

Is Your Life Cover Enough?

One in three adult Australians have no life insurance at all, and many more are under-insured putting their families at risk. This article looks at the options, the likely costs, and outlines a simple calculation to see if you're adequately covered.

In Australia, premature death remains a real risk: around 22% of men and 14% of women die before they reach the age of 65.

Yet a recent study reported in Choice magazine stated that one in three adults have no life insurance at all. Further, many of those that did have cover could be under-insured if they were relying on the **default level** of cover in their superannuation fund.

What Is Life Insurance

The most common type of life insurance is known as term life cover. This normally pays a lump sum upon the death of the life insured. The policy's main purpose is to provide security to a person's family and other dependents.

How Much Cover is Needed?

In the event of your death you want your family and other dependents to be able to carry on without financial hardship. You'd want them to be able to live in the same home, go to the same schools, etc.

Therefore, when considering how much cover to buy, you should take into account any debts you have (eg home loan, car loan, credit cards, etc), plus other ongoing financial commitments (eg school fees). It would give peace of mind to have these items paid off straightaway.

On top of this figure you should estimate a lump sum figure that, when invested, will provide a good income stream to your family. An industry "rule of thumb" is ten times your current after-tax income. For the main breadwinner this calculation could easily be \$1 million or more.

Also, if you are not the main breadwinner but still work and maintain the home, your salary plus your homemaker role needs to be taken into account. After all, this critical role will still need to be done - so in the event of your death someone would need to be paid to do the



child minding, out of hours school care, cleaning, shopping, cooking, transport, etc.

How Much Does It Cost?

Insurance premiums are set based on a number of factors, including age, gender, your health, your occupation and whether you smoke.

As a rough guide, term life cover can cost around 0.1% of the amount insured. For example, \$1 million of cover could cost about \$1,000 per annum.

As you'd expect, premiums will increase as you get older.

Apart from comparing the price of premiums, you also need to consider the terms and conditions of the policies:

- Are there any exclusions?
- Can the company cancel the policy? If they can, then you run the risk of being reassessed at each renewal and having either the premium increased or the level of cover refused.
- Is the amount covered automatically indexed to take account of inflation? If not, make sure that you increase the cover accordingly each year.

Where Shall I Buy Cover From?

You can buy insurance directly from more than 40 companies or through your superannuation fund with their preferred company. Because the market is so competitive you should shop around for the best deal.

Many people will have some form of life insurance through their superannuation fund. Unless you specified otherwise this is normally set at a default amount in a typical range of \$100,000 to \$150,000, which for many people is just not enough.

However, your super fund can be a good place to purchase additional cover from for the following reasons:

- Super funds can negotiate lower premiums because they are "bulk buying" for all of their members and so have a strong bargaining position.

- The premiums are taken from your contributions and are therefore paid from pre-tax dollars, which is cheaper than paying the same premium from your net pay.

If you do decide to purchase additional cover through your super fund, make sure that you increase your contributions accordingly or else you'll be reducing the amount being saved towards your retirement. Also, you should make sure that you have let your super fund know who the nominated beneficiaries of the policy are, or else this can cause complications and delay if the policy is to be paid out, which can cause extra anguish to your family.

Do It Now!

Whilst purchasing life cover may seem like a task you can get to "someday", do you really want to leave your loved ones without enough money?

Sources

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