

What Is Life Insurance?

Term life insurance pays a lump sum on the death of the insured (and often also if the insured is diagnosed with a terminal illness and has less than 12 months to live).

Can It Happen To Me?

Some recent statistics:

- There are more than 130,000 deaths in Australia each year.
- Almost one in five deaths (23% male, 14% female) are for people of 'working age' – between 25 and 65 years.
- Injury is the leading cause of death for people under the age of 45. This is followed by cancer and cardiovascular disease.
- Cancer and cardiovascular disease are the leading cause of death for men and women aged 45-65.

How Much Term Life Insurance Do You Need?

There is no magic formula to determine how much life insurance is appropriate. It will depend upon the individual and their personal situation. Some considerations include:

- Assets currently available;
- Amount of debts;
- Earning capacity of surviving spouse;
- Number of children;
- Age of children;
- Business arrangements;
- Business partnerships;
- Additional expenses;
- Future lifestyle and living costs.

Who Needs Life Insurance?

As a starting point, the primary income earner in a household should assess their life insurance needs, and implications for their family if they were to die.

Consideration should also be given to other persons in the household. The unexpected death of a non-working parent (for example) can have significant financial implications, including:

- Additional expenses for help around the home;
- Additional children related expenses (eg. nanny, after school care, school holiday care);
- Reduced workload and salary for the primary income earner.



Ownership Considerations

Consideration will need to be given to the advantages and disadvantages of purchasing life insurance in your own name, the name of another person (such as your spouse) or within superannuation.

By holding life insurance through your superannuation fund, you maybe able to reduce the effective after-tax cost of your premiums. The downside of this however is that tax maybe payable when a superannuation death benefit is paid to a non-dependent.

Applying for Life Insurance

The process of obtaining suitable life insurance can be simple and straightforward, but also sometimes it can be complex and time consuming. Insurers will look at many risk factors, including:

- Age;
- Overall health;
- Family health history;
- Occupation;
- Hobbies, pastimes, and interests;
- Residency;
- Smoking status;
- Income and financial position;
- Health checks;
- Doctors reports;
- Blood tests.

The good news however is that once you have established a policy, most arrangements can't be cancelled (or have the premiums increased) simply due to a deterioration in a person's health.

Premiums

Premiums can vary significantly between different insurers. The premium amount will also depend upon individual factors with key drivers being age, gender, overall health and whether the insured is a smoker.

Stepped versus Level Premiums

A stepped premium means that the premium is recalculated (increasing) each year. As you get older, the increases can be quite significant and potentially make the cost of retaining life cover prohibitive.

A level premium however is calculated each year based on your age when the cover commenced – there are no age related increases. Whilst a level premium policy can be more expensive initially, the long term benefits can be significant if you hold life insurance cover for a long period.

Choosing a stepped or level premium requires careful consideration. A hybrid strategy (taking some stepped and some level) is also another option that has a number of advantages and disadvantages.

Insurance Reviews

You should review your life insurance situation at least every few years to ensure that the amount and type of cover is suitable to your situation and needs. The amount of life insurance you need may increase or decrease depending upon changes in your circumstances – assets, liabilities, income, dependents, and so on.

More information

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