Luka Financial Pty Ltd
FINANCIAL ADVISERS
...making it easy!

Understanding insurance

Insurance can help you and your family prepare for the unexpected.

You insure your car and your home. But nothing is more important than your life and your ability to make a living. So it makes good sense to insure your greatest asset – you!

As we move through life, find a partner, raise a family, and maybe start a business, the importance of insurance in a long term plan increases.

That's because insurance is all about providing a financial safety net that helps you to take care of yourself and those you love when you need it the most.

5 reasons why insurance matters

Why is insurance important? Let's look at five key reasons.

1. Protection for you and your family

Your family depend on your financial support to enjoy a decent standard of living, which is why insurance is especially important once you start a family. It means the people who matter most in your life may be protected from financial hardship if the unexpected happens.

2. Reduce stress during difficult times

None of us know what lies around the corner. Unforeseen tragedies such as illness, injury or permanent disability, even death – can leave you and your family facing tremendous emotional stress, and even grief. With insurance in place, you or your family's financial stress will be reduced, and you can focus on recovery and rebuilding your lives.

3. To enjoy financial security

No matter what your financial position is today, an unexpected event can see it all unravel very quickly. Insurance offers a payout so that if there is an unforeseen event you and your family can hopefully continue to move forward.

4. Peace of mind

No amount of money can replace your health and wellbeing – or the role you play in your family. But you can at least have peace of mind knowing that if anything happened to you, your family's financial security is assisted by insurance.

5. A legacy to leave behind

A lump sum death benefit can secure the financial future for your children and protect their standard of living.

Case Study

Tony and Karen - Young Family

The following scenario is illustrative only to demonstrate the importance of insurance and is not based on an actual event.

Tony (34) and Karen (33) recently upgraded to a new home to allow their twin boys Nicholas and Rocky (aged 4) more room to play. This also meant taking on a bigger mortgage on one income, as Karen is a homemaker. To protect the family, Tony decided to take out Income Protection Insurance.

During a simple Saturday afternoon game of backyard cricket with the twins, Tony tripped and broke his leg. What appeared to be a simple break was more complicated than initially realised and Tony required several reconstructive operations followed by physiotherapy.

It meant Tony was out of the workforce for over six months, and while his employer was sympathetic, Tony only had two weeks of sick leave owing to him.

Thankfully, Tony's Income Protection insurance meant he received a stream of payments equal to 80% of his regular wage (including super).

The couple needed to tighten their belts a little until Tony was back on his feet but they were able to keep up with their home loan repayments, which would not otherwise have been possible without their Income Protection cover.

Selecting the right insurance

Insurance is all about protecting what you have now and what you need to have in the event of the unexpected.

Understand what is right for you

As you travel through life, the protection you need is likely to change. The key to selecting the right insurance is understanding your present needs and making sure you have both the right sort and level of cover.

Being over-insured is a waste of money, but it is also a financial risk to have too little insurance in place. With this in mind, let's look at the types of insurance that may be particularly relevant to each life stage.

Just starting out

If you're just starting out in your career, you probably recognise that it is important to insure valuable assets such as your car. Your most valuable asset however, is your ability to earn an income over your lifetime. As your income starts to rise, or you take on more debt, such as a home loan, it becomes more critical to have the right levels of income protection insurance and possibly life cover in place.

The family years

Once you have a partner, and potentially begin a family, life and TPD insurance becomes especially important. It is essential for your family to be able to survive financially if you were to pass away unexpectedly, or become permanently disabled. Even if only one of you is working, it's important for both parents to have appropriate life and TPD cover in place – not just the major bread winner.

While raising a family, our financial commitments are often at their highest. This makes income protection insurance particularly important.

As you age, the likelihood of experiencing medical conditions such as heart attack increases, making living insurance worthwhile. Living insurance will provide an additional lump sum to assist with medical and other costs in the event of serious illness or injury.

Empty nest

More Australians are choosing to work until much later in life, and if that sounds like you, income protection insurance remains relevant until you hang up your work boots. While your children may have grown up and be establishing lives of their own, life insurance can continue to play an important role.

The cost of insurance

Compound interest

Ensuring you have enough cover to help protect you and your family could be more affordable than you realise.

Factors that determine costs

Insurance can be seen as just another expense for your household to bear. But when the unexpected occurs, your cover can provide a financial lifeline.

