Winestone & Associates Pty Ltd

LIFE INSURANCE MADE SIMPLE

Everything you Need to Know, to Protect What Matters Most



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INTRODUCTION

Why Life Insurance Matters More Than You Think

Life insurance can seem complex, but it's fundamentally about protecting you and your loved ones from financial hardship if the unexpected happens. This guide breaks down life insurance in Australia in a simple way, with a number of examples. It's designed for everyday consumers - from middle-class families to professionals and small business owners - and aims to be useful whether you choose to use a financial adviser or not.

We'll cover what life insurance is, the types available, how to get it (with or without advisers), what to consider in policies and providers, how claims and underwriting work, special considerations for business owners, and more.

Reminder:
"15 million Australians have life insurance, but most are still underinsured. Don't be part of that statistic."

WHAT IS LIFE INSURANCE AND WHY IS IT IMPORTANT?

Life insurance is an umbrella term for insurance policies that pay out if you pass away or if certain serious events stop you from earning an income. The payout (a lump sum or ongoing payments, depending on the cover) goes to your beneficiaries - usually family or anyone who depends on you financially.

Why do people get life insurance? The number one reason is to provide protection and security for loved ones. If the worst were to happen to you, a life insurance benefit can help your family pay the mortgage, cover living expenses, and safeguard their future plans. About 15 million Australians have some form of life insurance, often through their superannuation (more on that later), underscoring how common this safety net is. However, many Australians are underinsured, failing to meet their financial needs with sufficient cover. Thinking about life insurance is uncomfortable, but if tragedy strikes, it can protect your family from difficult financial consequences.

Life Insurance

Life insurance refers to cover for personal risks like death, disability, serious illness, or inability to earn an income. It's about protecting life and livelihood.

General Insurance

General Insurance refers to cover for property and liability risks - things like car insurance, home building or contents insurance, travel insurance, etc. It protects assets and possessions.



TYPES OF LIFE INSURANCE COVER IN AUSTRALIA

In Australia, there are four main types of life insurance cover, each protecting against different events:



Life Cover (Death Cover)

Pays a lump sum to your beneficiaries following death (often including cases of terminal illness). This is what people traditionally think of as "life insurance" - providing for your family when you're no longer there. For example, a life cover payout could clear your home loan and provide living expenses for your family.



Total and Permanent Disability (TPD) Insurance

Pays a lump sum if you become totally and permanently disabled and unable to work. TPD benefits can help cover medical rehabilitation costs, modifications (like wheelchair access to your home), and provide funds to support you and your family since you can't earn an income. Policies define "permanent disability" in specific ways - usually meaning you can't ever return to work in your occupation or sometimes any occupation, depending on the policy.



Income Protection Insurance

Replaces part of your income if you can't work due to illness or injury. Unlike the one-time payouts of life or TPD insurance, income protection pays ongoing monthly payments (usually up to 70% of your pre-tax income for a certain period) to substitute your salary. This helps you meet daily expenses if you're temporarily disabled or seriously ill. Policies have a waiting period before payments start (commonly one to three months), and a limited time they'll pay (e.g., 2 years, 5 years or up to a certain age such as 65).

IMPORTANT NOTE:

Many employed people also have some form of salary continuance through their super fund, but this is often limited in duration (usually 2 years maximum) and amount. Standalone income protection generally provides more comprehensive coverage.

Trauma Insurance (Critical Illness)

Pays a lump sum if you're diagnosed with a major life-threatening illness or injury covered by the policy. Typically covers illnesses like cancer, heart attack, stroke, or serious injuries. The payout helps with the medical costs and living expenses while you recover. Importantly, trauma cover pays regardless of your ability to work - it's based on the diagnosis itself. For instance, if you are diagnosed with cancer, a trauma payout can help fund treatment or time off work to allow for recovery.

All four coverages may be used together, or fewer may be used in combination. Life, TPD, and trauma are typically lump sum covers, whereas income protection is an income stream.

Child Cover

Some policies offer Child Cover as an optional low-cost extra, providing a benefit if a child suffers a serious illness. It allows parents to focus on supporting their child's recovery without the extra financial pressure. It can also help fund gaps in health or medicare cover.
Policies often include automatic conversion to adult cover at age 21-25 without medical underwriting, which can be valuable if health issues develop during childhood that might otherwise make insurance difficult to obtain in adulthood.



