While most Australians accept that their house may burn down or their car may be stolen, many refuse to accept that they may die prematurely or be disabled at some stage during their working life. Consequently, most people are under-insured when it comes to their Life, Trauma and Disablement insurance.

As part of the financial planning process, it is important to look at your needs in this area and put into place any cover that may be necessary.

The amount of cover that you require will change throughout your life - a person with a young family will require more cover than a couple with two incomes and no dependants. For this reason it is important to constantly review your levels of cover to ensure you are not over or under-insured.

LIFE INSURANCE

Probably the most common type of insurance, this cover pays a lump sum to your estate if you die. When many people think of life insurance they think of the older 'Whole of Life' or 'Endowment' policies. These policies provide insurance benefits, but also have an investment component built in. The disadvantage of these policies is that they have very little flexibility and you are often locked in to paying premiums for many years in order to get any return on your investment. Most policies available today are called 'Term Insurance'. With these policies you pay a premium that covers the cost of the insurance only. There is no investment component, and you can increase or decrease the amount of your cover at any time to suit your changing needs. These policies are very cost effective, and in some cases may be tax deductable.

TOTAL & PERMANENT DISABILITY INSURANCE

This type of cover pays a lump sum benefit if you are totally disabled and unable to ever work again. This payment can be used to repay debts, make any alterations to your house (for wheelchair access), cover lost income etc.

TRAUMA INSURANCE

Pays you a lump sum if you are diagnosed with a traumatic illness. The most common claims are for heart attack, cancer and stroke. You are paid a lump sum if one of the specified illnesses occurs and you survive. There is no benefit paid if you die, so in most cases these policies are taken in conjunction with some Life Insurance.

This is a very popular form of cover when you consider the likelihood of suffering one of the specified illnesses and surviving.

INCOME PROTECTION INSURANCE

How valuable is your income? A 25 year old earning $35,000 pa will earn $4.2 million over their working life assuming 5% inflation. When statistics show that 75% of the working population will be temporarily disabled for at least three months sometime in their working life, it certainly makes sense to protect your income.

An Income Protection policy ensures you can maintain your lifestyle even if you are unable to work. It can pay up to 75% of your income for as long as you are temporarily or totally disabled - in many cases up to age 65. The premiums are tax deductable, and are relatively inexpensive.

While every care has been exercised and the recommendations and other statements herein are based on information believed to be accurate and reliable, no liability, (unless required by law) can be accepted for any error or omission including negligence however caused.