Fact Sheet.

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What is Life Insurance?

Life insurance pays a lump sum on the death of the insured, and in some cases earlier if the life insured is diagnosed with a terminal illness. The payout can be used for any purpose – typically it is used by beneficiaries to pay off debt, pay for funeral costs and look after the children's schooling, and for the balance to be invested to replace the deceased's salary to help maintain their family's standard of living.

A survey by Rice Walker Actuaries found that only 4 out of every 100 Australians have adequate life insurance. And that 60% of families would be in financial distress just one year after the breadwinner died.[1]

This means that most families are carrying significant financial risk should the unexpected happen. The big question you have to ask yourself is:

'Would your family be able to maintain their lifestyle if you died?'

If your answer to this question is no, you need to consider transferring that financial risk to an insurance company.

Your financial adviser can help you do that, as well as answer any questions you have about life insurance, and then calculate how much life insurance you need to safeguard you and your family in the event something should happen to you or your spouse.

And, if you wish, your adviser will use our sophisticated computer program to 'broker' the major insurers to find you the right cover at a competitive price.*

Where should your life insurance be held?

You can hold life insurance in your name, or in your superannuation fund. Both options have pros and cons.

For example, holding life insurance in your name means that the payout may usually be directed to your beneficiaries quickly and with certainty, and free of tax. However, you cannot obtain a tax deduction on the annual premiums you pay.

Conversely, if your life insurance is held in your superannuation fund, you may effectively receive a tax deduction on the annual premiums. In addition, because your superannuation fund pays those premiums, it means you have cover without eating into your family budget.

So this option is usually the more affordable for most people.

However, if you died, the trustee of your superannuation fund may delay the payment to your beneficiaries, and may even dispute who should receive the payment (especially if you have not made a valid 'binding death benefit nomination'). Further, the payment may be taxable at up to 32.5% if the beneficiary is a non-tax dependant.

Choice of premium options

'Stepped' premiums increase each year in line with your age. 'Level' premiums generally remain constant until you're 65 or 70, depending on which 'Level' premium option you have selected, at which point they convert to 'Stepped'.

In other words, Stepped' premiums are more affordable in the early years, while 'Level' premiums tend to be more affordable in the later years (before they convert to 'Stepped').

The Facts

3:36	On average, there is one death in Australia every three minutes and 36 seconds.[2]
1 in 3	Amount of women in Australia that will be diagnosed with a malignant cancer in their lifetime.[3]
1 in 4	Number of men in Australia that will be diagnosed with a malignant cancer in their lifetime.[3]
OVER 1,600	Number of people who die on Australian roads every year, most aged between 26 and 56.[3]
NEARLY 50,000	Lives claimed by cardiovascular disease per year. That's 34% of all deaths.[4]

*Insurance cover is subject to eligibility criteria.

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How do the insurance companies view you as a risk?

Some insurance companies may charge you significantly less than other companies for the same cover, simply because they see you – or your occupation – as a lower risk. That's why you should use a financial adviser who has the ability to 'shop around' the reputable insurers to get the best solution for your particular situation.

Case study 1

Jeff & Jane have three little children and a $400,000 mortgage. Jeff is self-employed and has a small life insurance policy. Jane is a home-maker and has no life insurance.

Jane is concerned that, should Jeff die, the family would lose their home and she would not be able to support the family financially.

Similarly, Jeff is worried that, if Jane died, he would have to employ someone full time to look after the children. Alternatively Jeff would have to leave his job to look after the children. Either option would be very costly and would mean Jeff would not be able to afford to continue paying the mortgage.

We would recommend that Jeff increases his life insurance to cover the mortgage, the children's schooling and the family's living costs.

We would also recommend that Jane takes out a similar level of life insurance.

Case study 2

Jenny and Wendy are partners in a small business valued at $700,000. They have agreed that if one were to die, they would want the other to own the business outright.

We would recommend they each take out a $350,000 life insurance policy on the other partner to be used to buy out the other's share of the business in the event one of them died.

We would also recommend that both partners and their husbands review their personal life insurance to ensure that their families would be appropriately protected in the event one of them died.

[1]IFSA (2005) A Nation Exposed: Investigating the Issue of Underinsurance in Australia, Research study commissioned by IFSA and conducted by Rice Walker Actuaries and TNS Australia.
[2]ABS (2011) Population Clock, www.abs.gov.au/ausstats/abs, viewed 12 March 2012.
[3]AIHW (2008) Cancer in Australia: an overview 2008, Cancer series no. 46, Cat. no. CAN 42, Canberra.
[4]Australian Government (August 2008) Road Deaths Australia: 2007 Statistical Summary, Road safety report no.1, Department of Infrastructure, Transport, Regional Development and Local Government, Canberra.
[5]AIHW (2011) Cardiovascular disease: Australian facts 2011, Cardiovascular disease series no. 35, Cat. no. CVD 53, Canberra.

Our services

Health

- Health insurance
- Overseas visitors cover
- Dental services
- Chronic disease management
- Hospital in the home

Wealth

- Investments
- Estate planning
- Trust and estate administration services
- Financial planning
- Investment, education and funeral bonds
- Banking and home loans
- General insurance

Living

- Aged care and accommodation
- Personal and business insurance
- Aboriginal home care
- Disability services
- Retirement communities