

Life and Total & Permanent Disability (TPD) insurance

Life Insurance

Life insurance can be critical for a secure financial future. In simple terms, you insure yourself for a particular amount and in the unfortunate event you die, the insurer pays that amount.

The lump sum payment can be used to help with the repayment of debts, the covering of future needs (for example, the cost of children's education or long-term care) and providing funds for investment to generate an income or to keep your business afloat.

Be aware

- You should ensure your insurance cover is adequate for your needs. Under-insurance could result in serious financial difficulty.
- Changes in your personal circumstances (i.e. taking on additional debt, the birth of a child) often necessitate higher insurance levels.
- Death benefits received via a superannuation policy may be taxed.
- Prior health issues may incur premium loadings or exclusions.

Total and Permanent Disability insurance

Total and Permanent Disability (TPD) insurance provides a lump sum payment should you suffer an illness or injury which totally and permanently prevents you from working again.

There are broadly two main definitions of Total and Permanent Disability:

Own occupation

The insured must show they have a total and permanent disability that prevents them from working in their own occupation which they disclosed when applying for this cover.

'Own occupation' is a more liberal definition of disability, because even if you can work in another occupation, you may still be eligible to receive disability benefits. Because it is relatively easy to qualify for benefits under this definition of disability, insurance companies are limiting the availability of this type of cover. Own occupation cover is often more expensive, and may only be available to individuals who have a clean medical history and work in a relatively risk-free occupation.

Any occupation

The insured must show they are totally and permanently disabled and unable to work in their usual, or any other occupation for which they are reasonably suited by their education, training or experience.

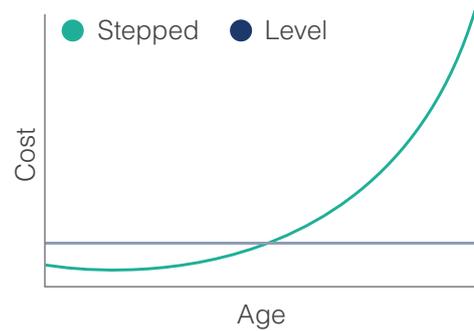
'Any occupation' is often the cheaper option however it can be more difficult to meet the requirements of this type of disability definition.

Some insurers have a third definition available to clients -a 'homemaker' definition. Payment of benefits under this definition would be based on the proviso the insured, through sickness or injury, is unable to do any normal physical domestic duties and will never be able to do so again.

Stepped vs level insurance premiums

When taking out insurance, there are generally two ways you can pay your premium.

- stepped premium - your premium increases every year with your age.
- Level premium - your premium generally does not change and is based on your age when the policy commences.



Stepped Premiums

While stepped premiums are usually lower in the early years, level premiums can be a more cost-effective option if you retain the insurance over a longer period. If insurance cover is only required for a short timeframe, a stepped premium may be more appropriate and cost-effective.

Level Premiums

Level premiums are higher than stepped premiums at the start (see graph below). However, as stepped premiums increase, level premiums can end up cheaper - often at the stage in life when you need cover the most.

The premium savings in later years can make up for the additional payments in earlier years - saving you money over the life of the policy.

Tax deductibility of insurance premiums

Generally, when insurance is held for the purpose of family and personal protection, Life, Critical Illness and TPD insurance premiums paid are not tax deductible but when a claim is paid, the benefits are not subject to tax.

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