

RISK TRANSFER USING LIFE INSURANCE

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

Other methods used to minimise risk can require significant cost and effort. Example, reducing the risk of poor health usually includes major lifestyle changes such as:-

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

All sensible and desirable lifestyle changes which should be considered in conjunction with a well planned Risk Insurance Programme.

This guide includes suggestions to assist in 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 risk management strategy.

Personal Income Protection and Life Insurance ensure funds are available on 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's monthly payments, replacing your lost income if off work following sickness or accident.
- 2) **Trauma Insurance** pays a lump sum on **Diagnosis** 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 definitions 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.

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

It may be of your on-going financial benefit to purchase a combined single contract covering the 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. Premiums are tax deductible.

If your Annual income is \$50,000 plus 9.0% superannuation, your gross income is \$54,500(50,000 x 109%) maximum benefit available is \$40,875 pa(54,500 x 75%) or \$3,400 per month.

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

Simple method of identifying and calculating the levels of cover required to transfer known financial risks to an Insurance Plan is shown below. These calculations are only a guide and we

recommend you seek the services of a qualified financial advisor to complete an analysis of your circumstance before taking action.

Although some people simply cannot afford to transfer all risk a professional advisor can still assist in prioritising and allocating funds from your available budget. Perhaps recommending insurance cover be included in your personal or company superannuation fund to assist with cash flow.

| <u>Various Insurance Covers Available</u> | <u>Actual</u> | <u>Example</u> |
|--|----------------------|-------------------------|
| Personal Income Protection | | |
| Gross Income incl. super contributions | \$ | \$ 50,000 |
| Max Avail cover (75% X gross earning) | \$ | \$ 40,000 |
| Major Trauma Benefit (lump sum) | | |
| Repay Mortgage | \$ | \$250,000 |
| Clean Up fund for other debts | \$ | \$ 65,000 |
| Medical Expenses | \$ _____ | <u>\$ 75,000</u> |
| Total Trauma Benefit needed | \$ | \$390,000 |
| Total & Perm Disablement (lump sum) | | |
| 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 | \$ _____ | <u>\$400,000</u> |
| E.g. (\$400,000 @ 6% = \$24,000pa) | | |
| Total TPD needed | \$ | \$754,000 |
| Life Insurance (lump sum) | | |
| Repay Mortgage | \$ | \$320,000 |
| Funeral Fund | \$ | \$ 20,000 |
| Clear up fund and other debts | \$ | \$ 47,000 |
| Lump Sum invested to create income | \$ _____ | <u>\$500,000</u> |
| E.g. (\$500,000 @ 6% = \$30,000pa) | | |
| Total Life Cover needed | \$ | \$887,000 |