

canberra times: q&a

Q 1: I am considering taking out some personal insurance. Can you please explain the king of insurance cover I should be looking at?

J.C., Melba

A 1: Apart from Private Health Insurance, there are 4 main personal insurance policies that you should consider in your situation. There are:

Life Insurance (Death Cover) – This is where you take out a policy that would pay out a lump sum upon the life insured's death. Consider in your situation how much cover would be appropriate to leave your family without financial burden. For example, you may want to have enough cover to pay out any debts, provide funds to cover school fees in the future, provide funds to allow your spouse to never need to work again, fund your funeral and legal expenses, leave an estate for your children to receive upon reaching age 25, etc. It is not uncommon to have life insurance with a lump sum payment in excess of \$1 million. The right amount of cover will be determined by your specific situation and what is important to you.

Total & Permanent Disablement (TPD) Insurance – This is where you take out a policy that would pay out a lumpsum should the insured meet the policy's definition of TPD. Economically this situation can be more expensive than death, as you may still be living for another 50 years and unable to work. So consider in your situation having enough cover to again leave you and your family with as little a financial burden as possible. For example, you may want enough cover to pay out any debts, provide funds to cover out of pocket medical expenses now and into the future, provide funds for home modifications, provide funds to allow your spouse to not need to work again, provide funds to cover school fees in the future, etc. Again, it is not uncommon to have cover in excess of \$1 million.

Trauma Insurance – This is where you take out a policy to provide a lumpsum cash payout should a listed 'trauma' event occur, which generally includes payout upon diagnosis of a cancer, stroke or a heart attack as the 'big 3'. As a minimum you should consider having enough cover to allow you to seek the best possible treatment should a trauma occur, without needing to worry about the financial stress of how you can fund the treatment. Cover of \$100,000 is quite common. You could also look at taking out additional cover to reduce other financial stresses such as paying out any debts such as the mortgage.

Income Protection – This is where you take out a policy to provide you with a replacement income stream should you be unable to work due to illness or injury. As many people's financial security is built around being able to work and build savings into the future, this is a very important insurance policy to consider, and statistically is the most likely policy to be claimed on. Generally you can insure up to 75% of your income.

Everyone's situation is different and the amount of appropriate cover can change from person to person. All of the above policies should all be considered and while some of these policies

q&a

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may overlap, each are designed to cover different risks. You should also consider whether to hold cover inside superannuation or outside superannuation. Speak with an insurance broker or a Certified Financial Planner to explore how best to structure any insurances in your specific situation.

Phil Thompson is a certified financial planner and authorized representative of Rise Financial Pty Ltd (ABN 86350987645), AFSL 311718, an Approved Financial Planning Association Professional Practice. Answers should be used as a general guide only and professional advice should be sought before making investment decisions.

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