WAYS TO GET LIFE INSURANCE: DIRECT, THROUGH SUPER, OR VIA ADVISERS

Life insurance can be obtained through three main channels, each with distinct pros and cons:

1 Via Adviser or Broker (Retail Life Insurance)



An adviser (typically a licensed financial adviser or specialist life insurance adviser) engages in a one-on-one process to inform your decision on a life insurance product. The policy is tailored to you, and the adviser helps choose a product from an insurance company that fits your needs. It typically involves comprehensive underwriting (detailed health/lifestyle questions, maybe medical tests) during the application. Because it's personalised, cover can be customised (you can often mix life/TPD/trauma/income covers in one plan, choose features, etc.).

- **Pros:** Can be tailored precisely; higher cover limits available; usually more certainty at claim time (because you fully disclosed health upfront); an adviser's expertise to guide you.

- **Cons:** The application process can be time-consuming; you might need to pay the adviser (or this might be built into premiums); underwriting can mean more effort (health checks).

COST:

Premiums can be higher or lower than other methods depending on your circumstances. Healthy individuals might get good rates; those with health issues might face loadings (or occasionally be declined).

2 Direct Life Insurance

Direct insurance means buying straight from an insurer without personal financial advice - for example, getting a quote online, via a comparison website, or calling an insurer's sales line. These policies often advertise "no medicals" or quick coverage.

- **Pros:** Convenient and fast - you can often get cover in minutes; no need for medical tests upfront in many cases.

- **Cons:** To compensate for less health info, direct policies may have stricter terms or higher premiums for the same cover amount. They often come with more exclusions, especially for pre-existing conditions, because the insurer didn't fully assess your health when issuing the policy.

Direct policies also tend to have lower claim payout rates compared to advised or group policies - a report from ASIC in 2024 showed about 92% of direct life insurance claims were paid, vs. 97% when bought through an adviser. This gap is largely because of unexpected exclusions or incomplete information at application time. In short, direct insurance can be easier to get, but you must read the fine print carefully. It often ends up costing more for equivalent cover, or providing less certainty, than advised policies.

3 Group Life Insurance (Through Superannuation or Employer)

Many Australians get life insurance as a default benefit in their superannuation fund (this is also called group insurance or default cover). Most super funds automatically provide a basic level of life cover and TPD, and often income protection, for their members. Employers might also offer group life insurance as part of corporate super plans.



- **Pros:** It's easy - coverage starts without you doing anything (for eligible members), and premiums are often cheaper because the super fund negotiates bulk rates. It's also inclusive: typically no health questions or medical exams to get the default cover. This makes it accessible if you have health conditions that could make individual cover expensive or unavailable.

- **Cons:** Coverage is limited. Default sums are often too low for a family's needs (e.g., a default death cover might be only enough to cover a few years' salary). It's not tailored to your circumstances - one-size-fits-all. Also, group policies may have restrictive definitions (for TPD especially) and can end at certain ages (often cover in super ends at retirement age). Another con: since premiums come out of your super balance, they erode your retirement savings over time. And if you change jobs or super funds, your insurance might not transfer (risk of losing cover if an account becomes inactive). Recent rules also stop automatic cover for young people under 25 or low super balances until you opt in - which is good to avoid unwanted insurance, but something to be aware of if you want cover.

Comparison Summary

Channel	Underwriting	Coverage & Features	Premium Cost	Claims Paid
Retail (Advised)	Full medical & lifestyle info collected (fully underwritten before policy starts)	Highly customisable; choose cover amounts/types; many optional features	Varies - can be cost-effective for healthy individuals; may pay adviser via commission or fee	Very high (near 97% of claims paid, since no surprises if fully underwritten)
Direct	Simplified underwriting (few questions; often no medical tests up front)	Limited customisation; may have more exclusions (especially pre-existing conditions)	Often higher per $ of cover due to insurer taking unknown risk	Slightly lower (% of claims paid on average) - claims processes may uncover issues not checked at application
Group (Super)	Minimal personal underwriting (cover is mostly given automatically)	Default cover amounts (can vary by age); fixed default definitions; cover ends at certain age	Generally lower premiums (group rates), paid from your super account (pre-tax $)	Very high payout rate (similar to retail) for valid claims - though cover amounts are smaller; must maintain super account

Which should you choose?

