Insurance fundamentals
Protecting what’s important
When it comes to insurance, the old adage, ‘better safe than sorry’ rings true. We don’t like to think about getting sick or even worse, the death of a loved one, but when these things happen, insurance can help alleviate some of the financial stress. Insurance is about managing risks so you can protect yourself, your loved ones and your lifestyle if the unexpected happens.

The tricky part can be figuring out your insurance needs and then how much you need to be insured for. This booklet explains the fundamentals of insurance and also has some real life stories that bring the importance of insurance to life.

Remember, these fundamentals are a guide only and don’t take into account your own personal circumstances. Please see your financial or tax adviser on recommendations for insurance to cover your individual circumstances.
## Table of contents

Insurance fundamentals 1

Why you need life insurance 1
The underinsurance epidemic 1

Separating fact from fiction 3

**Myth No. 1**
The insurance via my super is enough 3
Insurance through super explained 3
How can you benefit? 4
Types of insurance cover via super and their features 5

**Myth No. 2**
Insurance premiums are expensive 7

**Myth No. 3**
I don’t engage in paid work, so I don’t need insurance 8

**Myth No. 4**
I’m young, healthy and debt free – I don’t need insurance 8

**Myth No. 5**
Insurance companies don’t pay when the time comes 8

Life insurance options at a glance 9

Explaining life cover 10

Explaining TPD insurance 11

Explaining trauma insurance 13

Explaining income protection 15

Insurance and your estate 18
Insurance fundamentals

Why you need life insurance

The day you’ve been waiting for has arrived; your brand new car is ready to take home. The first thing you do before driving it is get it insured. There’s no way you would risk anything happening to your new car!

This is a common scenario. Most of us don’t think twice about insuring our possessions, but what about protecting the most important asset – you? If you were in an accident and couldn’t work, how would you and your family afford your medical bills, on top of your mortgage and daily expenses?

While no-one expects to encounter misadventure, being prepared for adversity can help you protect against financial hardship. Insurance is an important part of any financial plan. A comprehensive financial plan is as much about protecting wealth as it is growing it.

Life insurance is one of the best ways of protecting what’s most important to you. However, understanding it all can be time consuming and complicated. Let’s simplify things and look at the basics.

The underinsurance epidemic

One of the biggest security threats facing Australians is the underinsurance epidemic. The majority of Australians simply don’t have sufficient cover. Even more alarming, many lack any cover at all. Consider the statistics:

- One in five families will be impacted by the death of a parent, a serious accident or illness that renders a parent unable to work;
- The typical Australian family will lose half or more of their income following a serious illness, injury or the loss of one parent as a result of underinsurance;
- 95% of families do not have adequate levels of insurance.

Also one in three Australians has no disability insurance, pushing the level of underinsurance to $304 billion per annum, according to a study commissioned by the Financial Services Council.3

On average, just 27% of disability insurance needs are being met through existing cover with 35% of Australians having no form of disability insurance.3

These are sobering statistics, but the good news is that underinsurance can be overcome. Your financial adviser can help work out your insurance needs and how to structure premiums cost effectively.

Life insurance claims payments broke through the $4 billion mark for the first time in 2012, rising by 10.7% in 2012.2

---

1 ‘Lifewise/NATSEM Underinsurance Report – Understanding the social and economic cost of underinsurance’, February 2010
3 ‘Aussies Underinsured by $304 Billion’ – www.riskinfo.com.au – February, 2014. The project was undertaken for the Financial Services Council by KPMG, and looks at the level of underinsurance in Australia in respect of employed people aged 18-64. It also measured the consequential impacts on social security benefits.
Separating fact from fiction

Before we explore the various types of insurance available, let’s take a closer look at some common misconceptions about life insurance.

Myth No. 1: The insurance via my superannuation is enough

Like most Australians, you’ve discovered your only life insurance is through your super. You may be surprised at the little amount of cover you have.

A recent Rice Warner Report shows that an average Australian couple aged 40 with children require life insurance cover of approximately 10 times annual earnings simply to repay debts and maintain current living standards of either partner or children until the youngest child reaches the age of 21.4

In order for the family’s standard of living to be maintained in full, life insurance cover of 15 years income is required.4 This is a frightening statistic when you consider that many Australians only hold their insurance through their super.

Your financial adviser can help assess whether your insurance needs are being met with your insurance through super.

