



You never know what life will throw at you.

Most Australians are rather laid-back. However, a relaxed attitude towards things like your health, and your family's health and welfare, can magnify some of life's most unexpected and difficult challenges. It's vital to have clarity on what is most important in your life. Is your family protected? What are the assets you should safeguard?

Protecting these through well-chosen personal insurances is critical, and is one of the key foundations of your own financial planning. Australians in general, do this very poorly. Research done in 2005 suggests that about 95% of Australian families with dependent children are inadequately protected.¹ Frankly, we need to do better!

So what forms of personal insurance are available? How do I know if they are relevant for me? Broadly, what are they there for?

There are four major types of personal insurance:

- *Life insurance*

This is the most commonly known personal insurance. It provides a lump sum on death or terminal illness of the insured person. It can be used to retire debt. In addition, it can provide a lump sum that helps maintain standard of living for dependent children and/or the surviving spouse. In order to determine its place in your situation, ask yourself the question, if I were to die, what would be the financial impact on my family and how would that affect my family? A qualified adviser can provide recommendation on how much cover is necessary in your situation.

- *Total and permanent disability insurance*

This form of insurance, often linked to life cover, protects against the situation that you become totally and permanently disabled and can never again return to work to a role befitting of your skills and experiences. A lump sum is provided with this insurance, which can be used to retire mortgage and personal debt, make relevant modifications to the home for a permanently disabled person, and provide a lump sum for financial dependents (children/spouse) that will enable a similar lifestyle to be maintained. The issues are much the same as for the above life insurance situation. If I were to become incapacitated, would there be a negative financial effect on my family? If the answer is yes, coverage is indeed important for you.

¹ <http://www.lifewise.org.au/about-the-lifewise-campaign/underinsurance,-a-problem.aspx> research commissioned by IFSA, 2005.

- *Income protection*

As the name suggests, this form of cover protects your ability to earn an income. For most of us, our capacity to generate income is our most important asset. If, as a result of injury or illness, you are unable to go to work, beyond a waiting period, (usually 30 days on a standard policy), then income protection cover will provide you with the peace of mind of having 75% of your income paid to you monthly, as long as you remain injured and unable to work. This can continue to be paid until age 65 in most cases, depending on occupation, which is a great benefit to have. Calculate for a moment, how much you will earn based on your current wage (assuming no increases which will most likely happen in time) until retirement. Therein lies the importance of income earning capacity. If you were injured and unable to work for a period of time, how would you pay your bills, how would you pay your mortgage and put food on the table? These are the questions to ask yourself to determine if cover is relevant.

- *Trauma insurance*

Sometimes also known as critical illness cover, this provides us with funds to help recover from serious trauma including heart attack, cancer, stroke, heart disease and major head trauma, amongst others. These trauma events are prevalent within the Australian community. Because of modern medicine, many people thankfully are recovering, but usually with substantial costs to pay. The purpose of trauma insurance is to provide a lump sum to assist with recovery, medical costs, and also to provide the opportunity, if you wish to, for a reduction in financial pressures. This may include a reduction in the mortgage, to allow a lifestyle re-adjustment. If you do not have readily accessible funds in the order of magnitude \$100,000 to \$200,000 (or more) that you would possibly need to pay for medical recuperation and related costs after a trauma event, then trauma insurance certainly has a place in your situation.

If insuring your car, home and contents is something we don't think twice about, why not insure your most precious asset, you and your family? Makes sense doesn't it.

This should be a building block of your own personal financial planning.

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