It doesn't have to be either/or - many people have a mix. For example, you might keep basic cover in super and also take additional retail policy via an adviser for extra protection. The key is understanding the trade-offs:

- If you value convenience and speed, and have simpler needs, a direct policy or default super cover might be attractive.
- If you have complex needs or want confidence at claim time, getting advice for a tailored solution is very valuable.
- Always review what you have in super before buying more insurance elsewhere - make sure you're not doubling up unless needed, and note that you can usually increase cover in super (though you'll need to answer health questions for higher amounts).
- For most people, especially with dependents or significant financial commitments, speaking to an insurance adviser or financial planner can help ensure you're adequately covered - even if you don't end up buying the most expensive policy, you'll learn what your gaps are.





THE VALUE OF FINANCIAL ADVICE IN LIFE INSURANCE

While you can arrange life insurance on your own, there's a reason why many Australians use financial advisers or specialist life insurance advisers. A good adviser can help you navigate options, tailor coverage to your situation, and be there to assist at claim time.

HOW WORKING WITH AN ADVISER ADDS VALUE

Comprehensive Needs Analysis

An adviser will work with you to understand your needs and goals. They can calculate how much cover is appropriate - considering factors like your debts, family expenses, children's education, and even business obligations. This helps prevent being underinsured or overinsured.

Product Expertise

The life insurance market is large and ever-changing. Advisers stay up-to-date on product features, definitions, and pricing. They can recommend a policy that fits you best (for example, which insurer has better trauma cover for cancer, or which income protection policy is most suited for your occupation).



Strategic Coverage Design:

Rather than simply recommending standard products, advisers design integrated strategies:

- Optimal mix of coverage types to avoid gaps or overlaps
- Strategic use of super vs personal ownership structures
- Tax-effective structuring of premiums and benefits
- Coordination with existing investments and estate plans



Underwriting Navigation and Strategy

This is where adviser expertise really shines:

- **Pre-application health assessment:** Experienced advisers can often predict underwriting outcomes and position applications strategically
- **Medical coordination:** Advisers help gather medical records, coordinate with treating doctors, and ensure all necessary information is provided promptly
- **Negotiating outcomes:** When insurers propose loadings or exclusions, advisers can challenge unreasonable terms with medical evidence or shop alternative insurers



Tailoring and Customisation

Through an adviser, you can often customise your policy. For instance, you might add a TPD benefit to your life policy, or choose a longer benefit period on income protection. Advisers also help decide ownership structure (whether to hold the policy in super or outside) for tax and convenience considerations.



Claims Advocacy

Importantly, if you ever need to claim, your adviser can guide you through the process. They know who to contact at the insurance company, what forms or evidence are needed, and can help manage the claim on your behalf. In a stressful time (like losing a loved one or dealing with illness), having an expert handle the paperwork is invaluable.



Broad Financial Planning

Life insurance shouldn't be considered in isolation. It's part of your financial plan. Advisers ensure the cover fits your budget and complements other strategies (like an emergency fund, investments, or retirement planning). They also review your cover as your life changes.

CHOOSING THE RIGHT ADVISER

In Australia, insurance advisers need to be licensed (hold an Australian Financial Services Licence, or be an authorised representative under one). When selecting an adviser, look for someone qualified and reputable. You can use ASIC's Financial Advisers Register to verify their credentials. It's wise to choose an adviser who specialises or has strong experience in life insurance (sometimes called a risk adviser). Understand how they get paid: many life insurance advisers receive commissions from insurers (which is common and allowed), while some might work on a fee-for-service model. They should disclose their fees and any conflicts in a Financial Services Guide (FSG), which you are entitled to see. Don't hesitate to "shop around" - initial meetings are often free, so you can meet a couple of advisers to find one you're comfortable with.



GENERAL VS PERSONAL ADVICE

Advisers can provide either **personal advice** (which requires them to follow prescriptive regulatory processes and provide a Statement of Advice based on your personal circumstances) or **general advice** (where they provide assistance with getting quotes and cover in place but without doing so based on your specific personal circumstances). Understanding which type of service you're receiving helps set appropriate expectations.

Robo-Advice: There are online tools that can give limited guidance on insurance needs. While these can be handy for basic questions, they are no substitute for personal advice. In summary, a good adviser acts as your personal guide and advocate in the world of insurance.

