informed investor

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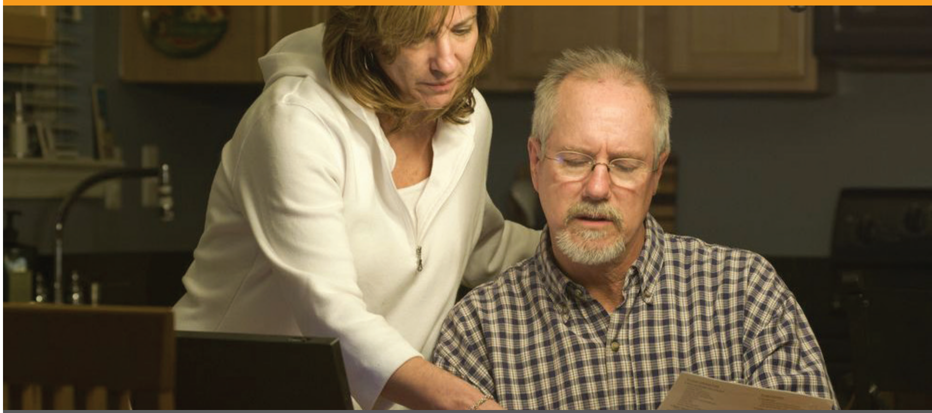

Welcome to our latest edition of the Informed Investor newsletter.

As always, should you have any questions or would like some further information, please get in touch and we'll be happy to help.

Getting personal insurance right

With recent media coverage about insurance sales tactics, many Aussies might be concerned they're being sold personal insurance policies – life, total and permanent disablement (TPD) and income protection – they don't really need.

The fact that some Australians with multiple super accounts are likely to have duplicate personal insurance policies, is also putting the question of adequate insurance into the spotlight. After all, no-one wants to be paying for something they won't benefit from.

Are Australians over or underinsured?

By focussing on problems with how insurance is sold or the issue of multiple policies through super, we're overlooking the possibility that many Australians simply don't have any one policy that will enable them to meet their financial obligations and maintain their lifestyle if the worst were to happen.

As a nation of people we've become more and more indebted in recent years. The latest Australian Bureau of Statistics data shows the average Australian household is servicing a high level of debt, thanks to both personal borrowing and home loans.

Average household debt has grown by 79% in real terms from 2003/4 to 2015/16 and this is largely because of borrowing to buy property. However, more households are burdened by credit card debt (55%) than a mortgage (34%).

According to a February 2018 report from Rice Warner, 94% of working Australians are likely to have some sort of life insurance policy in place, with an average estimated cover amount of $344,500. So it seems the majority of people will have something to fall back on in the event of their death. The report attributes this high incidence of cover to the introduction of compulsory

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default life cover by superannuation funds.

But it's not only premature death that families need to worry about. With 81% holding a TPD policy and only one third of working individuals currently insured for income protection (IP), should people be taking out these policies to make sure they have all bases covered?

As the Rice Warner report highlights, insurance needs vary according to how many dependents you have and your age. They provide the following estimate of insurance needs for 30-year old parents with children:

- 8 times family income for life insurance on income replaced basis,
- 4 times family income for TPD insurance, and
- 85% of family income for IP insurance.

While these figures could be appropriate to one family's situation, they may be way over the top or completely inadequate for another family.

At the end of the day, it's really up to you how you budget for insurance cover – as a standalone policy or through your super fund. But what is worth doing is working out how much cover you need, and then comparing this with your current policy – whether it's standalone or through super.

As the Rice Warner report points out, super fund trustees are having to make decisions about default insurance options based on their assumptions about general insurance needs. But those assumptions might not apply to you and your finances.

Source: FPA Money and Life

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