

## RISK TRANSFER USING LIFE INSURANCE

A simple guide to transferring known risk from yourself, family or business into a calculated and planned Risk Insurance programme. An effective and possibly the cheapest method of providing financial protection for yourself, your family or your business.

There are other methods used to minimise risk can require significant cost and effort for example, reducing the risk of poor health will usually include major lifestyle changes such as: -

- ❖ Giving up or moderating smoking, drinking, fast food, etc.
- ❖ Doing regular exercise requiring time and effort
- ❖ Changing your eating habits.

Whilst these are all sensible and desirable lifestyle changes they should be considered in conjunction with a well planned Risk Insurance Programme.

This guide is designed to give you some helpful suggestions when deciding on an Insurance plan appropriate to your circumstances. We strongly recommend seeking the services of a qualified professional advisor to assist in developing your own risk management strategies.

Personal Income Protection and Life Insurance guarantee funds are available in the case of loss of income following sickness, accident, temporarily or permanent disablement or death.

The four major types of Risk Insurance available are: -

**1) Income Protection Insurance** guarantee monthly payments to replace lost income if off work following sickness or accident.

**2) Trauma Insurance** pays a lump sum on diagnoses of any of 50+ specified medical conditions such as cancer, heart attack, stroke, blindness etc.

**3) Total and Permanent Disablement (TPD) Insurance** pays a lump sum in the event of NEVER being able to work again due to accident or illness, Generally two definition's are available: - "Own" or the more common "Any" Occupation.

**4) Life Insurance** – Pays a lump sum in the event of the death or diagnosed terminal illness of the life insured.

When used in combination and balance these four areas can effectively transfer the risk of losing your capacity to earn an income as a result of sickness and accident or worse, yet still achieve the pre-set financial goals of yourself and your family.

It may be of your ongoing financial benefit to purchase a combined single contract covering these different areas. Rather than separate policies with each attracting annual policy fees.

### **How much cover do I need In the event of Sickness or Accident?**

Income Replacement insurance provides a monthly benefit up to 75% of your gross income in the event of not being able to work following sickness or accident. Premium's are tax deductible.

EXAMPLE: If your Annual income is \$50,000 plus 9.0% superannuation, your gross income is \$54,500(50,00 x 109%) maximum benefit available is \$40,875 pa (54,500x75%) or \$3,400 per month.

This leaves a 25% shortfall in your normal income and a practical way to address this is with the calculated use of Trauma and TPD insurance.

An EASY CALCULATOR to help identify the levels of cover required to transfer known financial risks to an Insurance Plan. Calculations are only a guide and we recommend you seek the services of an appropriately qualified financial advisor to complete an analysis of your individual circumstance before taking action.

As some people simply cannot afford to transfer all risk a professional adviser can assist in helping prioritise and allocate your available budget.

<b>Various Insurance Covers Available</b>	<b>Actual</b>	<b>Example</b>
<b>Personal Income Protection</b>		
Gross Income incl super contributions	\$	\$50,000
Max Avail cover (75% X gross earning.)	\$	\$40,000
<b>Major Trauma Benefit (lump sum)</b>		
Repay Mortgage	\$	\$250,000
Clean Up fund for other debts	\$	\$65,000
Medical Expenses	\$	<b><u>\$75,000</u></b>
Total Trauma Benefit needed	\$	\$390,000
<b>Total &amp; Perm Disablement (lump sum)</b>		
Repay Mortgage.	\$	\$300,000
Credit Cards, Personal Loans	\$	\$ 22,500
Medical Expenses	\$	\$ 7,500
Home Renovations, wheelchair ramp etc.	\$	\$ 24,000
Lump Sum invested to create income Eg (\$400,000 @ 6% = \$24,000 pa.)	\$	<b><u>\$400,000</u></b>
Total TPD needed	\$	\$754,000
<b>Life Insurance. (lump Sum)</b>		
Repay Mortgage	\$	\$320,000
Funeral Fund, credit cards etc	\$	\$ 20,000
Clear up fund and other debts	\$	\$ 47,000
Lump Sum invested to create income Eg (\$500,000 @ 6% = \$30,000pa)	\$	<b><u>\$500,000</u></b>
Total Life Cover needed	\$	\$887,000