The good news is that insurance may cost less than you expect. There are a number of factors applicable to determining the cost of insurance, including: your age, claims history, health, location, the sum insured, the property or person to be insured and many other factors depending on the risk insured.

The cost of insurance will depend on your individual circumstances and insurance needs, so speak with us for more information.

Term Life insurance

Death and terminal illness cover, known as Term Life insurance, can help you secure your family's financial future if you're no longer around.

How Term Life insurance works

Term Life insurance works by paying a lump sum on your death or the diagnosis of a terminal illness. The payout means your family will be assisted financially if you are no longer around. It also means your loved ones can focus on supporting each other at a time of immense grief, rather than having to worry about how they will pay bills and manage other expenses.

Do you really need cover?

None of us like to consider our own mortality, but none of us know what the future holds. According to a study by Lifewise and Natsem[1], 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. Sadly, eight Australian families lose a working parent every day.

It's not worth taking the risk that your family won't be among them. Talk to us to make sure you and your loved ones are protected.

How much cover should you have?

Having the right level of life insurance is important. A starting point in considering the level of cover that's right for you may be to total the debts you currently have, including your home loan. Then think about how much your family might need to maintain their current – and future – lifestyle based on your existing financial resources.

Nominating a beneficiary

Life insurance helps to ensure that your family can continue to live the lifestyle you planned for them, even when you're no longer here. It's important that you nominate a beneficiary as part of your policy, so you can ensure the benefit goes to those who matter most to you.

It is common for people to nominate a beneficiary who relies on them financially, such as a spouse or partner (either personal or business) or young children. There are rules governing who you can nominate as a beneficiary of insurance held through your super fund. However for cover held outside of super, a nominated beneficiary can usually be an individual, corporation or trust.

If you choose to nominate more than one beneficiary, you will need to specify the percentage of the benefit you would like each person to receive.

[1] Source: Lifewise/Natsem Underinsurance Report - Understanding the social and economic cost of underinsurance.

Total and Permanent Disability (TPD) Insurance

Why TPD insurance?

Have you ever considered what your financial future would look like if you became disabled and were never able to work again?

Even if you have income protection, you may be facing medical, rehabilitation and support costs, a lower income and no ability to increase your income over your working lifetime.

Meet medical bills and regular expenses

TPD cover can offer financial assistance in the form of a lump sum to help you meet medical and rehabilitation costs. The lump sum can also assist with living expenses and financial debts such as mortgages and loans.

A choice of TPD cover options are available to suit your different needs. For example, you can select to be covered if you can't work, can't perform domestic duties, or if you suffer a permanent disability that prevents you from performing everyday tasks.

Have you ever considered what your financial future would look like if you became disabled and were never able to work again?

Understanding trauma and critical illness insurance

Living insurance (also known as trauma insurance) is designed to pay you a sum of money if you are diagnosed with a potentially life-threatening illness, or experience some kind of trauma. A benefit may be payable if you suffer from a specified medical event.

How living insurance works

If you are diagnosed with a serious illness such as cancer, your private health insurance or the public hospital system may cover some of your medical costs. However, in many cases your treatment may require a long-term process before you're able to return to work. As a result, this could place significant financial strain on you and your family in being able to cover day-to-day expenses. Receiving a large sum of money from your insurance could therefore help to alleviate this pressure.

Benefits of living insurance

Lump sum exempt from capital gains tax

One of the main benefits of living insurance is it enables you to access a lump sum amount as opposed to a regular monthly income stream that you'd receive via income protection insurance. The lump sum amount will be exempt from capital gains tax if you hold the insurance personally. It also means that you generally do not have to include the lump sum payment in your assessable income for tax purposes.

Can be covered for a range of conditions depending on policy

The range of conditions covered under living insurance include things like heart attack and other organ disorders, major head trauma, loss of speech and degenerative diseases like Multiple Sclerosis and Parkinson's.

Ability to change the amount of your cover

You have the option to apply for additional cover when certain events occur without the need to provide any additional medical evidence.

No restriction to how you use your money

The amount that you receive from your living insurance can be used for whatever purpose you see fit whether that's to clear yourself of debt, pay for your medical expenses, or just take a holiday, the choice is yours.

Drawbacks of living insurance

You must survive the illness for a set period to make a claim

One of the main drawbacks of living insurance is that in order to receive a payout you must survive the illness for a set period of time. This period can range from two weeks to a month from when you are first diagnosed, depending on your policy and insurer.