Insurance through superannuation explained

The Government has allowed certain tax concessions in the superannuation system as it represents the primary source of retirement income for most Australians. This includes tax effective options for purchasing total and permanent disability (TPD), income protection and life insurance through it. So, if you hold your insurance through super, you can use your super contributions to pay for the premiums, instead of having a policy outside of super and using after-tax income to pay for the premiums.

Insurance cover is provided through a policy which is issued by a life insurance company. Where insurance cover is held through super, the trustee of the super fund is the owner of the insurance policy and therefore claims are paid into your super account.

4 ‘Proper adequacy in life insurance means looking beyond rising premiums’ – Rice Warner media release, December 2013
How you can benefit?

- You may not have to dig into your pockets to pay for your premiums because these can be paid from your super fund account balance. Whilst this will impact the amount of retirement savings, you can also top up your super by making additional contributions.
- Tax concessions on premiums mean insurance cover arranged through super can effectively be funded with your pre-tax income (if contributions to super are salary sacrificed or personal deductible contributions).
- Given the savings, if you have a stand alone insurance policy (held outside of super) you may be able to top up and increase your overall coverage.
- Your qualifying dependants may receive tax-free lump sum payments if you, the insured, pass away.
- An income stream may be payable from the fund, which may be a tax-effective way to provide for death or disability.
- Premiums via group super plans are often cheaper because the super fund is buying the insurance ‘in bulk’.
- You may be able to obtain cover without having a medical examination.
- You may qualify for a Government co-contribution if you fund the cover by making after-tax contributions.
- You may qualify for a spouse contributions tax offset if you fund the cover by making after-tax contributions on behalf of your spouse.
## Types of insurance cover via superannuation and their features

<table>
<thead>
<tr>
<th>Life cover</th>
<th>TPD cover</th>
<th>Income protection/ salary continuance cover</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>How do you access benefits?</strong></td>
<td>Accessible upon satisfying a condition of release e.g. ‘permanent incapacity’.</td>
<td>May be accessible under the ‘temporary incapacity’ condition of release.</td>
</tr>
<tr>
<td>Terminal medical condition and death are</td>
<td></td>
<td></td>
</tr>
<tr>
<td>conditions of release.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>What is the tax treatment on benefits?</strong></td>
<td>A superannuation benefit payment is subject to tax based on age of recipient, lump sum or income stream type and tax components etc.</td>
<td>Benefits are considered assessable income to the member.</td>
</tr>
<tr>
<td>A superannuation death benefit paid as a lump</td>
<td></td>
<td></td>
</tr>
<tr>
<td>sum to a dependant(^) is tax-free. If the death benefit lump sum is paid to a non-dependant, or the death benefit is paid as an income stream, tax may apply. A superannuation lump sum paid for terminal medical conditions is tax-free.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>To whom are the proceeds paid?</strong></td>
<td>Super fund to member where member meets condition of release.</td>
<td>Super fund to member where member meets condition of release.</td>
</tr>
<tr>
<td>Super fund to dependant or estate.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\(^\) Must satisfy the definition of a death benefits dependant.
Insurance through superannuation is a tax-effective and cost-effective way to protect yourself and your family, but there are some things you should consider.

Is it enough?
The level of cover provided by super funds is often a conservative estimate based on your salary and not on how much you actually need.

Is the structure right?
Make sure the waiting periods and benefit periods on any salary continuance cover are right for you. Also consider other features and options that may be only available through stand-alone insurance, e.g. future insurability benefits and funeral advancement benefits and other requirements.

How do you want to receive any benefits?
You may have a choice of payment benefits via an income stream or as a lump sum or a combination of both.

Will benefits be taxed?
Claim benefits may be subject to tax depending on the level and type of cover, age of recipient, and who benefits are paid to etc.

Is there a continuation option available?
If you leave your employer, make sure you have the option to take your insurance with you.

Does the insurance complement the intentions of your Will?
You must consider the nomination on your account and the impact on your estate plan.

Understand the role of the trustee.
The insurance you purchase through super is owned by the trustee who oversees the process when it is time to claim a benefit.

Insurance through super can be complex, so you should seek advice from your financial adviser who can help determine whether it's the right option for you.

Practically speaking

Meet Lee
Lee is 37 years of age. His salary is $85,000 p.a. and he would like to establish life insurance cover.

