Protecting your assets

SPEAKING FRENCH

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David French says life insurance insures you against premature death.

Often thought of as the poor cousin to investment and superannuation, personal insurance is critical to protecting your assets and providing for your loved ones.

Here are a few pointers to help you avoid getting caught out by the derail.

Life insurance insures you against premature death. Being dead is not generally a matter of degree, but it is very important to check who the beneficiary of the policy is.

A failed marriage for example, might see the proceeds of an insurance payment paid to a former spouse, even though the money was expected and needed by a new family. Often, life insurance will automatically be included in super funds, with the super contributions and earnings paying for the premiums. This can have significant benefits because life insurance held personally is not normally tax deductible. In a super fund, it is.

Make sure you know who your superannuation will go to when you die. Total and permanent disability (TPD) insurance sounds simple but is in fact one of the more complicated because definitions of what comprises 'total and permanent' vary widely.

Some policies specify not being able to work at all, while some specify not being able to work in a job similar to your current one. TPD is another good one to hold in super because being classed as totally and permanently disabled meets the criteria for releasing money from super.

Trauma insurance is intended to cover for one-off events like a heart attack, stroke or cancer. This is usually through payment of a lump sum. Relatively expensive, it can be a minefield if you have not looked carefully at what exactly is covered - sometimes the events that are covered are broadly defined, and sometimes they are so restricted you need a degree in biomedical science to understand them. On the other hand, trauma insurance can be a useful option if you are not able to get income protection insurance, or as a tool to access a one-off payment (perhaps to pay down debt) in the event that you are struck with one of the insured events noted. It is unusual to have trauma insurance in a super fund because money arising from a claim would be paid into your fund, and although you might be very ill, you might not meet the definition of totally and permanently disabled - and so you won't be able to get at your money!

Income protection insurance provides a payment in lieu of your salary if you are off work due to illness or injury for an extended length of time. Most policies cover you for up to 70 per cent of your income, but a few employer sponsored ones can pay up to 100 per cent.

Money earned elsewhere is likely to reduce the amount paid by the insurance company, and of course, insurers are normally pretty keen to get you back to work ASAP (which can be good or bad, depending on the exact situation). Normally speaking, the cost of income protection insurance reduces the longer you wait for it to kick in, so say you have a lot of sick leave, it might be worth waiting 60 or even 90 days before the insurance payments start.

Like trauma insurance, holding income protection insurance in a super environment is risky. It's also not necessary because it is generally tax deductible.

Many super funds, especially industry funds, package up insurance as part of the overall offering. Life and TPD insurance held in super can be relatively cheap, although the default amounts insured can also be very low. Often your 'risk' is pooled with many other people under a 'group' policy, and insurers may not ask too many questions as regards your risk profile. Some super funds offer income protection insurance, but you really do have to look closely at the access issues noted above.

Many of these group policies only pay for two or three years, which could be a real problem if you are unlucky enough to be afflicted with something that takes a long time to resolve.

Implementing a strategy that relies on the group policy for the first three years (say), after which a retail policy takes over, can be very effective.

Another important issue with super based policies is that relatively recently, legislative changes were implemented such that anyone under 25 is no longer automatically insured.

These measures were put in place because of a perception that insurance premiums were eating into superannuation balances at an unacceptable rate. I think the legislation was ham fisted because young people are probably more at risk of being involved in a misadventure that is otherwise not insured - the skateboard accident, diving into shallow water, falling off a bike, a sporting injury.

Since these costs typically fall to family, even young people need to consider total and permanent disability or perhaps trauma insurance and income protection, and it can be very cheap when you are young.

Please note this article provides general advice only and has not taken your personal, business or financial circumstances into consideration.