Introduction

Insurance is about receiving a sum of money when you or your family are in great need of that money, due to health, injury or death.

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

There are also some awful policies that will not.

It important to understand the choices and issues involved so that you can make an informed decision. That is the purpose of 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 or disability insurance but they only have accidental death or disability insurance, i.e. 96% of the time there will be no payout for death because only 4% of deaths are accidental and only a minority of disabilities are through accidents.

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 they only have an extremely restrictive disability insurance – that hardly ever pays up.

Some income protection policies only pay for one or two years when people expect it to pay until age 65 if they are permanently disabled.

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 about 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 only in some cases 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 worthwhile. Even that company also offers life and disability insurance at 50% more than normal prices.

Another big disadvantage is that they do not provide ongoing service checks, reviews and **no support at claim time when you need it most.**

Some online sites 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.

" I just feel the company is milking me"

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.

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 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 offer better conditions 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

Some 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. We see this a lot.

5. My 'child' just got their P-Plates!

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 $70 a month. For a woman it is $55 a month.

Life insurance, and all or the majority of TPD and income protection insurance can even be arranged via superannuation making it tax deductible.

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 13 months suicide is covered and that exclusion 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. It is important to review any mortgage protection insurance you may have!

Another consideration for those who already have policies with exclusions is that often the exclusions 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 2-5 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.

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 some of these funds you are only insured whilst your employer pays your super contributions into that particular fund. Alternatively, due to a change in law, a lot of people had their insurance cover cancelled without realising that this has happened.

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 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 any further insurance.

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 polices 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 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 (if there is one) 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 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.

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

Some "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.

Other fit and healthy people have accidents or get cancer.

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%.

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.

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

Read what our lovely clients have to say:

"I just want to thank Christoph for all his help when Trevor hurt his knee a few years ago. Christoph was so helpful and did so much work for us. He is a lovely bloke and was so nice and helped so much throughout the process."

Trevor and Maree, Brisbane, Queensland

"I am a barrister practising at the private referral bar in Brisbane. I had a difficult application for life insurance. Without Christoph's help it is entirely conceivable the application would never have got across the line. I can't recommend him highly enough."

Barrister - Brisbane, Queensland

"Dear Christoph,
I just wanted to send you a huge thanks on so many levels. I really appreciated your insights and guidance today in regards to finances, getting my insurance sorted and for being a listening ear. You have a very special peacefullness and accepting nature that puts me at ease and I appreciate that."

Dr Inga Schader, Bangalow, New South Wales

...and you will find many more great testimonials on our website.

"Give us a ring to organise a free review or quote.
It won't cost you anything but it could save you a lot"

Christoph Schnelle

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