His spouse, Anita, will be listed as the sole beneficiary. As a spouse, Anita meets the definition of a death benefits dependant, to receive a tax-free lump sum payment in the event of Lee's death. Based on Lee's personal details and a sum insured of $1,790,000, his annual premium for life cover is $1,060.

Lee can choose to personally own the cover at a cost of $1,060 in the first year. Alternatively, Lee can establish the cover inside his super fund by salary sacrificing the required amount of $1,060.

Salary sacrificing under a super arrangement allows Lee to purchase the cover with his pre-tax income.
Myth No. 2: Insurance premiums are expensive

Did you know you may be able to take out insurance for what you pay for your morning coffee and toast? For example, a non-smoking 35 year old male, earning $80,000 p.a. can obtain $750,000 life cover, $750,000 TPD cover, $250,000 trauma cover and $4,500 per month income secure cover for around $5.59 a day. What’s more, arranging income protection, life and TPD cover through superannuation is a tax-effective way of taking out insurance. Contributions into super to pay for the premium count against the contribution caps. Please discuss with your financial adviser.

One way of making insurance premiums more affordable is to consider the difference between stepped premiums and level premiums. You can select either of these premium types when you purchase insurance:

- Stepped premiums are recalculated every year based on your age and the policy fee. Stepped premiums start lower and gradually get higher.
- Level premiums only increase when the policy fee or premium rates change. They start higher and generally don't dramatically change over time.

Let’s take a look at a simple comparison of stepped premium versus level premium for a person with these characteristics:

- Male
- 35 years of age
- Non-smoker
- Accountant
- $500,000 life cover and $500,000 trauma premier cover
- No indexation.

Assumptions: stepped for all covers against level for all covers. This premium comparison has been calculated excluding the policy fee. Also assumes no annual indexation of cover levels.

Over time, you can see that while level premiums start off more expensive, they work out to be more cost-effective over the life of your policy.

---

5 OneCare Life Cover, linked TPD (any occupation) Cover, stand-alone Trauma Premier Cover and Income Secure Cover – Standard. Income protection (Income Secure Standard Cover with a 30 day wait to age 70) quotes are based on an indemnity contract and include the increasing claim and Day 14 accident option. Stepped premiums have been used. Assumes NSW stamp duty and non-smoker rates apply, and the occupation is that of a clerical worker (occupation I). Premiums are current as at April 2014 but are subject to change.
Myth No. 3: I don’t engage in paid work, so I don’t need insurance

Some may think – ‘I’m a stay-at-home parent, I don’t need life insurance’. What most families don’t realise is if the homemaker wasn’t around, their family would require a lot of assistance – both emotionally and financially.

If your household was to lose its homemaker, the effects on the primary breadwinner could be devastating. When a homemaker dies or becomes disabled, their partner is often left with limited options. They may have to reduce their working hours to look after the household, or employ outside help. Either option requires additional funds.

Families losing stay-at-home parents may require more than $75,000 per year for child care or home help expenses.6

Myth No. 4: I’m young, healthy and debt free – I don’t need insurance

Many people believe that insurance is for people with dependants and debts. However, if you consider that a young person’s most valuable asset is their ability to earn an income, it makes sense that insurance plays an integral part in their lives. While it’s true that a young, debt-free person may not need comprehensive insurance across all products, what would happen if they became ill or disabled and couldn’t work? Can they depend on their parents to bear the financial burden? They should consider applying for cover when they are fit and healthy as they may not be able to get the cover at some future point if they are no longer fit and healthy. This is when income protection, trauma insurance and TPD insurance become options to consider.

Myth No. 5: Insurance companies don’t pay when the time comes

This is one of the biggest myths, with research showing life insurance companies have paid a total of $265 billion in claims and retirement benefits between 2000 to 2007.7 OnePath stands by its commitment to deliver on its promise and paid over $622 million* in claims in 2013.

How much does the industry pay to its customers?

