive nothing for the first 30 days and your first payment will normally be received after 60 days.

Benefit Period

The maximum amount of time you will receive a benefit for on a continuous claim. The normal benefit periods are 2yrs, 5yrs and to age 65, and with some occupations to age 70.



TRAP

If you select a 2yr or 5yr benefit period, your policy will end once you have been paid a claim continuously for this period of time.



TIP

Because the cost of income protection is tax deductible, the difference in premium between a 5yr benefit and one that pays to age 65, might be only a few dollars a day after any tax deduction.

Agreed or Indemnity Policy?

An Agreed Value Policy guarantees the monthly benefit at the time of claim, as long as you have verified your income with a tax return or profit and loss statement. The benefit you receive will not be reduced even if your income has dropped at the time of claim.

An Indemnity Policy is a cheaper option but will only pay a maximum benefit of up to 75% of your gross taxable income at the time of claim. If your income is likely to fluctuate you should avoid this type of policy.



TRAP

The so called cost savings on an Indemnity Policy could be insignificant if you have a claim only to realise your monthly benefit is not paid in full because your income has reduced. Even worse you have been paying for a monthly benefit you might not receive.



TIP

Even if you are currently in a secure, employed job you should not automatically take out an Indemnity Policy. What if you change jobs or decide to start your own business where your income could be lower for a period of time.

Definition of Total Disability

Insurance Companies use different definitions when deciding if you meet their requirements for a Total Disability Claim on an Income Protection Policy.

The Most Common Total Disability Definitions are:

- Unable to do at least one of the important duties of your occupation necessary to producing income
- You are unable to perform the important income producing duties for more than 10hrs a week
- Unable to perform an income producing duty of your occupation
- Unable to generate at least 80% of monthly earnings from personal exertion in own occupation



Partial Disability

Where you are able to work for a reduced amount of time and there is a loss of income. Some companies require you to be total disabled before they will pay a partial disability claim.

Definition of Partial Disability

- Suffered a reduction of 20% or more in the ability to generate earnings or perform income producing duties
- You have been totally disabled for at least 14 days or from the end of your waiting period
- Solely due to sickness or accident your monthly income is less than your pre-disability income

WHAT ARE YOU RISKING BY NOT HAVING INCOME PROTECTION?

What is your future earning capacity?

The table below gives you an indication of what you could earn by the time you reach 65, and how much financial risk you are taking by not insuring your income.

Current Income (pa)	AGE NOW			
	25	35	45	55
\$40,000	\$3,020,000	\$1,900,000	\$1,070,000	\$460,000
\$60,000	\$4,520,000	\$2,850,000	\$1,610,000	\$690,000
\$80,000	\$6,030,000	\$3,810,000	\$2,150,000	\$920,000
\$100,000	\$7,540,000	\$4,760,000	\$2,690,000	\$1,150,000

Assumes salary will increase by 3% pa and no employment breaks.

TRAP

Due to the complexity of definitions which can vary depending on your occupation, always get the advice of a specialist.

TIP

Some companies pay advanced benefits for certain injuries that don't require you to be totally disabled and they also waive the waiting period so you are on claim immediately.

What is your insurable income?

Gross Monthly income x 75% = \$

What Waiting period:

What benefit period:

TAKE CARE OF YOUR LOVED ONES

Life insurance provides a lump sum on death or diagnosis of a terminal illness, where you are unlikely to survive for 12 months.

It is designed to provide financial security to your surviving dependents. To achieve that you need to insure for an adequate amount of cover. This lump sum should take into account the:

- Clearing of Debts
- Replacement of lost income
- Final expense
- Any financial legacy for loved ones

To calculate a lump sum to cover the loss of income you can either:

- provide for a lump sum that reduces each year by the amount of income required for a set period of time, eg 10 years x \$60,000 = \$600,000 or
- you can insure for a lump sum that can be invested at a return that will replace your lost income, eg 1,000,000 invested at 6% to produce an income of \$60,000 a year.