Not accessible through super

While you can access a range of different types of insurance through your super, living insurance isn't one them. This means that you won't be able to access some of the benefits that having insurance through super offers such as tax concessions.

You must have had your policy in place to make a claim

In some instances, you can only make a claim if you've had your insurance policy in place for a set period of time. This is typically 90 days from when you first purchase your policy.

Deciding on your level of cover

If you've made the decision to take out living insurance, we can help you to work out which policy would be best and the level of cover you may need.

If you choose to undertake this process yourself, consider how your family would cope if you were diagnosed with a serious illness and the amount of money you would need to get by.

Bottom line: Living insurance may help to alleviate financial worry if you become too sick to work or have medical bills to pay. While your lump sum payout can be used as you wish, there are some drawbacks so it may be worth speaking to us to ensure your policy meets your needs.

Consider how your family would cope if you were diagnosed with a serious illness and the amount of money you would need to get by.

Your income is worth protecting

You probably insure your home, its contents and your car. Yet your ability to earn a regular pay packet often gets overlooked in the insurance stakes.

This may be because we often think we won't come in harm's way. But a simple run around the park with the kids or a drive to the shops could see you experience an unexpected injury that could put you out of work for weeks – even months or years.

Your income is something you shouldn't overlook – research shows that 77% of Australians aged between 45 and 64 don't have adequate levels of insurance. Talk to us to make sure you and your loved ones are protected.

That's why Income Protection cover is so valuable

Income Protection insurance can help you continue to meet your day-to-day living expenses even if you're unable to work due to sickness or injury.

The monthly benefits can be used for costs such as rent or mortgage payments, bills and medical expenses, so you can have time to focus on your health and recovery.

As a rule, the payout from income protection insurance typically replaces up to 80% of your current income (including superannuation contributions) while you are unable to work due to sickness or injury. But the benefits can go beyond this.

Four key benefits of income protection insurance

1. Rehabilitation benefits

Income protection insurance can do more than provide a monthly benefit if you're unable to work to your full capacity due to sickness or injury. You may also be entitled to rehabilitation benefits including reimbursement for the costs of rehabilitation programs, and expenses such as home or workplace modifications and equipment costs.

2. Cover tailored to suit your needs

You may be able to choose from a range of optional benefits such as cover for your children and protection for your superannuation contributions.

3. Available for stay-at-home mums and dads

Don't underestimate how much it could cost to replace the contribution made by a non-working spouse, including caring for your children and your home. The cost of child care alone can represent a significant financial burden.

4. Potential benefits at tax time

The premiums for Income Protection Insurance are normally tax deductible if you're working, which helps to lower the overall cost.

Is it worth having insurance inside super?

When it comes time to make a decision about personal insurance, it's often hard to know where to start. Deciding if you've got enough cover, the right types of cover or deciding whether to hold insurance inside or outside super, can seem complicated.

So to help you with this process, we've identified some key things you may want to consider when it comes to your insurance when it's held inside super.

Consider whether you should hold insurance inside super

Whether or not holding insurance inside super is beneficial really comes down to what is best for you, based on your own personal circumstances.

If you have dependants

If you have a family, you may want to consider how they would cope, and the amount of money they would need to get by, if you were not able to work, either temporarily or permanently or you passed away. Having personal life insurance may provide you or your family with financial protection in one of these circumstances.

If you don't have dependants

If you don't have anyone financially depending on you, you may be under the impression that you don't need personal insurance, but it's not always the case. There are other financial commitments which could make it worth considering.

For example, if you become ill or you are injured for an extended period of time and are unable to work, you'll still need to meet day-to-day expenses.

Consider the kind of insurance in super available

There are three main types of insurance available inside super. These are:

Death or Term Life Insurance

This type of cover is designed to provide your family, or any nominated beneficiaries with a sum of money/regular income stream if you were to pass away. It also provides a benefit if you are diagnosed with a terminal illness.

Total and Permanent Disability (TPD) based on any occupation

This cover is intended to pay you a benefit to help cover living expenses or repay debt if you become permanently disabled which prevents you from being able to ever work again in any occupation that you are suited to by education, training or experience.

Income Protection

If you're unable to work for a temporary period of time because you're unwell or have a disability, IP pays you an income stream intended to cover your living expenses for a specific time period. This may be beneficial if you're self-employed, have a family or have debts like a mortgage.

