

Insurance Essentials Guide

With busy work and family schedules we don't have much time to consider the emotional and financial implications that a serious illness can cause, or how a serious illness or death may impact our families.

A serious illness can place pressure on a person and their family; while dealing with the strain of doctors' visits, hospital stays and medication, you still need to ensure your bills get paid – mortgage, personal loans, food, gas, electricity, rates, school fees, buying clothes, paying vet bills, etc. You may even have additional costs, such as paying for medical treatment, or paying for travel to obtain medical treatment, or nursing care at home.

A death in the family can create turmoil, for while trying to deal with the stress of losing a loved one, the reality is that loans and bills must still be paid. In fact, extra bills such as doctors' fees, hospital costs, and perhaps even funeral bills may need to be paid.

Just because you may be able to get some financial support from WorkCover if it's a work related injury or illness, or because you have some investment and superannuation savings and perhaps some insurance within your superannuation fund, don't assume it will be enough. Further, while it may be possible, subject to specific conditions, to obtain Government benefits (such as Sickness Allowance or Disability Support Pension), these support payments only provide a basic level of income that may not be enough to meet your needs.

Ultimately, if there isn't enough available money to pay your expenses, then you may need to make some hard decisions – such as the surviving spouse needing to leave any children in care and obtain employment, or downgrading your lifestyle, by selling the house and buying a smaller one, or perhaps renting.

To help protect you and your family you need to plan ahead. Effectively you have three options.

- Accept the risk and deal with it yourself. For example, you may have enough existing savings so that if you were to suffer a serious illness you would be able to continue to provide for yourself (and/or your family).
- Avoid the risk. You may avoid hazardous pastimes, such as sky diving or white water rafting; you may exercise regularly and not smoke or drink alcohol. But it is not possible to completely protect yourself from illness or injury.
- Transfer the risk. Generally, if you don't have enough of your own resources you could purchase an insurance policy that will pay you (or your family) an amount of money to make up the shortfall.

Whatever option you decide to take, it is important that you spend some time thinking about your personal circumstances and working out a plan that can provide financial security to you and your family should you die or suffer a serious illness or injury.

Each person's situation, needs and goals are different and the amount required to provide financial security is based on factors such as the amount of existing debt and the amount of income that is required to maintain your (and/or your family's) standard of living. Amongst other things, you may need to consider your current obligations – such as the debt you already have plus future obligations – such as meeting household expenses and funding children's school fees.

Why insurance?

Once you have done your analysis you may discover that you currently don't have enough resources to meet your current and future financial obligations, should you suffer an illness, injury or die. This is where insurance comes into play – you may be able to acquire personal insurance to make up the shortfall.

The following table details the type of personal insurance policies that are available, how the money is paid and what the money could be used for, which could provide financial peace of mind in the case of sickness, injury or death.

Type of Insurance	Life Insurance*	Total and Permanent Disability Insurance*	Total but Temporary Disability Insurance*	Trauma Insurance*
Also known as	Death cover	TPD	Salary continuance or income protection	Critical illness
When is it paid?	Paid if you die	Paid if you become totally and permanently disabled	Paid if you are temporarily or permanently disabled due to accident or sickness	Paid if you are diagnosed with a serious medical condition that is covered by the policy (e.g. heart attack, cancer, stroke, etc.)
How is it paid?	<ul style="list-style-type: none"> ■ Paid as a lump sum ■ Some policies will pay a benefit if the individual is determined to be terminally ill 	<ul style="list-style-type: none"> ■ Paid as a lump sum ■ Some providers can pay as a regular income Note: the definition of total and permanent disability varies between insurers 	<ul style="list-style-type: none"> ■ Paid as a regular income Note: usually up to a maximum of 75% of your salary is paid (although this may vary between insurers); a waiting period may apply and it is usually paid only for a specific time frame 	<ul style="list-style-type: none"> ■ Paid as a lump sum
What can you do with the money?†	<ul style="list-style-type: none"> ■ Repay debts, such as home loan; personal loans and credit cards ■ Pay for one-off expenses – such as medical or funeral bills ■ Use to generate an income for the surviving family 	<ul style="list-style-type: none"> ■ Repay debts, such as home loan, personal loans and credit cards ■ Pay for costs associated with medical care, rehabilitation and modifications to home and vehicles ■ Can be used to replace the income lost by the disabled person and can also replace any lost income of the partner if they also cease work to provide home care 	<ul style="list-style-type: none"> ■ Replace your lost income – thus helping to meet everyday living expenses 	<ul style="list-style-type: none"> ■ Pay for costs associated with medical care, rehabilitation and modifications to home and vehicles ■ Repay debts, such as home loan, personal loans and credit cards ■ Replace lost income of the partner if they also cease work to provide home care

* Paid subject to meeting the insurer's definition(s) as set out in the policy.