A common addition to life cover is Total & Permanent Disability (TPD). It is designed to pay you a lump sum if you are totally disabled and unlikely to return to work in the future. The Lump sum you insure should take into account an amount for:

- Clearing of debts
- Medical costs
- Alterations to your home, if required, due to your disability
- A special vehicle if required

There are different definitions of Total & Permanent Disability

- Any Occupation,
- Own Occupation,
- Modified definition for a Homemaker

Any Occupation: TPD normally states that as a result of your disability you have been continuously off work for a period of at least 3 months and with some companies 6 months. You are unlikely ever to be able to work at your usual or any other occupation you are reasonably suited to by the way of education, experience or training.

Own Occupation: Similar wording to the above with one important difference - You are unable to work at your own occupation and not be working in any occupation for a period of at least 6 months.

Modified definition of TPD for a Homemaker

Normally states that you are unable to do normal physical domestic duties (cleaning, cooking, meals, shopping, and taking care of dependent children).



TRAP

If your occupation is eligible, you should always go with an own occupation definition or at least find out the cost difference between own and any occupation.



TIP

If your current TPD cover is part of insurance taken out through super then you will normally have an Any Occupation definition. Own occupation definition will not meet a condition of release.

What amount of life cover will you need?

Clear your debts	\$
Replace your lost income	\$
Amount of TPD Cover Required	\$

DON'T LET A SERIOUS ILLNESS WIPE YOUR FINANCES OUT

Trauma cover, also known as critical illness or recovery, is designed to pay you a tax free lump sum on diagnosis of a specified medical condition.

It's about surviving an illness and giving you the cash so you don't have money worries on top of trying to deal with getting well again.



Some of the more common conditions covered are:

- Cancer
- Heart Attack
- Stroke
- Organ Transplant
- Multiple Sclerosis
- Coma
- Blindness
- Chronic liver or lung disease
- Loss of limbs or sight
- Loss of speech or hearing
- Advanced diabetes

Ideally, consider an amount of cover to clear your debts & give you a lump sum to go toward medical costs. However, in a lot of cases (due to cost) just a lump sum to fund medical expenses and time off work is taken. You can normally add Life Cover and Total & Permanent Disability to a Trauma policy.

The important points you need to look for in a trauma policy are:

- The definitions & type of conditions covered
- Whether you can re instate the policy 12 months after being paid a claim
- Being able to cover your children in the policy



TIP

When calculating your amount of cover, you also need to factor in the possibility of your spouse / partner having to give up work for a period of time to help in your recovery and possibly look after any children.



TRAP

You may think that private health insurance will give you enough financial protection but private health insurance only covers hospital stays and some medical expenses. It does not cover lost income, debts or rehabilitation and long term care.



TIP

The premium you pay for trauma / recovery is not normally tax deductible except in certain business protection solutions and the benefit you receive will normally be tax free.

What amount of trauma cover will you need?

What will you need to clear debts	\$
Lump sum toward medical costs	\$
Total amount of cover required	\$

YOUR BUSINESS, YOUR OVERHEADS

Business expense insurance will pay a monthly benefit to assist with the day to day running expenses of your business if you are unable to work due to sickness or injury.

Examples of expenses that can be covered under a business expenses policy include:

- Accounting and audit fees
- Bank charges
- Electricity, property/water rates
- Equipment hire and motor vehicle leases
- Interest payments
- Business related insurance premiums
- Office leasing fees
- Rent or mortgage payments
- Salaries of staff not producing revenue
- Fees for memberships of prof. associations
- Net cost of locum

The benefit period

Usually 12 months. This gives you time to determine whether you are able to return to work or make new arrangements for the running of the business. By ensuring your business is kept afloat while you are disabled, you are given an option of still having a business to sell.



TIP

The premium you pay for business expense insurance is tax deductible. Due to the cost effective premium for this type of cover you should look at a waiting period of 14 days, so you will be paid a claim sooner.



TRAP

Business expense cover is an indemnity policy that covers what your business expenses are at the time of claim. Because of this you should review your monthly benefit on a regular basis to make sure you are not over insured or under insured.



What are your fixed expenses?