---

6 ‘Australian mothers – undervalued and underinsured’ - IFSA, October 2005
7 APRA Life Insurance Trends, March 2007
* For both retail and group claims.
## Life insurance options at a glance

There is a variety of insurance benefits in the Australian market. Here are the four basic types of insurance cover:

<table>
<thead>
<tr>
<th>Insurance for</th>
<th>Description</th>
<th>Suitable for*</th>
<th>Also known as</th>
</tr>
</thead>
<tbody>
<tr>
<td>Death of the insured individual</td>
<td>• Pays a lump sum benefit on death or terminal illness</td>
<td>• People with dependants or debts</td>
<td>• Term life cover</td>
</tr>
<tr>
<td></td>
<td>• Can be used to eliminate debt and help with your family’s ongoing living expenses.</td>
<td>• People who don’t earn an income but contribute to the running of the household e.g. non-working spouse.</td>
<td>• Death cover</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Life cover.</td>
</tr>
<tr>
<td>Total and permanent disablement (TPD)</td>
<td>• Pays a lump sum if you suffer a permanent disability (according to policy definitions) that prevents you from working</td>
<td>• People with dependants</td>
<td>• TPD cover.</td>
</tr>
<tr>
<td></td>
<td>• Can be used to pay the mortgage, hospital expenses, and household bills.</td>
<td>• People with mortgages or other significant financial liabilities.</td>
<td></td>
</tr>
<tr>
<td>Suffering a trauma condition</td>
<td>• Pays a lump sum upon diagnosis of a specified injury or illness</td>
<td>• People with families or financial dependants, especially when only one spouse is working</td>
<td>• Trauma cover</td>
</tr>
<tr>
<td></td>
<td>• Can be used to cover the cost of medical treatment or give a spouse the opportunity to take time off work to look after the life insured</td>
<td>• People who don’t earn an income but contribute to the running of the household e.g. non-working spouse.</td>
<td>• Critical illness cover.</td>
</tr>
<tr>
<td></td>
<td>• Cover is specific to a range of injuries and ailments such as heart attack, stroke, cancer (according to policy definitions).</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Protecting your income</td>
<td>• Replaces up to 75% of your gross annual income as a monthly payment if you are unable to work due to illness or injury</td>
<td>• Families with dependants</td>
<td>• Income protection.</td>
</tr>
<tr>
<td></td>
<td>• You can nominate when payments commence and the period the benefit will be paid for.</td>
<td>• Working singles</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Self-employed individuals.</td>
<td></td>
</tr>
</tbody>
</table>

* This is not an exhaustive list and is only suggestive of the types of groups that may find the insurance appropriate.
Explaining life cover

Life cover is also known as term life insurance or death cover. Life cover helps provide peace of mind by paying a specified amount to your beneficiaries, helping ensure they are looked after in the event of your death. A lump sum or equivalent instalments* can be paid to the policy owner, nominated beneficiaries or to your estate.

You can also add TPD cover to your life cover policy in case you are unable to work due to a permanent disability. You may also add trauma cover which pays a benefit if you are diagnosed with one of a number of conditions such as cancer, heart attack or stroke.

On the way home from a business trip, Elroy is involved in a serious car accident. Sadly, Elroy doesn’t survive the accident and dies on the way to the hospital. Elroy’s death is a devastating blow to the family. However, Nina is comforted by the fact that Elroy’s financial adviser ensured his insurance was robust enough to make sure the family were cared for in the event of his death. Elroy’s $2 million payout ensured that Nina could pay off the mortgage, continue to live close to family and friends, continue the children’s education and meet all the funeral costs without financial strain.

Practically speaking – don’t leave debt to your loved ones

Meet Elroy and Nina

Elroy and Nina are married with four children aged between 12 and 18. Elroy is 55 years of age and is a company executive earning $350,000, while Nina is 40 years of age and is a private bank manager earning $100,000. The family has a comfortable lifestyle and a remaining mortgage of $400,000.

Why you may need life cover

Life cover becomes a necessity if you have dependants who rely on you financially or if you have debts which need to be extinguished upon your death. Immediate expenses to take into account include:

• ongoing income for your dependants
• mortgage or other debts
• funeral costs
• medical or hospital costs.

Facts of life

• In 2010, 42,844 Australians died from cancer accounting for about 3 in 10 deaths in Australia, making it the second most common cause of death, exceeded only by cardiovascular diseases (CVD).8

• CVD was still Australia’s biggest killer in 2009 – recorded as the underlying cause of 46,100 deaths – more than any other disease group.9

• Heart attack claimed 9,811 lives in 2011, or on average, 27 each day.10

---

9 ‘Australia’s Health 2012’ – Australian Institute of Health and Welfare, June 2012

* Please note that instalments are not available via superannuation.
Explaining TPD insurance

TPD insurance provides a lump sum payment or equivalent instalments* if you become permanently disabled, as defined in the policy. Generally, a permanent disability means you can’t work in your current occupation or a job you have trained or studied for, or previously worked in. It’s important to read the fine print because various definitions apply to TPD insurance. Your financial adviser is the best person to help decide what options are best for you.