IF YOU GO SOLO: NAVIGATING LIFE INSURANCE WITHOUT AN ADVISER

Maybe you're a do-it-yourself type, or just want to understand things better before deciding. Here are tips for navigating the life insurance market on your own:

RESEARCH AND COMPARE

Start by getting a sense of the coverage you might need. There are online life insurance needs calculators (for example, some super funds or insurer websites have them) that help estimate how much life/TPD cover would pay off your debts and support your family. Then, you can use comparison websites to see quotes from different insurers. Keep in mind that comparison sites often focus on direct insurance products; they might not show policies that are only available through advisers. However, they can give a ballpark of premium costs. Be cautious: the cheapest policy isn't always the best - look at what each covers.

UNDERSTAND POLICY FEATURES

When comparing, check the Product Disclosure Statement (PDS) of each policy. In Australia, insurers must provide a PDS that explains the product's features, benefits, terms, and exclusions. Key things to look for:

- **What's covered and excluded:** For example, does a TPD policy cover both "own occupation" and "any occupation" disability? Are there exclusions for certain activities (like risky sports)?
- **Definitions:** Especially for TPD and trauma - they will define conditions (e.g., what qualifies as "heart attack" or the level of disability for TPD).
- **Waiting periods and benefit periods:** For income protection, how long do you have to be off work before payments start (common waiting periods are 30, 60, 90 days)? And how long will benefits last (2 years, 5 years, to age 65)?
- **Premium type:** Stepped vs Level premium. Stepped premiums increase each year as you age. Level premiums start higher but are designed to remain more stable as you age (only rising with inflation or if the insurer changes rates). Level can be better if you plan to hold insurance for a long time, but if you only need cover for a shorter term, stepped might save money upfront.
- **Indexation:** Policies often offer to automatically increase your cover each year (to keep up with inflation). You can usually accept or decline these increases.

- **Optional riders:** e.g., waiver of premium (premiums are waived if you're disabled), or accidental death benefit, etc. Consider if these matter to you.

- **Premium payment options:** Can you fund it through super or does it have to be outside super? (Some retail policies allow either structure).

> **NOTE:**
> Recent changes to terminology mean your current policy might use "stepped" and "level" premiums, but newer policies may be labelled "variable age-stepped" and "variable" premiums respectively.

INSURANCE THROUGH SUPER

Check your current superannuation fund's insurance offering. You might already have some default cover. The PDS or member guide of your super will tell you the default cover amount and cost. You can often adjust it - either opting out, or increasing it (which may require underwriting). Compare the cost and features of staying with super vs an outside policy. One advantage of using super: premiums are deducted from your super account (using pre-tax contributions), which can be tax-effective. But remember, it's still your money - coming out of your retirement savings. Also, if you leave that super fund (say you switch jobs and roll over your super), you could lose that insurance, so keep track.

OTHER SELF-DIRECTED TIPS

- **Direct Purchase Tips:** Before purchase, download the PDS and read the relevant sections. Be clear about any policy exclusions - and if something is unclear, call the insurer's help line.

- **Consider Starting with Default and Upgrading Later:** If you're young and on a budget, one strategy can be to rely on relatively low-cost cover in super and then later add retail policy for more cover. But think about income protection early - young people are more likely to need income protection (due to injury) than life cover.

- **Review Regularly:** Put a reminder to review it at least once a year or at life milestones - such as getting married, having a child or buying a home..

- **Know Where to Get Help**: You can speak to super fund helplines, use free government resources like MoneySmart, or consider a one-off consultation with a fee-based adviser.

HOW MUCH LIFE INSURANCE DO YOU ACTUALLY NEED?

This is one of the most important questions, and getting it wrong can leave your family either struggling or overpaying for unnecessary coverage.

The suggestions below are general guidelines only - your actual needs will depend on your unique circumstances including your income, expenses, debts, dependents, children's ages and education plans, your spouse's earning capacity, and many other personal factors.

