

## Life Insurance Myth Busters

In this article we thought we would try and dispel some common misconceptions around the various forms of life insurances such as Death cover, Total and Permanent Disability (TPD), Trauma and Income Protection insurance and the financial options that many people believe will “take care” of them should disaster strike. Life insurance is intended to provide vital financial support and security to individuals and families in the unfortunate case of death, sickness or injury.

There are different insurance products available to help you cover your income, debts and lifestyle costs. They all do different things – but they generally work together to get you covered for life’s unexpected.

How long would you or your family be able to sustain your lifestyle, pay your rent, mortgage and everyday bills if you didn’t have your regular income or if the main family income earner died or was unable to work for an extended period?

Income protection insurance is exactly that – it replaces your income if you can’t work due to sickness or injury. It’s important because your income is what fuels your life today – and all of your plans for tomorrow- including your retirement!

Death cover can do exactly the same thing should the main family provider die.

### Myth 1 – I’m covered by my private health insurance

Private health insurance provides valuable protection against the medical expenses associated with sickness and injury. But this is where it starts and stops. It’s for medical expenses only. It won’t cover your bills, debts or replace your lost income if you have to take an extended period off work due to illness or injury.

Private health insurance also may not cover the total cost of your treatment, or rehabilitation – potentially leaving you with a ‘gap’ that needs to be paid out of your own pocket.

To ensure you have no insurance gaps, a complete protection plan should encompass both private health insurance and various types of life insurance.

### Myth 2 – The government will look after me if I get sick

The Government, through Centrelink, provides financial assistance for people who suffer a serious disability.

But the Disability Support Pension doesn’t go far and there are rules around who is eligible for it.

From March 2015 the maximum Disability Support Pension for a single person over age 21, is \$846.10 per fortnight or just \$423.05 per week. (Source: Centrelink, Mar 2015). It’s much less than this if you are a member of a couple.

Even at \$21,998 per annum, that’s just over a quarter of the average adult full-time income of \$76,299 (Source: Australian Bureau of Statistics, Nov 2014). This could leave you with a funding gap when it comes to covering the bills, your rent or mortgage, medical expenses and your lifestyle.

### **Myth 3 – Won't my sick leave cover me if I can't work?**

This really depends on how much sick leave your company gives you each year. For most employed people this is probably about 10 days or 2 weeks a year. Or if you are self-employed then you know that you obviously don't get any except out of your own pocket!

Once your sick leave, and any other leave you may have saved up is gone, your employer has complied with their obligations and if you are to keep receiving an income that is solely your responsibility.

You may have personal savings, but how long would these last if suddenly you couldn't work for an extended period of time? Anyway, why would you want to deplete your life savings that you have worked so hard to build up when there may be a better alternative?

### **Myth 4 – I have workers compensation to fall back on if I'm sick or injured**

Workers compensation will only provide cover if you are injured at work and then only if you are eligible to make a claim. The majority of claims made are for muscle sprains/strains, open cuts & wounds and chronic joint and muscle conditions, i.e., physical injuries.

That still leaves you wide open to all sorts of risks particularly relating to illnesses or sickness that are not directly caused by your occupation.

For the year ended June 2010, out of the 12 million Australian workers, 5.3% of people working received a workplace related injury or illness, with only 36% of these people receiving financial assistance through workers' compensation (source: Australian Bureau of Statistics, Dec 2010).

You may find that even if you are on a workers compensation claim, the money you are entitled to receive isn't enough to maintain your standard of living.

Workers compensation laws are different in each state. You should make your own enquiries about how the workers compensation laws in your state or territory may apply to you.

However in NSW, for example, the workers compensation maximum payments start at \$1,716 per week for the first 26 weeks and then drop significantly after that to \$680 per week (Source: Workcover NSW Maximum Weekly Benefits Payable April-Sept 2010).

You would find yourself, if you had a spouse and 2 dependent children, on \$680 per week after the first 26 weeks, which equates to an annual salary of less than \$35,500. Will that be enough? So for longer-term claims you may find that you don't have enough to cover your daily living expenses if you are solely dependent on workers' compensation payments.

### **Myth 5 – Thanks, but I've got enough life insurance cover in my super fund**

You probably don't have enough cover in your super fund. You may have some life insurance (death cover) through your super policy, but on average people with cover through super have less than half the level of cover they need.

Insurance through super also usually doesn't give you access to all insurance types – like critical illness or comprehensive income protection cover.

You should contact your super fund, or check your annual statement, to see what level – and types – of cover you already have. We may then be able to assist you in determining whether this is right for your needs.

### **Myth 6 – Life Insurance Companies don't pay claims!**

The whole life insurance industry pays out almost \$11.4 million every working day in claims to customers. This figure would be even higher if Australians had adequate levels of cover. (Source: [www.riskstore.com.au](http://www.riskstore.com.au)).

However, not one of these claimants expected to claim on their insurance. If they hadn't received \$2.78 billion from insurance policies, then *where else would they have got this money?*

That's a lot of people who didn't ever want to claim- *but had to*. How glad do you think they and their dependants were, to have been wise enough to take good advice and plan for the unexpected?

### **Myth 7 – Life Insurance is too expensive**

For most Australians insurance is very affordable! For less than the price of a cup of coffee a day, you can get a substantial amount of cover to protect your family's lifestyle. And, of course, the benefits of having life insurance can far outweigh the costs!

Some of the insurance can also be held within your super fund meaning that the premiums can be paid out of your existing account balance thereby freeing up your cash flow and disposable income.

### **Contact us for an assessment of your needs**

When it comes to life insurance, everyone has different financial needs. That's why it is vital to get the right advice for you. Should you want to discuss your individual circumstances and needs when it comes to protecting and securing your financial future, please contact our office. The initial meeting is at our expense- so no cost to you apart from your time!

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