Facts of life

• Road crashes still cause some 1,400 deaths and 32,500 serious injuries each year. However, the social impacts are devastating – the annual cost to the Australian economy is estimated to be $27 billion.¹¹

• In 2011–12, 14.8% of Australians (or around 3.3 million people) had arthritis, and 3.3% of Australians (or around 726,000 people) had osteoporosis. Of persons with arthritis, more than half (55.9%) had osteoarthritis, 13.6% had rheumatoid arthritis, and 37.3% had an unspecified type of arthritis.¹²

• There is a high prevalence of mental disorders in the Australian population – 45% of Australians aged 16–85 have experienced a mental disorder sometime in their lifetime.¹³

¹³ ‘Australia’s Health 2012’ – Australian Institute of Health and Welfare, June 2012

* Please note that instalments are not available via superannuation.
Practically speaking – don’t let disability ruin the rest of your life

Meet Lucy and Lyle
Lucy and Lyle are both 34 years of age. Lucy works part-time as an architect, spending the rest of her time renovating their new home, while Lyle works as a landscape gardener. For their fifth wedding anniversary, Lucy and Lyle decided to take the skiing trip in Canada they had always dreamed of. The trip of a lifetime turns into a nightmare when Lyle is seriously injured on the slopes. Sadly, the serious injury turned out to be a spinal fracture and Lyle is faced with life in a wheelchair.

Aside from dealing with the shock of such a serious injury, the couple has to contend with the costs of surgery, rehabilitation and completely modifying their home and car for Lyle. Luckily for Lyle and Lucy, their financial adviser had assessed their protection needs and ensured they were both covered, having TPD insurance linked to their life cover. They were able to extinguish some of the mortgage, pay for modifications to the home and car as well as pay for some of the rehabilitation that Lyle would require. Because they decided to take less cover than their adviser had recommended, Lucy did have to go back to work full-time to cover the rest of Lyle’s rehabilitation costs and continue paying the mortgage.

Why you may need TPD insurance
If you were unable to work, how would you maintain your family’s lifestyle? How would you pay for the ongoing medical expenses associated with serious illnesses and injuries? Most Australians simply don’t have enough savings to protect their lifestyle if they suffered a permanent disability.

TPD insurance can provide you with funds to help eliminate debt, pay for treatment and maintain your lifestyle while you focus on adjusting to what may be a very different lifestyle. It’s especially relevant for people with dependants – especially if only one spouse earns an income – and for people with mortgages and other significant debts which they couldn’t pay with savings alone.
Explaining trauma insurance

Facts of life

- In 2012, it is estimated that 1 in 3 males and 1 in 4 females will be diagnosed with cancer by the age of 75.\textsuperscript{14}
- An estimated 375,800 people (205,800 males and 170,000 females) had suffered a stroke at some time in their lives.\textsuperscript{15}
- Injury contributes substantially to the burden of disease. In 2010, injury was estimated to account for 6.5% of the total burden of disease in Australia. In 2009–10 injury accounted for more than 1 in 20 hospitalisations in Australia.\textsuperscript{15}

Practically speaking – let debt be the least of your worries

Meet Anna and Renee

Anna, a full-time office manager, is 40 years of age and lives with her daughter, Renee, who is 16 years of age. A recent divorcee, Anna is working hard to re-establish her life and spend time with Renee. However, tragedy strikes when the doctor discovers an advanced lump in Anna's breast, despite routine check-ups. Further investigation reveals that the lump is cancerous and Anna will require a mastectomy.

Apart from dealing with the stress of a serious medical condition, Anna also has to ensure her daughter is cared for, the bills are paid and she gets the best medical treatment. Thankfully, Anna's financial adviser reviewed her financial plan after her divorce and ensured she was adequately protected. Anna's trauma payout meant she could afford the cost of treatment and was also able to fly her mother from Canada to spend time with Renee, while Anna focussed on getting better.

Why you may need trauma insurance

Trauma insurance is especially pertinent for families or those with dependants, especially when only one spouse is working. Consider the consequences if one half of a couple became seriously ill and was unable to work. How would they cope with the mortgage and everyday expenses on top of medical costs for treatment and rehabilitation? Trauma insurance provides funds for everyday living expenses and treatment costs. It may even allow you to make permanent lifestyle changes like returning to work part-time.