† This is not an exhaustive list but rather provides some examples of how you may wish to apply the proceeds of any insurance policy.

How can you get started?

You can speak to family and friends to learn what other people are doing; of course there is a wide range of written materials which can provide valuable information about what to consider. Also, the Australian Securities and Investments Commission has a consumer website that provides a guide to life insurance. Go to www.fido.gov.au, go to the "About financial products" tab and select "Insurance" from the drop-down list. You can also seek professional advice – speak to a licensed, or appropriately authorised, financial adviser or an insurance adviser.

A good way to start working out what you need to consider (and then decide what to do) is to make a list of the possible problems that can arise and work out how you would deal with them. For example, John is a 43 year old mechanic who has a wife that works part-time and two children aged 9 and 11. After thinking about his personal situation he speaks to his wife, Mary, and they come up with the following:

Potential Loss/Risk	What we currently have	What we need
If John dies	<ul style="list-style-type: none"> ■ Existing savings ■ Existing insurance 	<ul style="list-style-type: none"> ■ To pay off home loan and personal loan
If John becomes totally and permanently disabled	<ul style="list-style-type: none"> ■ Existing savings ■ Existing insurance 	<ul style="list-style-type: none"> ■ To pay off home loan and personal loan ■ To have enough money to provide an income for the family ■ To have extra money to pay for medical expenses or rehabilitation costs in case they arise
If John suffers a major illness or trauma that was not permanent	<ul style="list-style-type: none"> ■ Sick leave and annual leave ■ Existing insurance 	<ul style="list-style-type: none"> ■ To have an income after the sick leave and annual leave is used up ■ To have extra money to pay for medical expenses or rehabilitation costs in case they arise

You should go through the same exercise for both partners in a couple. The lesson is that adequate insurance cover is important for both partners because everybody's circumstances will be different and you should note where you and/or your partner/family will stand.

Once you've done your analysis, put your plan into practice. Look over your plan at least on an annual basis, and every time a major event occurs – for instance another child is born, you change jobs, or move house.

Where to get insurance

If you decide that you want to acquire or increase your insurance you can:

1. Contact your superannuation fund. Generally superannuation funds can offer insurance, other than Trauma. Speak to your superannuation fund to determine if the terms and conditions of the insurance offered are suitable for your purposes and how much the insurance will cost – you should also read your super fund's Product Disclosure Statement. If the type of cover available through your super fund doesn't exactly meet your needs, you may need to take out personal insurance outside of your superannuation fund.
2. Investigate what is being offered by insurance providers. Determine which type and how much insurance you need, decide which policies are best for your situation, and obtain quotes for how much the insurance will cost. It's important to do your research carefully as the conditions can vary significantly between insurers.
3. See a licensed, or appropriately authorised, financial adviser or insurance adviser. They are able to provide advice on all forms of personal insurance, can provide a recommendation of the products (inside and outside of super) that will best suit your needs, and obtain quotes. They will also be able to provide additional information and advice, such as the taxation implications of a claim and the possibility of nominating beneficiaries. This option has the benefit of an experienced professional dealing with the application and underwriting process (and the claims process, should the need arise).

Getting advice

Determining how much insurance you may need and then choosing the policy that best suits your needs can be a time consuming and complicated process. As a member of the Mercer Super Trust, you have a number of options to help you determine your insurance needs:

- Firstly, you can speak to a Helpline consultant about the insurance that is specifically offered in your super fund;
- Secondly, you can speak to a Mercer financial adviser on the phone in relation to general insurance enquiries – such as how insurance works and how much you may require; and
- Thirdly, you can make a face-to-face appointment with a Mercer financial adviser who can determine your insurance needs, identify the policies that would best suit your needs and deal with the applications for you.

A financial adviser can also discuss other issues, such as the taxation implications of insurance premiums and proceeds if a claim is made, as well as making beneficiary nominations. A fee generally applies for comprehensive face-to-face financial advice.

To get started, please call the Helpline on 1800 633 403.

If you have any questions, or to speak with a Mercer financial adviser, please call **1800 633 403**.

Adelaide Brisbane Campbelltown Geelong Glen Waverley Melbourne Newcastle Parramatta Perth Sale Sydney

This communication is prepared and sent by Mercer (Australia) Pty Ltd ABN 32 005 315 917, as corporate authorised representative #260851 of, and behalf of, Mercer Investment Nominees Limited (MINL) ABN 79 004 717 533, Australian Financial Services Licence #235906. 'Mercer Wealth Solutions' and the petal logo are registered trademarks of MINL. Mercer financial advisers are authorised representatives of MINL. Any advice contained in this document is of a general nature only and does not take into account the personal needs and circumstances of any particular individual. Prior to acting on any information contained in this document, you need to take into account your own financial circumstances and seek professional advice from a licensed, or appropriately authorised, financial adviser and read the Product Disclosure Statement for any product you are considering investing in.