Protect your income (with insurance)

Stage 3

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NOW ACCOUNTING

Your financial potential. Realised.

Freedom Stages

1. Plan your financial freedom
2. Mini emergency fund
3. Protect your income (with insurance)
4. The debt snowball
5. Emergency fund
6. Healthy housing
7. Wealth Creation
8. Generosity

Your income is your greatest wealth creation tool.

Future earnings can be used to clean up a present financial mess, and generate significant wealth and financial freedom.

Hard hitting questions:

- What would happen if you were unable to work and generate income for personal health reasons?
- What impact will this have on your finances and your lifestyle?
- What impact will this have on your financial dependents?
- How does your current lifestyle and expenditure compare to what is provided by the government (disability pension, age pension etc)?

People who are financially independent would usually not need insurance to protect their income. They may choose to have it, but they usually don’t need it.

Financial independence means you do not need to work to generate income to fund future expenses. You are able to fund expected expenses off your current passive income and from your assets.

The insurance industry is better at telling people who are under insured to take out insurance than those who are over insured to reduce their insurance.

There are finances experts that we respect that do not treat insurance as a stage.

Since we can get you insurance, we know that some people will see this as a sales technique/conflict of interest.

The reality is we have a lot of clients. Not all of them have had fun experiences. We are pained (haunted?) by some of their experiences.

Would I be truly helping you if, before you arrange insurance, I tell you to pay off all your credit cards and build a 6 month emergency fund? What if a health issue was to then to take you out… and you had no debt but also had no insurance?

We are all one bad experience away from becoming uninsurable.

Tragedy doesn’t come with a time machine.

Part of getting insurance is “under writing” where the insurer decides based on detailed questioning if they will insure you, the final price, and if there will be any exclusions.

So while many young people are told by “experts”, including the Australian government by way of their mandatory opt in provisions for insurance within Superannuation that they don’t need this insurance, you should not overlook the reality that we can not guarantee that we can get you insurance now or later. You only have it when you are through underwriting having truthfully answered questions.

Obtaining insurance is best approached with a sense of urgency. If you need it, get it while you can.

4 Insurance types

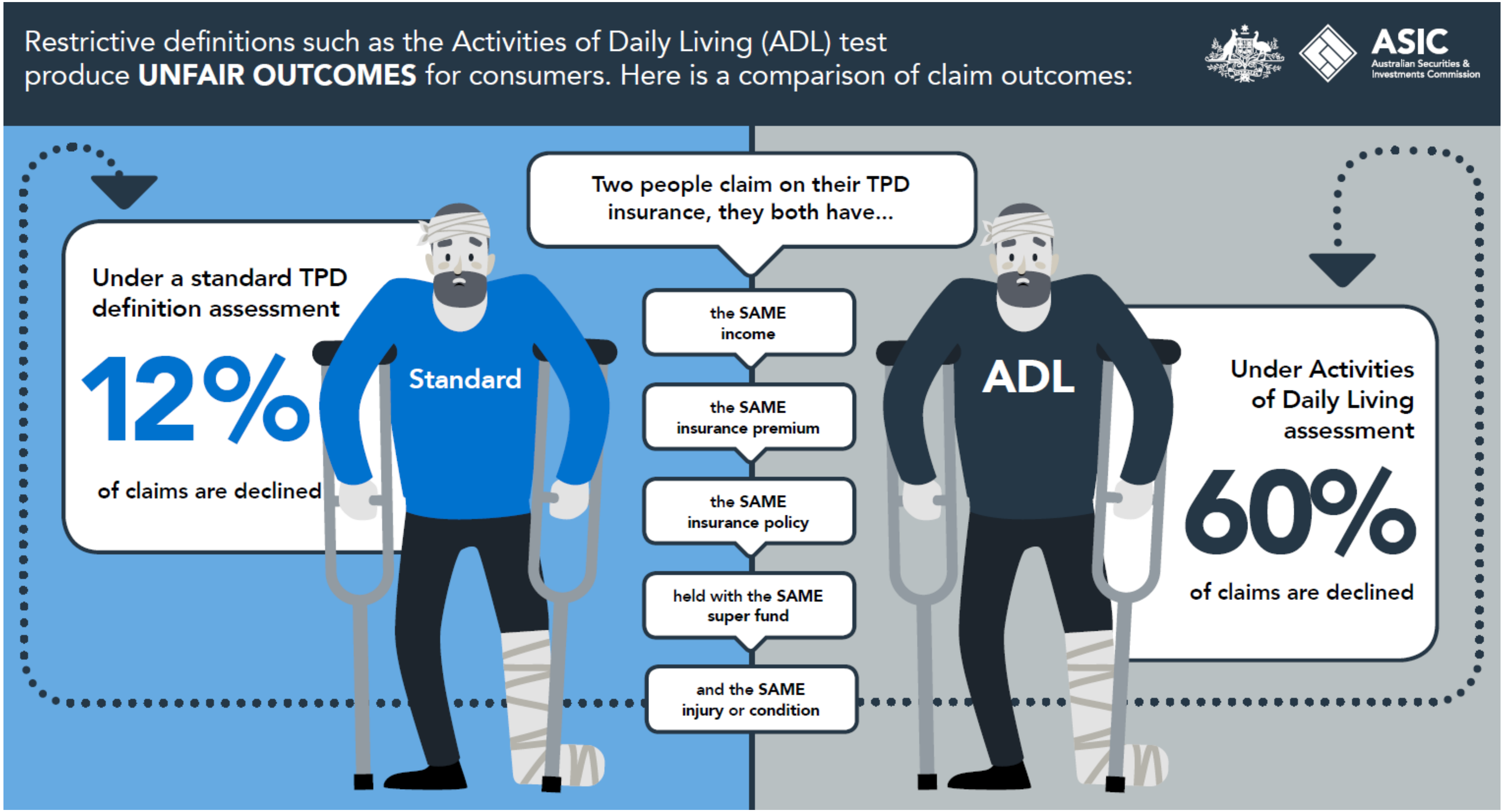
1. **Life**
2. **TPD** **(Total Permanent Disability)**
3. **Trauma**
4. **Income Protection**