\textsuperscript{15} ‘Australia’s Health 2012’ – Australian Institute of Health and Welfare, June 2012
Cover your children from day one

Facts of life

• 1 in 10 women aged 20 to 29 experience pregnancy complications. For women aged 35 to 39, it’s almost 1 in 5.\(^{16}\)
• A woman aged 40 has a 1 in 60 chance of having a baby with Down’s Syndrome, compared to 1 in 1,500 at age 25.\(^{16}\)
• Falls were the most common cause of hospitalised injury for people aged 0–14, accounting for 44% of all hospitalised injury cases in 2009–10.\(^ {17}\)

It’s not pleasant to think of anything happening to our children, but if misfortune did strike, we would want to know that they could get the best care possible. OnePath’s Child Cover and Baby Care Options can help your family cope financially if you experience pregnancy complications, give birth to a child with special needs or have a child suffer serious illness or injury.

Baby Care Option

OnePath’s Baby Care Option is an optional benefit that females aged 16 to 40 can add to their trauma cover. The Baby Care Option has a 12-month waiting period and includes three built-in benefits:

- Pregnancy complications – pays $50,000
- Congenital abnormality – pays $50,000
- Death – pays $10,000.

Child Cover

OnePath’s Child Cover pays a lump sum if your child dies or suffers a specified trauma condition, including cancer, brain damage and severe burns. This money can help cover medical expenses, rehabilitation, and transport and accommodation costs if treatment is not available locally. It could also enable you to take time off work to look after a sick or injured child.

The benefit paid can help pay for a child’s medical costs as well as cover the cost of a parent taking time off work to care for this ill or injured child.

\(^{16}\) ‘How age affects pregnancy’ – BabyCenter Australia, 2008
\(^{17}\) ‘Australia’s Health 2012’ – Australian Institute of Health and Welfare, June 2012
Explaining income protection

Facts of life

- The 2012 Survey of Disability, Ageing and Carers estimated 4.2 million Australians (18.5%) of the population had a disability.  

- For those people with disability, 3.7 million (88%) had specific limitation or restriction that meant they were limited in the core activities of self care, mobility or communication, or restricted schooling or employment.

- Arthritis and other musculoskeletal conditions affect about 6.3 million Australians. These conditions are among the leading causes of employment restrictions (among people aged 15-64): 66% of people with arthritis, 74% with osteoporosis and 80% with back problems report employment restrictions.

- 690,000 Australians were injured at work in 2005-06, with 43% receiving no form of financial assistance.

As the name suggests, income protection is the best way to protect your current income if you are temporarily unable to work due to illness or injury. This type of policy pays up to 75% of your gross annual income, in monthly benefits, to cover your living expenses. Income protection has waiting and benefit periods, as described below.

The **waiting period** is the number of days before the income benefits start. It can be 14, 30, 60, 90, 180 days, or even 1 or 2 years after the claim occurrence. For example, if you have sufficient savings to last 90 days, you may choose cover starting after 90 days.

The **benefit period** is the period of time you will receive benefits whilst unable to work due to illness or injury. You can select from a range of benefit periods, such as two or six years, or up to age 55, 60, 65 or 70. Naturally, the premium costs vary depending on which of these options you choose.

18 ‘Survey of Disability, Ageing and Carers’ – Australian Bureau of Statistics, November 2013
Practically speaking – protect your greatest asset

Meet Nikolai
Nikolai is 28 years of age and enjoys his job as a self-employed carpenter. He is debt-free and enjoying life in a rental apartment by the beach. Nikolai only has living and entertainment expenses to worry about.

When Nikolai started to experience persistent back pain, he went to see a specialist to ensure it was nothing serious. Unfortunately for Nikolai, his specialist discovered that he had herniated a disc in his lower spine and ordered him to rest and perform only light duties after two weeks. Having only 10 days sick leave left, Nikolai was lucky that he took out an income protection policy which paid a benefit in this instance. With 75% of his income being paid, Nikolai was able to take time off work and meet his rent payments and day-to-day living expenses without stress.