Accounting and audit fees	\$ _____
Bank charges	\$ _____
Electricity, property/water rates	\$ _____
Equipment hire and vehicle leases	\$ _____
Interest payments on business loans	\$ _____
Business insurance premiums	\$ _____
Office leasing fees	\$ _____
Rent on business premises	\$ _____
Wages staff not producing revenue	\$ _____
Fees for professional memberships	\$ _____
Net cost of locum	\$ _____

Based on the above examples of expenses, what amount should you insure for

\$ _____ a month

INSURANCE OWNED BY A DIY SUPER FUND

If you are the trustee of a DIY Super fund, you now have a legal requirement to consider life insurance as part of the investment strategy of the fund.

Insurance cover owned by a DIY superfund can be a great strategy, but there may be some pitfalls that you need to be aware of!

So what types of insurance can be held inside a DIY superfund?

Life Insurance

A lump sum of money paid to your beneficiaries to ensure that in the event of your death they can maintain their current lifestyle. It can also be used to pay off debts such as your mortgage, personal loans and investment debt of the DIY superfund. A life policy benefit is only tax free if paid to a "tax" dependent. This includes your children under 18 years of age and any full time students under 25.

Total & Permanent Disability

Your SMSF will be able to hold a TPD policy with an 'any occupation' definition. An 'own occupation' definition would not meet a condition of release from the fund. You should talk to a Risk Specialist before placing TPD cover inside your DIY super as there can be considerable consequences.

Income Protection

Basic Income protection can be held by your DIY superfund but it's important to remember that any benefits that are "plus" options or non conforming benefits should not be held inside super as they will not meet a "Condition of release". The most common "plus" benefits are advanced payments for certain accidents and illnesses that have no waiting periods and are paid without the need to be off work.

What insurance cover should NOT be held by your DIY superfund?

Trauma / Crisis Cover

This type of insurance pays a lump sum on diagnosis of a severe illness or trauma event. It will not meet a condition of release.

DIY Super Insurance Tips and Traps

The fact that a DIY superfund can pay for some of your personal insurance premiums will help with your after tax cash flow.

Any claim paid by an insurance company to a DIY superfund will be paid to and ultimately be, in the control of the trustees of the fund whether they are individuals or a company trustee.



TIP

Your DIY superfund will be able to claim a 15% tax deduction on insurance premiums paid to cover members of the fund.



TRAP

Every dollar you use from your superfund to pay for insurance premiums will ultimately reduce your retirement benefit as you have lost the opportunity to invest the dollars you have spent on insurance inside the fund.



TRAP

Do not consider transferring your personally owned life insurance policy into your DIY superfund to pay the premiums. This 'in specie' transfer could make your fund non complying and result in some serious tax issues.



TIP

If your marginal tax rate is greater than 15% you need to consider owning your income protection policy personally. This will entitle you to claim a tax deduction for the premium at your normal marginal rate. Your DIY superfund will only qualify for a 15% tax deduction on the premiums meaning you could save more by paying for the policy personally and at the same time not reduce your valuable retirement savings.

STRATEGIES IN ACTION

Insurance is more than just personal protection. It can be used to solve business succession, estate planning and loan cancellation issues.

Key Person Insurance

A key person is a business owner or employee whom are critical to the ongoing revenue and profitability of the business. The key persons have a direct impact on company earnings or whose expertise are crucial to the business. The two types of Key person Policies protect the Business Cash flow and protect Business Capital.

Key person (Revenue): Ensures your business continues to operate by compensating your business for loss of revenue following the disability or death of the key person. The policy can also include the costs of finding a suitable replacement.

Key person (Capital): Helps to pay out any loans or debts of your business following the disability or death of the key person in the business.

The main benefits are to help you:

- Offset a drop in your business revenue
- Provide your business with the money to find a suitable replacement
- Continue with your business without significant interruption
- Provide an amount of capital to repay loans
- Protect your business from a forced sale

TRAP

You will need the advice of a suitable accountant to advise on tax issues regarding premium deduction and tax payable on the insurance benefit received.