Life Insurance

- A lump sum payable if you are not alive
- Use to provide for financial dependents
- Can be held within Superannuation or by a person or entity

TPD Insurance

- A lump sum payable if you meet the policy definition of being totally and permanently disabled
- Use to provide for financial dependents AND to cover your cost of living including potential medical and care costs
- Can be held within Superannuation (except own occupation) or by a person or entity
- The policy definition is critical. Activities of daily living vs Any vs Own Occupation.



Restrictive definitions such as the Activities of Daily Living (ADL) test produce UNFAIR OUTCOMES for consumers. Here is a comparison of claim outcomes:
ASIC
Australian Securities & Investments Commission
Two people claim on their TPD insurance, they both have...
the SAME income
the SAME insurance premium
the SAME insurance policy
held with the SAME super fund
and the SAME injury or condition
Under a standard TPD definition assessment
12%
of claims are declined
Standard
ADL
Under Activities of Daily Living assessment
60%
of claims are declined

Trauma Insurance

- A lump sum payable if you meet the policy definition of a specified event. Usually medical related, examples include cancer, heart attack, etc.
- Used to provide for medical costs, loss of income, shortfall in IP (due to 75% limit) and other costs
- Can only be held outside of Superannuation. Your Superannuation fund does not provide this.
- The policy definitions and features are important. Funds may not allow repeated claims in the future.

Income protection insurance

- Income protection insurance pays upto 75% of your income, from an agreed start date for an agreed finishing date. Eg Start after 90 days, pay for 5 years – subject to policy T&C's.
- Income needs to be proved – in many cases this is at the time of the claim, so some people are paying for cover in excess of what a claim will pay.
- It can be held inside Super or directly, when directly the premium is a tax deduction.

Holding insurance inside Superannuation can be risky.

Default insurance provided within many Superannuation funds can provide a false sense of security when those definitions might be inferior, especially when you have a specific occupation but a generic insurance definition.

Default insurance is not based on a personal needs assessment and is more likely to result in under insurance than over insurance.

Default insurance can be changed by the fund trustees without consultation (they will advise, not ask).