FOR LIFE INSURANCE, CONSIDER COVERING:



Immediate needs:

- Outstanding debts (mortgage, loans, credit cards)
- Funeral and estate settlement costs ($15,000-$25,000)
- Emergency expenses for the family



Ongoing income replacement:

- 8-12 times annual income for families with young children
- 5-8 times annual income for families with older children
- Consider the surviving spouse's earning capacity



Specific future needs:

- Children's education costs ($25,000-$50,000 per child for university)
- Extra spouse or childcare costs
- Home modifications that might be needed

Example calculation:

Mark earns $100,000 annually. His family needs:

- $450,000 mortgage clearance
- $800,000 income replacement (8 × $100,000)
- $80,000 education fund for two children
- $20,000 immediate expenses
- Total: $1.35 million life insurance

For Income Protection:

- Aim for 70% of your gross income
- Consider your existing benefits (sick leave, super salary continuance)
- Choose waiting periods based on your emergency savings
- Benefit period should ideally extend to retirement age

For TPD and Trauma:

- Similar to life insurance calculations, impacted by whether you also have income protection in place to cater for part of your needs
- Consider specific costs like home modifications, medical treatments
- TPD often around 8-10 times annual income
- Trauma typically $200,000-$500,000 depending on personal circumstances

REMEMBER:

These are simplified examples to illustrate the concept. Your personal situation - including your family structure, lifestyle, existing savings, other income sources, and financial goals - will significantly impact your actual insurance needs. Consider using online calculators as a starting point, but for a comprehensive assessment that reflects your specific circumstances, speaking with a qualified financial adviser is often the most valuable approach.

MAKING A LIFE INSURANCE CLAIM

When the time comes to make a claim on a life insurance policy, knowing the process can make it smoother:

Notify the right party: Who you contact depends on how you bought the policy. If you have a policy through an adviser, usually you'd contact the adviser, who often helps lodge the claim with the insurance company's claims department. If your cover is through superannuation, contact the super fund trustee or their insurance administrator. For direct policies, call the insurer's claims hotline. Ask them to explain the process and any forms needed.

Gather required information: Common documentation includes the policy details and proof of the event. Your initial claim form will likely provide you with a good starting point - including a checklist:

- For a death claim, you will need a death certificate and possibly other documents like probate or identification of beneficiaries.
- For a TPD or trauma claim, medical reports from your treating doctors are needed, confirming the condition and prognosis.
- For an income protection claim, you'll need medical certificates for your condition and financial evidence of your income before and since the event.



FILL OUT CLAIM FORMS:

The insurer or super fund will have claim forms. Fill these out carefully and honestly. If an adviser is involved, they will often handle the paperwork with your input.



CLAIMS ASSESSMENT:

Once submitted, the insurer's claims team will review the claim. They may contact you for clarification or request further info. They might ask for additional medical exams in some cases.

DECISION AND PAYOUT:

If approved, the insurer will arrange payment of the benefit. Death, TPD and trauma benefits are typically lump sums, whereas income protection benefits are paid monthly. If a claim is denied, you have the right to ask for a review and even escalate to an external dispute resolution service (the Australian Financial Complaints Authority - AFCA).

Important: Claims success rates are high in Australia for life insurance, especially for policies that were fully underwritten at application. More than 95% of death claims are paid on average. The key is that you must have been truthful on your application and the event must meet the policy terms. Direct policies have shown slightly lower payout rates, often due to pre-existing condition exclusions.

TIP:

Keep your policy documents and information such as your key financial contacts in a place known to your beneficiaries or family. This helps reduce delays in gathering the necessary claim details.

UNDERSTANDING UNDERWRITING (AND WHY IT MATTERS)

Underwriting is the process an insurer uses to decide whether to accept your application and on what terms. In simple terms, it's a risk assessment. For life insurance, underwriting typically looks at:

- Your health history (any past illnesses, surgeries, medications)
- Your family history (e.g., if close relatives had serious diseases at young ages)
- Your lifestyle (smoking, drinking, high-risk hobbies like skydiving)
- Your occupation (some jobs are riskier than others)
- Possibly your financial situation (for high cover amounts)

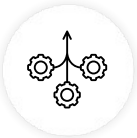
TWO MAIN APPROACHES TO APPLYING:

Once submitted, the insurer's underwriting team will review the application. They may contact you for clarification or request further info. They might ask for additional medical exams in some cases.



Fully Underwritten:

Common with retail or advised policies, you complete a detailed questionnaire and may also have medical tests or blood work, depending on your history and the type of cover. The insurer reviews this information before deciding whether to offer cover. Once the policy is in place, if you've disclosed everything honestly, they generally cannot cancel or deny a claim later because of health issues that arise, even unexpected ones. This gives you greater certainty about what you're covered for.



Simplified or Post-Underwritten:

These policies, often offered through direct insurers, ask very few health questions upfront – or sometimes none at all. This can make it easier to get cover quickly, but it also means important details about your medical history might not be considered. In some cases, cover is issued with pre-existing condition exclusions, meaning if a claim relates to an issue you had before taking out the policy, the insurer may question or decline that claim. Essentially, the underwriting is done later, at claim time, which can lead to surprises when you need the cover most.

