

## term life insurance

### what is term insurance?

Term life insurance provides financial protection to your beneficiaries, your family and their financial future by paying a lump sum in the event of your death or diagnosis of a terminal illness. This is the reason that this type of insurance is commonly known as life insurance.

The insurer will pay a pre-agreed benefit to your estate or to your nominated beneficiary upon your death by either accident or illness. If you have a terminal illness it will pay the benefit before your death – though your life expectancy must usually be determined to be less than 12 months.

### why do you need term insurance?

- ~ it guarantees a level of financial security for your dependents
- ~ it can provide estate equalisation for your beneficiaries
- ~ it may allow you to leave your partner debt free
- ~ it is able to provide a capital lump sum for your beneficiaries to generate a regular income
- ~ it is possible to replace lost income for an early or untimely death, and
- ~ paid as a lump sum if a terminal illness is diagnosed and your life expectancy is less than twelve months.

### what is 'under-insurance'?

Under-insurance is the difference between the economic loss that would be suffered in the event of premature death and the current amount of cover. Most Australians are under-insured by 71%. The average sum insured should be \$512,378 but is currently only \$148,136.

### how do you work out how much insurance you need?

The amount of cover required is usually related to the your level of debt, capital sums required to create an income stream and whether you have dependents. Together, you and your adviser will use a sum-insured calculator as a tool to assist in calculating the sum insured that will meet your current and expected future needs. Your input is crucial in assisting your adviser in identifying the financial position you wish to leave your family in, in the unfortunate event of your death.

Generally, the estimated sum insured aims to provide adequate funds to repay debt, replace income, fund the cost of child-care, education, funeral expenses, estate equalisation, home duties and home nursing.

### what options might be available?

Total and Permanent Disablement (TPD) and Trauma cover can be added to most term life contracts. TPD cover will pay a benefit if, as a consequence of injury or illness, it becomes unlikely the insured will ever be able to work again. Trauma cover will pay a lump sum benefit if the insured survives a major medical trauma such as cancer, heart attack and stroke.

### how are premiums calculated?

Premiums are calculated on the level of risk the insurer is prepared to accept. Factors used in the assessment will vary from insurer to insurer. The insurer in offering a premium will look at a number of factors including; smoker or non-smoker, sex, age, occupation, medication being taken, historical and current health.

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## how are premiums paid?

Premiums can be paid as an annual lump sum, six monthly or monthly via direct debit, cheque or credit card. Cash is not accepted as payment for premiums

If your term life insurance is through a superannuation plan the premium will be paid automatically from your superannuation fund balance.

## what is the tax position of premium payments and death benefits?

Premiums are usually not tax deductible, however different rules may apply in business circumstances. The benefit is paid as a lump sum to your beneficiaries and is tax-free. You should confirm your individual position with your tax adviser.

## is GST payable on premiums?

Unlike general insurance premiums GST is not payable on life insurance premiums.

## what are the risks?

- ~ forgetting to pay the premium – not paying the premium automatically cancels your cover. Direct debit payments from a salary account or superannuation fund is safest.
- ~ not enough funds in your direct debit account – this will trigger a lapse of cover, some insurers and advisers are proactive in calling you if there is a lack of funds but many do not.
- ~ not having enough cover – your dependants may be left with unpaid debts and/or insufficient funds to provide an income for daily living expenses.

## when does cover start?

Your cover for term life insurance does not commence until the insurer has issued the policy. Interim cover may be available from the date your application is received, however this varies between insurers.

## when are you not covered?

- ~ if premiums are not paid in full and on time
- ~ at the expiry date of the benefit or cancellation of the benefit
- ~ if at the time of claim there has been non-disclosure of a pre-existing condition you could put your benefit payment in jeopardy
- ~ if you request in writing to cease the cover, or
- ~ in the event of suicide within 13 months of the policy commencement or reinstatement.

**warning** – Do not cancel any existing term life insurance until you have received written confirmation of your new in-force cover. Premature cancellation of a previous policy could leave you uninsured should your new request for cover be rejected or delayed.

## what should you do next?

Call your financial adviser immediately to discuss your needs to ensure suitable insurance coverage is in place for your situation.