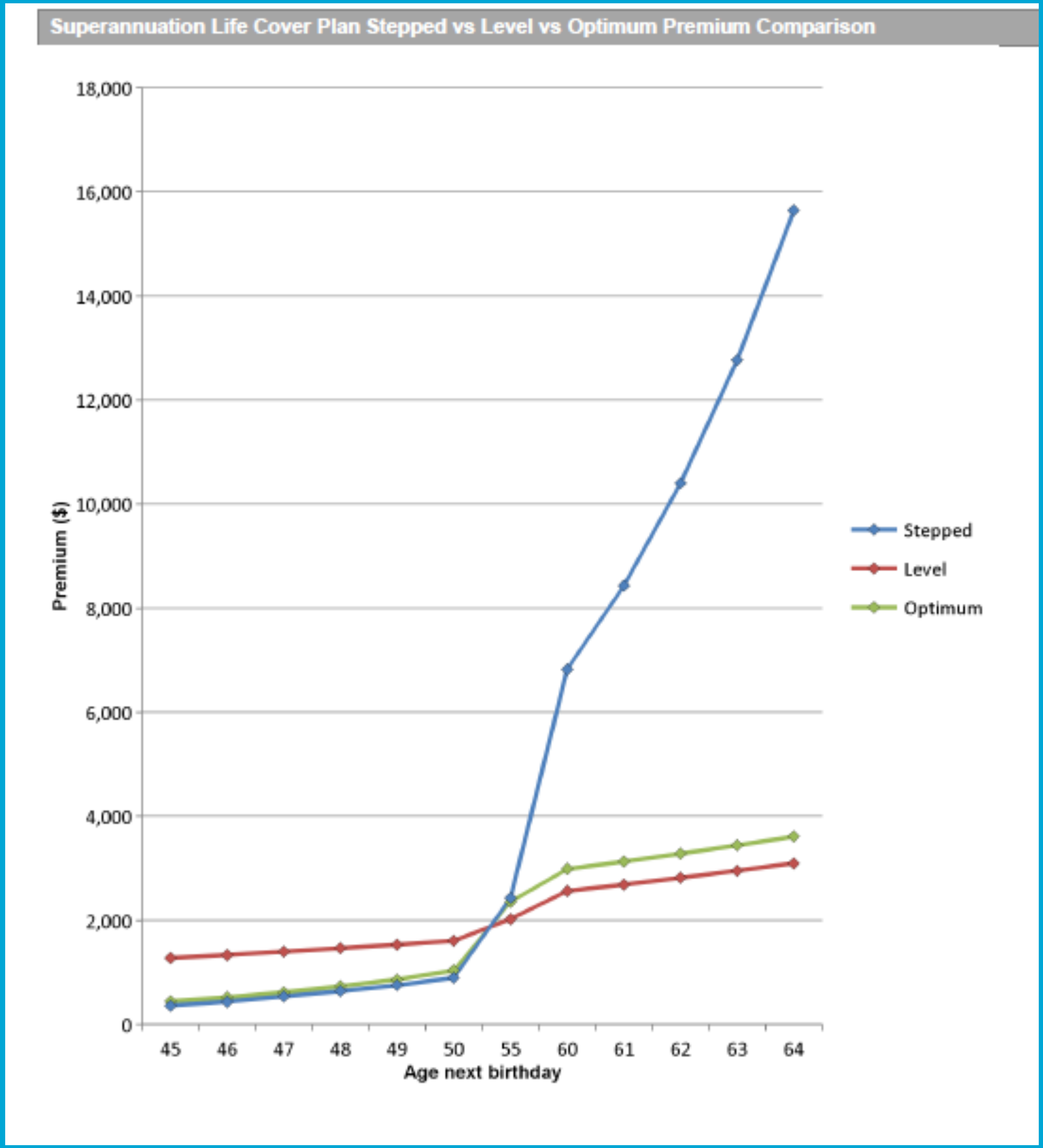
Insurance premiums can reduce or erode Superannuation balances. Insurance would ideally be funded from your regular budget.

When arranging Insurance, Financial Advisers can choose between commission free policies and policies which pay them a commission.

Removing Insurance commission can reduce the cost of the insurance by 25-30%. Accordingly significant savings can be realised by ultilising fee for service advice when you hold a policy for a long time.

Having commission paid based on the amount of insurance held (rather than the services provided) is a conflict of interest. It creates a financial disincentive for an adviser to recommend a cover reduction.

Insurance commission disclosures are limited. Currently we have to disclose direct debit fees but not insurance commissions! This is so ridiculous its hard to believe.



Stepped premiums get more expensive as you get older.

Level premiums do not have the same aged based increases as they start off at a higher price.

It is common for an expert adviser to arrange a combination of stepped and level cover, considering the potential insurance needs for many years to come for the insured.

Insurance is complicated and DIY is better than nothing but using a professional is the safest approach.

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