Why you may need income protection

While we readily consider protecting our possessions, we often neglect to protect our ability to earn an income. Income protection is important if you have:

• debts, such as a mortgage, credit cards, or personal loans you couldn’t pay if you were unable to work due to sickness or injury
• little or no savings
• the need for regular income to pay ongoing family expenses such as food, household bills, rates, school fees or running a car
• your own business, or own it with partners and have ongoing business costs and expenses
• a family and want to know they are financially protected if you were unable to work.

To ensure you correctly identify how much insurance you have and how much you need, you should seek advice from your financial adviser. They will be able to look at your overall financial situation and help you make the right personal insurance decision.

Would you like further information?

Contact your financial adviser who can provide you with the best information so you can make the decision that is right for you.
Insurance and your estate

From providing funds for dependants upon your death to ensuring the right people are looked after, insurance can play a critical role in your estate planning affairs. Your financial adviser can help determine what type/s of insurance you need to include in your estate plan. In the meantime, here are some ways insurance can play a part:

| Provide funds for the surviving spouse and/or children | Including insurance in your estate plan can help ensure your family has enough funds to survive comfortably without you. |
| Equalise your estate | You can use your insurance to ensure all your beneficiaries are treated fairly by equalising your estate. This is especially relevant for people who want to leave their business to one child but don’t want to disadvantage the others. |
| Protecting the second family | Statistics show that one third of Australian marriages involve at least one person who has been married before. Given this, the need to protect children from the first marriage as well as the spouse and children of second marriages is very pertinent. Being adequately insured and effectively structuring your insurance can ensure your estate has enough to benefit all relevant parties, thereby limiting the possibility of your estate being contested. |
| Direct beneficiary nominations | Many super funds allow you to complete a ‘binding nomination’ which enables you to direct your death benefit to the person you want to benefit. There are limitations around who you can nominate which your financial adviser can explain to you. Without a nomination, the trustees may have discretion as to how your death benefit is distributed. |

How much is enough?

While it’s easy to calculate the value of tangible assets, how do you put a price on yourself and your lifestyle? Deciding on a level of cover can be tricky and although your financial adviser is best placed to help determine this amount, here are some things to consider for your insurance plan:

- How much is needed to extinguish debts upon your death?
- How much do your surviving dependants need to pay for living expenses?
- How much will your children’s education cost and how will it be funded?
- How much do your surviving dependants need to maintain their lifestyle without you?
- If you became disabled, how much would home modifications and rehabilitation cost and how much would you need to maintain your lifestyle?
- If you suffered a trauma condition such as cancer, how much would treatment cost on top of ongoing living costs? And what about taking a much needed break to aid your recovery?
- How much would you need if you became too ill to work for a period of time? Is it likely that you have enough sick leave for an extended period of time?
- You need to ensure that if benefits are payable to a non-dependant that an increase in the sum insured may be required to cover any tax payable.
- Would your spouse want to take time off work to look after you if you were sick?
- If you passed away, would your spouse want to ensure the kids have a parent at home to look after them?
- How much is needed to ensure your estate needs can be met?

While these questions may seem a little overwhelming, they’re an important part of developing a robust protection plan. Your financial adviser can help determine what level of cover is best for you depending on your personal circumstances and future goals and objectives.
Customer Services
Phone 133 667, weekdays 8.30am to 6.00pm (AEST)
Email customer.risk@onepath.com.au

Postal Address
OnePath Life
GPO Box 4148
Sydney NSW 2001

OnePath Life Limited (OnePath Life)
ABN 33 009 657 176  AFSL 238341
242 Pitt Street, Sydney NSW 2000

The material in this publication is current as at April 2014 but may be subject to change. It may not be reproduced without prior written permission from OnePath Life Limited. OneCare is issued by OnePath Life Limited (OnePath Life) (ABN 33 009 657 176, AFSL 238341) except for OneCare Super which is issued by OnePath Custodians Pty Limited (OnePath Custodians) (ABN 12 008 508 496, AFSL 238346, RSE L0000673). Before acquiring or deciding whether to continue to hold a OneCare policy you should refer to the current OneCare Product Disclosure Statement (PDS) available at onepath.com.au. This publication has been prepared without taking into account your objectives, financial situation or needs. Before making a decision based on the information contained in this publication, you should consider its appropriateness having regard to your objectives, financial situation and needs. OnePath Life receives premiums for any insurance cover you obtain. Its employees and directors receive a salary. They do not receive commissions; however, they may be eligible for performance related bonuses and other staff related benefits.