Another wake-up call for underinsured Aussies

A recent report into life insurance serves as a wake-up call to the thousands of Australians adopting the ‘it’ll never happen to me’ approach.

The Rice Warner Actuaries’ report *Underinsurance in Australia* showed that awareness and uptake of Income Protection and Total and Permanent Disability (TPD) insurance is extremely low.

The report found that only 22 per cent of Australians have adequate TPD insurance and 24 per cent have adequate Income Protection cover.

It also seems life insurance is the best understood form of personal insurance with 83 per cent of eligible Australians having their average needs met, according to the report.

While most Australians appreciate the benefits of car insurance or health insurance, when it comes to insurance that protects their personal wealth it’s a different story.

The old adage “ignorance is bliss” certainly doesn’t apply when things don’t go to plan - there’s nothing blissful about financial stress during a personal crisis.

Instead you should be planning for how you’d cope financially if you became ill or injured. Here is the lowdown on four basic types of insurances that protect personal wealth:

1. **Death cover**
   Also known as life insurance, death cover provides a lump sum payment to your beneficiary upon your death or to you if you are diagnosed with a terminal illness.

   Many people have this insurance within their superannuation with the common expectation of providing enough to pay out debts and meet other expenses such as childrens education.

2. **TPD cover**
   This cover provides a lump sum payable when a person becomes totally and permanently disabled and as a result are unable to work in an occupation for which they are reasonably suited by education, training or experience.

   Insurers have differing definitions of what constitutes a total and permanent disability so it is extremely important to read and understand the fine print of the contract before signing up.

3. **Income protection**
   Unlike TPD which pays out a lump sum, income protection provides you with regular income when you are unable to do your job due to illness or an accident.

   It is designed to replace up to 75 per cent of your income after a specific waiting period and it will pay monthly for a specific period of time.

4. **Trauma insurance**
   Trauma insurance provides a lump sum payment on diagnosis of certain medical conditions or events after a qualifying period.

   The types of medical conditions it covers differs from insurer to insurer, but typically includes the “big four” conditions of cancer, heart attack, stroke, and coronary by-pass surgery.
Depending on the comprehensiveness of the contract you elect you could also be covered for other conditions such as head trauma, multiple sclerosis and paralysis.

Some insurers will also provide ‘children’s cover’ within your policy (for an additional premium) which can help support you with the cost of caring for your child in the event they become seriously ill.

Again, specifically what is covered will be described in the contract so it pays to read this carefully before signing up.

**Which one is right for me?**

It can be confusing to work out which type of insurance is right for you. When considering which insurance is best, think realistically about what will happen to your family, lifestyle and assets if you lost the ability to earn money because of illness or injury. Begin by asking yourself some hard questions such as:

- How long could I pay the bills and the mortgage if my income ceased?
- Is there scope for family to help in the event that I could not work and what burden would that place on them?
- What lifestyle changes could be made immediately and how long could I sustain them if I was faced with a personal crisis today?

These are just a few of the types of questions to consider and they need to be answered realistically and honestly. Often these questions are best discussed with a financial planner who is trained to ensure all considerations are covered and to help put the resulting answers into perspective for you.

Even though it can be quite confronting to talk about the worst things that can happen to you and your loved ones, planning for the worst can provide peace of mind and let you get on with enjoying the best that life has to offer.

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