



Introduction

Insurance is about receiving a large or very large sum of money when you or your family are in great need of that money.

There are some great and affordable policies available that will honour this promise every time.

There are also some awful policies out there and everything in-between.

It important to understand some of the choices and issues involved so that you can make an informed choice - hence this document.

Please feel free to contact us if you would like more information, a new policy or to review your existing policy. We do not charge for this service and have clients Australia wide.

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1. Check what you are *really* covered for

About a quarter of the time when we talk to people about their existing policies they think they are insured for something that they are not insured for.

For example, some people think they have life insurance but they only have accidental death insurance, i.e. 96% of the time there will be no payout because only 4% of deaths are accidental.

Another common error is for people to think they

are insured for all cancers when they are only insured for severe cancers This is particularly common with older trauma policies.

A lot of tradespeople, farmers and others consider they have income protection, but in many cases it is that they only have an extremely restrictive disability insurance – that hardly ever pays up.

Some income protection policies only pay for two years when people expect it to pay until age 65 if they are permanently disabled. This is especially common with income protection policies in superannuation because of past legislation.

Some disability (TPD) policies pay out if you can't work in your profession, but many only pay out if you are unable to earn 25% of your current income. With certain TPD policies people may not get a payout even when in a wheelchair because their insurer considers them still capable of earning 25% (a quarter) of their current income. Many TPD policies in superannuation have this issue.

The only way to check your situation is to read all the small print and the definitions in the policy document or the product disclosure statement.

In some cases it can be a choice of benefits vs costs and either could be a correct choice depending on your circumstances.

2. Consider what you are paying extra for

Almost half the time when we review an existing policy we ask the question: “Did you know you are insured for such and such as well?”

To which we most commonly get the answer: “No”. The conversation then continues:

Q: “Do you feel you need such and such?”

A: “No”.

Q: “Do you realise how much you are paying for it?”

A: “No”.

Q: “Do you want to cancel it?”

A: “Yes”.

There are features that may not be needed or may not be value for money. Some features though are a very good deal. Knowing which is which is helpful.



3. The advantage of tax deductibility

Taking advantage of tax deductibility when it is available can make quite a big difference.

You then have the option to have much more cover for the same premium, or to in effect pay considerably less for the same policy.

Income Protection is practically always tax deductible, critical illness insurance or trauma insurance is almost never tax deductible. Life insurance and disability insurance is sometimes tax deductible. Many people change their insurance mix when they consider tax deductibility.

However, it can also work the other way. Have a look at what we have written at the end of point 9.

4. Why pay more than you need to?

There are so many ways that you can end up paying more than you need, here are a few:

Buying insurance online so you pay more

When people buy life, income, TPD and trauma insurance directly from the insurer through the internet, they almost always pay 50% - 100% more than if they buy through an adviser.

It is a different story with home, contents and car insurance where you can get good online deals.

It sounds strange but it has been true every time we have looked. We have only become aware of one product from one company (a type of income protection for those who don't have an income) that is available online and that is worthwhile. Even that company also offers life and disability insurance at 50% more than normal prices.

Some online services promise discounts. They are typically only for the first year. Of course if they are already charging 20% more and then give you a 20% discount it is not such a great deal and then you are paying a lot more in the second year and can expect little service.

Other discounts are not really discounts – you get 20% off if you don't get cancer cover. Again, that might sound good until you realise up to 65% of claims are for cancer.

Going to a “tied” agent so you pay more

A “tied” agent is one who is employed by or trades under the name of an insurance company or a big bank such as AMP, MLC or Commonwealth or that is owned by them such as Hillcross, Count, Millenium 3, Garvan, Charter, Securitor Financial Wisdom, Genesys, Lonsdale and Retireinvest.

There is software available that compares most offerings from life insurance companies. Insurance companies that have their own agents are rarely among the best on these comparisons. Their policies in many cases are more expensive or have less benefits than the best policies on the market.

Being classified in a more expensive job or profession than you need to be

Income Protection and Disability (TPD) insurance are priced according to the danger of your profession. For example, accountants pay much less than electricians.

In many professions you pay less if you are classified as a professional. The classification depends on seniority, on your earnings and at times on whether you have a relevant degree.

In addition, in many professions (for example engineers), it matters how much you work behind a desk or on site. If your work has become safer since you took out insurance then you may be able to get a cheaper policy today.

Some people clearly can be classified as professionals, with others it involves negotiations between the insurance adviser and the underwriters. Some insurance companies are also more generous than others. The financial planner or adviser can make quite a big difference here.

Not having reviewed your policy in the last 5 years

Life insurance is a competitive business and today's policies are often cheaper and better than older policies.

Your situation may have changed in that time as well – kids are older, you may be earning more, you may be wealthier. All this affects your insurance needs.

Reviewing your policy could lead to a nice surprise.

Having a shorter than you need waiting period

Income Protection with a 14 day waiting period costs a lot more than a 30 day waiting period which costs a lot more than a 90 day waiting period.

If you have three months' income in the bank you can save money by going from 14 days to 30 days. If you have six months' income in the bank, you can consider going from 30 days to 90 days. Each time you usually save some 40% off your premiums.

You and your partner or co-workers are using different insurance companies

Many insurance companies give rebates for policies from the same family or for a group of people working at the same place of employment.

You can save between 5% and 15% on your insurance. If the group is 12 people or more you can do even better.

