

THE BASICS OF LIFE RISK INSURANCE

Life Risk Insurance is used for the following personal and business funding purposes in the event of death, permanent incapacity, major medical trauma or disablement.

Personal:

- Funding to reduce or pay off debt
- Funding to provide an replacement income for the family income generator
- Funding to replace primary care and household duties provided at home
- Funding to equalise your estate
- Funding to cover out-of-pocket medical expenses, home modification or nursing care costs
- Funding to provide for financial dependants

Business:

- Funding to protect the ownership of the business
- Funding to protect the assets of the business
- Funding to repay debts of the business
- Funding to replace key persons of the business
- Funding to replace lost revenue or cover increased costs of the business
- Funding to replace lost business value

The following is a basic guide to the 6 types of Life Risk Insurance products available on the market. They provide funding for your personal asset protection and estate planning and/or business protection and succession planning strategies. We have included with the description of each type of cover a few key considerations which need to be made when structuring these covers.

- 1. Life Insurance**—provides a lump sum payment upon death or terminal illness of the life insured.

Key Considerations:

- Who is the appropriate owner for my cover?
- Who is to benefit from this cover?
- What is the intended objective of holding this cover?
- Are there tax implications for the premium I pay or the benefit receivable?

- 2. Total and Permanent Disablement (TPD) Insurance**—is an added protection benefit often offered with life insurance policies. Again, a lump sum benefit is paid if the insured is disabled as defined in the policy. Generally speaking TPD means that, because of a sickness or injury, the insured is unable to work in their own or any occupation for which they are suited by training, education or experience. They may be paid where they have a permanent loss such as eyesight, or they have been absent from work for a certain time (usually six months or more) due to accident or illness and subsequently will not be able to return to work.

Key Considerations:

- What level of funding would I need if I am permanently incapacitated?
- Is an 'any occupation' or an 'own occupation' definition suitable for my circumstances?
- If superannuation is being considered as an ownership structure for my personal cover, what are the conditions of release and tax implications of this structure?
- If cover is being implemented for a business purpose, will there be any CGT or other tax implications? Who is the appropriate owner for my cover?

3. Trauma Insurance—was introduced because of medical advances which have increased survival rates after serious medical conditions such as heart attack, cancer or stroke. Critical illness or trauma cover can be an important supplement to life insurance or can act as a stand-alone product. If a person suffers a critical illness, life insurance won't help because the person is still alive. Critical illness cover offers protection by providing a lump sum payment in the event you are diagnosed with one of a range of specified medical conditions. It can help ease the financial impact of a critical illness on your lifestyle by paying you a lump sum when you need it most, instead of using savings or adding to the mortgage. This type of insurance can be used to fund the costs of help around the house or even to reduce mortgage payments.

Key Considerations:

- Does the cover automatically upgrade to keep pace with improving medical definitions and diagnosis techniques
- What is the financial impact if I suffer a major medical trauma?
- What are the implications if trauma cover is implemented for a business protection purpose?
- Does the policy provide me with an opportunity to claim upon diagnosis or does a level of impairment or severity need to be met?

4. Active Cover (severity based TPD/Trauma cover incorporating life insurance)— This policy combines traditional Death, Total and Permanent Disability and Trauma insurance cover into one product. The percentage of the lump sum benefit payable is 5%, 20, 40, 65 or 100% based on the severity of the health event you suffer.

Key Considerations:

- Do you want a policy that pays based on severity versus a defined medical threshold?
- Do you require certainty regarding the benefit payable upon specific events or to meet certain objectives?

5. Income Protection Insurance—People often overlook what is in most cases their most valuable asset; their ability to earn an income. Income Protection Insurance pays up to 75 percent of your annual income, in monthly benefits, to cover your expenses should you become unable to work. Income Protection allows you to cover your expenses and maintain your lifestyle as you concentrate on recovery. The definition of what constitutes a claim vary widely. Therefore it is important that you obtain a quality policy tailored to your occupation and employment situation. Importantly, the annual premium for income protection insurance is generally tax deductible.

Key Considerations:

- Will my income be agreed upfront with the insurer to provide more certainty at the time of claim?
- Are specific risks of my occupation covered as part of this policy?
- Does my sum insured reflect my maximum level of insurable income?
- Does the treatment of my benefit reflect the tax minimisation strategies I may have in place for my business?

6. Living Expense Insurance—Living Expense Cover recognises the value of what you do every day, even if you're not working or you're working part-time. If you get sick or injured, the benefits can help you pay the household bills, pay for some help around the house and even stay on top of the mortgage. It pays an agreed monthly benefit based on your household income if you're significantly disabled.

Key Considerations:

- What would the financial impact be on my family if I was significantly disabled?
- How long would I need this financial protection to continue?
- Are there other family members who would financially impact me if they suffered a significant disablement?

The key to these types of insurances is to get the appropriate business and personal advice, to ensure your objectives are clearly discussed and agreed upon. The right advice will ensure that your portfolio of cover is structured to meet these objectives—in line with your specific personal and or business circumstances.

Seek professional advice from a specialist who will work with your accountant and legal professionals to ensure your portfolio meets your needs.

The Next Step

Contact us to design a risk management strategy appropriate for you.


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