UNDERWRITING OUTCOMES

After underwriting, an insurer can decide to

- Offer you cover at standard rates (no special conditions)
- Offer with a loading (higher premium) if you are higher risk than average
- Offer with an exclusion for a specific risk
- Decline to offer cover at all (rare)

For you as a consumer:

It's important to answer all application questions truthfully and carefully. In Australia, you have a **duty to take reasonable care not to make a misrepresentation** when applying. This means providing accurate and complete answers to what the insurer asks. If you're unsure whether something is relevant, include it anyway or check before submitting

The upside of underwriting:

While it might seem like a hassle, undergoing proper underwriting gives you peace of mind. Once your policy is active, even if your health changes later, your existing policy won't change. You lock in the cover.





LIFE INSURANCE AND YOUR SUPERANNUATION

Many superannuation funds include life insurance benefits for members by default:

Default Cover Levels:

These are set based on your age and sometimes your employment type. For example, a fund might automatically cover a 30-year-old for $100,000 life and TPD.

Premiums:

Deducted from your super account balance. This means you're not paying out of pocket directly, but it does reduce your retirement savings.

Opt-in/Opt-out:

If you're under 25 or have a very low balance, the law requires you to opt in to get cover (to prevent young people from eroding their small super with insurance they might not need yet). For others, it's opt-out (meaning that it’s automatic unless you cancel).



Continuity:

If you change jobs and thus super funds, your new fund will start its own default cover and your old fund's cover might cease. Consider consolidating super and deciding which insurance to keep

- **Advantages:** Group rates can be cheaper and acceptance is easier. Also, premiums are effectively paid with pre-tax dollars, which is tax-effective.

- **Disadvantages:** The sum insured might be far too low for your needs. Also, TPD definitions in super can be strict (often "unlikely to ever work in any occupation" which is a high bar). And you can't get trauma insurance through super.

- **Claims in Super:** Because the super fund technically ‘owns’ the policy, any claim benefits are first paid to the super fund rather than directly to you. The trustee then needs to release the money under superannuation law and according to your fund’s rules. This can add extra steps and take more time. Always make sure your beneficiary nominations in your super fund are up to date.



Super or Non-Super?

- **Affordability:** Super can make it easier to afford premiums, but draining your retirement savings has an opportunity cost.

- **Tax on Benefits:** Life insurance benefits are generally tax-free to beneficiaries if paid personally. However, if a death benefit is paid via super to an adult child who's not financially dependent, tax may be deducted. TPD benefits paid from super can also attract tax, with the amount depending on your age and how long you’ve been in the fund.

- **Flexibility:** Policies outside super can have features that super-held policies can't (like trauma cover, or more flexible income protection).

- **Control:** With your own policy, you can directly ensure the benefit goes where you want. In super, the trustee owns the policy for you.

A balanced approach many take is: hold life and TPD cover in super (to utilise cost advantages) but consider holding income protection and trauma outside (since income protection premiums are tax-deductible outside super anyway, and trauma must be outside).

SPECIAL CONSIDERATIONS FOR BUSINESS OWNERS

If you're a small business owner or professional with your own practice, life insurance isn't just about family protection - it can also be vital for business continuity:



Key Person Insurance:

This is life or TPD (or trauma) insurance on a key individual in the business, where the business is the beneficiary. If that person dies or is permanently disabled, the insurance payout provides the business with funds to cover loss of profits or hiring a replacement. It's essentially a financial cushion to keep the business afloat after losing a key contributor.



Business Partner (Buy/Sell) Insurance:

If you have a business partner or multiple co-owners, consider insuring each other. A buy/sell agreement paired with insurance means that if one partner dies or becomes totally disabled, a lump sum is paid that allows the surviving partner(s) to buy out the share of the business from the affected partner (or their estate). This prevents scenarios where you end up inadvertently in business with your late partner's spouse who inherited their share.



Business Expenses Insurance:

This is like income protection for the business itself. It covers fixed operating expenses (usually rent, utilities, salaries of non-income-producing staff, etc.) if the owner (or another key person) is unable to work due to injury or illness. This ensures the business can continue to pay its bills even when revenue might have dropped during the owner's absence.