Paying smoker rates when you have stopped smoking for more than 12 months

Smokers pay a lot more than non-smokers but some people forget to tell their insurance company when they have stopped.

5. Have a conversation with your adult children

If your adult children die or become disabled, who will support them or their children?

There are 17,000 children in Australia living with their grandparents where a grandparent is their legal guardian. Many more parents support adult children and children-in-law who are widowed, disabled or who have a disabled partner or child.

Insurance for young people is very cheap.

\$1 million in life with \$500,000 in disability cover for a 25-year old male is about \$75 a month. For a woman it is \$60 a month. If you are aged 30 it is even cheaper.

The insurance can even be arranged via superannuation and in many cases the government matches the insurance premium dollar for dollar up to \$1,000 a year.

You may want to have a chat with your adult

children and if they are interested, you can refer them to an insurance adviser. If they are not interested, then you might like to consider whether you want to take the risk or would prefer to pay for all or part of an insurance policy yourself.

6. Watch out for exclusions

Most life insurance policies exclude suicide for the first thirteen months, after that suicide is covered - that is ok.

However, these days policies are being offered with more and more exclusions which can provide uncertainty as to your cover and significantly reduce your chance of receiving your payout.

Life insurance sold as mortgage protection insurance often has a clause excluding all pre-existing conditions. At claim time you may find that cancer was excluded because of a prior mole, heart attack was excluded because of high blood pressure or because you saw your doctor previously for being overweight and so forth.

Another consideration for those who already have policies with exclusions is that often they can be removed after a year or two.

For example prior to taking out insurance you might have had some back trouble and the insurance was granted with an exclusion for spinal conditions. However, after 2 years with no further back trouble, the insurance company may well agree to remove that exclusion.

The exclusion will only be removed if you ask, so it is important to check and ask.

It would be horrible to pay for insurance and then not get paid out because of an exclusion that could have been removed.

We have written a whole article on exclusions which can be accessed via our web site.

7. Is your life really insured via work super?

Many people don't worry about insurance because they are already covered through their super fund.

With a lot of these funds you are only insured whilst your employer pays your super contributions into that particular fund.



This means that when you leave your work, your cover ceases. Most people leave their work well before they are permanently disabled or die.

Because there is a much lower chance of these kinds of policies paying out they can at times appear much cheaper and yet still be profitable for the insurer. Many policies aren't even cheaper.

Even if you do stay at your work, the amount you are insured for is generally too low and often reduces with age. By the time you realise that your cover is inadequate your health may not allow you to get insured any more.

8. Beware if you were not asked a lot of questions when you took out insurance

Policies which do not ask a lot of questions about your health may need careful consideration. Why? Insurers make little money from insuring people. They make their money from investing the gathered premiums before the premiums later get paid out in claims. Therefore there is not much room for insurance companies to lower prices or to pay out many more claims.

If almost any sick person can be insured at the same price as a healthy person, then that insurer will have to pay out far more money than an ordinary insurer. Either the insurer is charging more than a normal insurer (double the normal price is typical) or the insurance is much more restrictive than it appears (i.e. pays out far less often) or the insurer may not survive financially.

A lot of lawyers and accountants have these policies because their professional organisations send out circulars advertising such policies.

These policies may only be worth considering if you are unable to get normal insurance.

If you are reasonably healthy and have one of these policies we recommend you review your insurance. There is an excellent chance that you may be able to save a lot of money and/or get better or much better cover.

9. Estate Planning considerations

You need to nominate who receives the life insurance payout on your death. Sometimes this

nomination needs to be updated every 3 years.

It is important to look at your life insurance, will, super and SMSF together.

There are three main downfalls of getting it wrong:

- 1) your bequest does not go to those you intended
- 2) it can be tied up for years in probate or other complications
- 3) those who do receive the money have to pay far more tax than necessary.

10. The best time to take out insurance

If you or someone else depends on your earnings or contributions to the family, then the best time to take out insurance is now.

When you are young

Insurance is much cheaper when you are young.

In addition, if you insure yourself when you are young you can choose an option where insurance stays cheap all the way to age 65.

When you are fit and healthy

Some people say "I am fit and healthy, I don't need insurance".

People who wait to apply until they are deemed to not be fit and healthy, will either not be able to get insurance or will pay a lot more for it.

A big and underappreciated benefit of having insurance is that when your health deteriorates, you will still be insured for the same price as a healthy person.

Over time many fit and healthy people become less fit and less healthy.

People who consider themselves fit and healthy get cancer and have accidents.

Other "fit and healthy" people develop high blood pressure or high cholesterol or discover a lump of the wrong kind, making it much harder to insure them.

The current statistical chance of making a risk insurance claim by age 65 for a fit and healthy male 30 year old is 32%, for a female 30 year old is 26%.

The best time to take out insurance is when you are deemed to be fit and healthy.

Contact Details

If you would like to have a free review of your current policy or to consider taking out a new policy then please contact us.

Please also feel free to contact us with any Financial Planning, Investment, Retirement, Superannuation, SMSF or any other financial or insurance questions.

Whilst based in Northern NSW, we have clients all over Australia. To accommodate them and our many busy doctors, professionals and tradies, we are available everyday between 7am and 6pm EST.

We find that a lot can be done over the telephone and by email. We also visit clients in their homes and workplace and travel interstate as required.

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