TIP

You can insure a key person for loss of life, total & permanent disability or suffering a trauma / critical illness.

BUY-SELL INSURANCE

Buy – Sell insurance is taken out in conjunction with a Buy-Sell Agreement, which is similar to having a Will for your business. The Business Owners enter into a written agreement to plan what they will do with their interest in the business should any of the owners:

- Die
- Become Disabled or
- Suffer a Trauma
- It can also include Retirement or Resignation

The agreement provides a mechanism for the terminating business owner, or their estate, to sell their interest in the business and the continuing owners to purchase that interest. The agreement will also detail how the interest in the business will be funded, and this is where Buy – Sell Insurance could be required.

TRAP

If a business doesn't have a Buy-Sell agreement and a trigger event occurs, it can result in cash flow problems, legal issues and a loss of value in the business if it has to take out a loan to fund the purchase of the terminating owner's shares.

TIP

The level of cover should be reviewed yearly to ensure the sums insured reflect the market value of each owner's business interest.

TIP

A successful Buy – Sell agreement will normally involve your accountant , a lawyer and an insurance specialist.

The sum insured on these policies will generally be the value of each owner's shares in the business.

DEBT REDUCTION & GUARANTOR PROTECTION INSURANCE

Debt Reduction or Guarantor Protection Insurance can be used to protect business owners and guarantors from the serious financial effects of giving a guarantee on a loan and then an event occurs which makes it difficult to make good on the liability. If a director signs a loan guarantee, they have usually secured this loan against their personal assets. The guarantee is only removed when the loan is repaid in full.

The purpose of this type of cover is to protect the guarantor and their estate. The insurance policy will provide the funds to extinguish the guarantee and this will release the guarantor and their estate from the lenders security of their personal assets.

If a trigger event takes place with respect to a director or guarantor, the business debt guaranteed by that person is fully repaid. A lender will normally be able to call on the guarantee in the event of death, Total disability or trauma.



TIP

You will need to determine how much of the business debt should be repaid to release the personal guarantee and any other personal securities.



TRAP

Most bank loans or overdraft guarantees are 'joint and several'. This means that every guarantor is 100% liable for the loan, regardless of their share of the business and the personal assets used as security.



TIP

If all business owners have taken out debt reduction / guarantee protection insurance, a written agreement should be in place to set out all parties obligations.

FREQUENTLY ASKED QUESTIONS

I'm not sure whether I need insurance?

You might not, if you don't rely on your income to maintain your standard of living and pay bills and if you have no spouse or dependents, you might not need insurance. It's probably worth speaking with a qualified adviser to go over your situation.

How often should I review my insurance?

Changing jobs, moving home, increasing debts or birth of a child are just a few reasons to review your cover.

I've had a major illness am I uninsurable?

You should discuss the illness and insurance cover you are looking for with an adviser as they will be able to speak with an insurance underwriter on your behalf.

I'm self employed, how much income protection cover can I apply for?

You can insure your gross taxable income from personal exertion, this can include any income paid to a spouse as income splitting.

I've had my policies for 5 years and the cost keeps going up every year?

It's normally because you have a stepped premium that increases each year with your age. You need to ask your adviser to do a comparison with level premium as this could save you a fortune in the long term, depending on your age.

My life policy is inside super, how do I make sure my dependents get my life benefit?

You can make a non-lapsing binding nomination that instructs the trustee who to pay the benefit to.

I have insurance policies with four different companies, is this wise?

There are a few potential issues that include, having to complete different claim forms if you have a claim, not getting larger sum insured discount and some companies offer a multi-policy discount as well. A review will let you know what benefits could be possible.

Features, benefits and cost of insurance have gone through considerable change in recent years. There are also tax and legislative changes that make a regular Insurance Review even more important. Contact us to see how you could benefit from a review.



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You should not act on the information, rather it is designed for you to contemplate whether you should obtain professional advice if an issue may be of relevance, having regard to your objectives, financial situation, needs and circumstances.

Before deciding to purchase any insurance product, you should carefully read and consider the Product Disclosure Statement for that product.

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