Other types of insurance outside super

It is possible that your insurance in super is not sufficient for your needs. If this the case, check with your fund to see if you can apply for extra cover. Alternatively, consider an insurance policy outside your super as you'll have access to additional types of insurance, such as:

Trauma insurance (also known as Living Insurance)

Trauma insurance is designed to pay you a sum of money if you are diagnosed with a potentially critical illness, or experience some kind of trauma. One of the major advantages of this type of cover is that you will generally be exempt from paying capital gains tax if you hold the insurance personally. There are also no restrictions as to how you decide to use the money but there are drawbacks. This includes being required to have the policy in place for a set period of time to make a claim.

Total and Permanent Disability (TPD) based on your own occupation

This cover is intended to pay you a benefit to help cover living expenses or repay debt if you become permanently disabled which prevents you from being able to ever work again in your usual occupation.

Private Health

There's also private health insurance which may help to cover hospital or medical bills that's not covered by Medicare. In many cases, insurers enable you to select the type of health and medical services you want as part of your policy.

Consider the amount of insurance in super you may need

One of the most important things about insurance in super is making sure you have the appropriate amount of cover for your needs – you may have too much or not enough.

When you're considering the amount of cover, the types of things to take into account include:

- Your personal debt
- The future education costs of your children
- How much you would need to cover your current lifestyle if you could not work for an extended period – or if you were never able to work again
- Whether you and your family have other financial resources you could draw on if you were unable to work or passed away.

Review your cover regularly

Unfortunately, it's not enough to put your life insurance policy into a drawer and forget about it. As soon as your circumstances change, consider how this may impact your level of cover as it may need adjusting.

Compare the cost of your insurance in super with other providers

One of the advantages of having insurance in super is that it is sometimes cheaper than being insured outside of super. This is because super funds can negotiate group discounts based on the volume of their membership. Your premiums may also be able to be deducted directly from your super account rather than a bank account and it may be more tax effective as well.

However, you may find more competitively priced policies outside super particularly if you are young and in good health, so it's worth investigating.

Bottom line: when deciding if having insurance in super is a good move, it really comes down to being clear about your own circumstances and what's best for you.

Other types of insurance - protect what you've worked hard for

Whether it's your travel plans, your beautiful home or the car you drive – protecting your lifestyle is important. Taking out appropriate cover can help protect that lifestyle.

Home and Contents Insurance

Your home is a valuable asset and definitely one worth insuring. Most insurers will tailor home and contents policies to meet your needs whether you're an owner or renter. Some policies will even protect your belongings outside the home.

Car Insurance

Our cars play a valuable role in our lives. Compulsory Third Party (CTP) cover is limited to protection for personal injury. Comprehensive motor insurance provides far greater protection for you, your vehicle and any other parties or property involved in an incident such as an accident or theft.

Travel Insurance

Don't jeopardise your holiday plans. Travel insurance can cover you for things such as urgent medical assistance, lost luggage and/or assistance with making an urgent trip home due to an emergency.

Under certain circumstances, it may also cover you if you have to cancel your holiday before you leave.

Additional insurance options

Insuring against events that are relevant to you can play a key role in preparing for the best, and a variety of different insurance options are available.

Protect what matters

Along with other forms of insurance, you may need extra protection depending on you, your family and your circumstances.

A wide range of insurance options are available. It's all about knowing the sort of cover that is right for your needs.

Protection specific to your job

Some jobs involve aspects of risk that are quite specific to the role. For instance, if you are employed as a health professional, a needlestick benefit can provide a payout if you acquire a bloodborne disease as a result of a workplace injury.

Financial protection for children

Parents aren't the only people who can fall ill. Children can also be impacted by serious illnesses or injury, and this can place families under tremendous emotional and financial strain. Insurance is available that can provide a financial benefit for families with seriously ill children. This can enable you to focus on your child during an exceptionally difficult period, and even potentially improve your child's chance of survival through the ability to meet additional medical expenses.

Homemakers cover

A homemaker may not bring income into the household, but the value of his or her work can be significant. As a homemaker, if you couldn't function due to illness or injury, you could face a range of costs for child care and a housekeeper to keep the household running. Insurance is available to cover homemakers, and it can be worth thinking about.

These are just some of the examples of additional insurance options available.

Contact us, we're here to help

To find out how we can help you protect your assets and those you care for, please feel welcome to contact us.

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