Debt Protection:

If your business has significant loans or if you've personally guaranteed business debts, you might use a life insurance policy to cover those. For example, a policy on your life could be earmarked to clear business loans so that your family isn't left dealing with business debt.

For business owners, it’s wise to get advice because business insurance needs can be complex and time-consuming to get right. The type of cover, how it’s owned, and how any benefits are taxed all need to align with the right legal agreements. Advisers who specialise in this area can guide you through these layers. It’s not just about the insurance itself, but also having proper buy–sell agreements and structures in place so the outcome matches your intentions and protects the value of your business for your family or partners.

COMMON LIFE INSURANCE MYTHS AND MISCONCEPTIONS

“Reality Check: Being young doesn’t make you bulletproof.”

Serious illness or injury isn’t just something that happens later in life. Recent Australian reports show rising cancer diagnoses and other major health issues in people under 50. If you were suddenly unable to work, how would you cover debts or living costs? Getting cover while you’re young and healthy can also lock in your insurability for life, often at a lower cost. Even a small amount of cover can make a big difference.

"I have insurance through my super, so I'm definitely covered."

Default cover in super is a good start, but check how much it is and what it covers. In many funds it’s only around $110,000 to $170,000 – far below the average new mortgage balance now well over $600,000. Many assume it’s enough, only to find it barely scratches the surface. Review your super’s insurance – it may need topping up.

"Insurance companies never pay out anyway."

In reality, over 92% of genuine claims are paid. Death claims are paid 97%+ of the time across the industry. Most of the small portion not paid are due to non-disclosure or the claim not meeting the policy definition. The bottom line: insurers do pay claims - it's their primary purpose.

"It's all too expensive."

For many, term life cover especially is reasonably affordable when you're younger. While it is an additional expense, consider the financial devastation if the cover isn't there - we insure our cars and homes; insuring our life and income is just as important.

"The insurer will find a way not to pay me if I have a lot of insurance."

Insurers do thorough checks on big policies at application time. As long as that's in order, they don't shy from paying large claims - they've collected the premiums for it after all.



CASE STUDIES: REAL-LIFE EXAMPLES

Sometimes it's easier to understand insurance through stories. Here are scenarios illustrating how life insurance can make a difference (all names are hypothetical):

YOUNG SINGLE PROFESSIONAL (INCOME PROTECTION CASE):

Alex is 27, single, working as a self-employed IT contractor. An adviser recommended Income Protection insurance, because if Alex had an accident or extended illness, there's no sick leave or second income to rely on. Alex took a policy that would pay 70% of income after a 30-day waiting period, up to 2 years. Two years later Alex was in a car accident, suffering serious injuries that required a 6-month recovery.

Outcome:

The income protection policy kicked in after the first month and paid Alex a monthly benefit, covering rent and bills for the full 6 months until Alex was back to work.

MARRIED COUPLE, NO CHILDREN (TRAUMA COVER EXAMPLE):

Brenda (age 35) and Chris (37) are a dual-income couple with a mortgage. They decide to add Trauma Insurance after a friend was diagnosed with cancer. A few years later, Brenda is unexpectedly diagnosed with early stage breast cancer at 38.

Outcome:

Their trauma policy pays a lump sum of $200,000 upon diagnosis. This money allows Brenda to take time off work for treatment without worrying about lost income, and even cover some treatments not fully covered by health insurance.

FAMILY WITH KIDS, ONE MAIN EARNER (LIFE/TPD EXAMPLE):

Deepak (40) and Priya (38) have two young children. They worked with an adviser and obtained Life and TPD cover on Deepak for $1.2 million. Tragically, Deepak suffers a severe stroke and despite months of rehabilitation is left permanently disabled, unable to work again

Outcome:

The TPD insurance pays out $1.2 million. This pays off the mortgage completely, and the rest is invested to cover some of his ongoing care costs and generate income for the family's future.

SMALL BUSINESS OWNER (KEY PERSON/BUYOUT EXAMPLE):

Emily (50) co-owns a successful design firm with her business partner, Ryan (52). They each take out a life insurance policy for $1.5 million on their own life, and they have a buy–sell agreement in place that sets out how the business ownership would transfer if one of them passed away.

Outcome:

When Ryan passes away, the life insurance pays $1.5 million to his beneficiary/s. Under the buy–sell agreement, this payment is treated as the consideration for Ryan's share of the business. Ryan's family receives fair value for his share, and Emily becomes the sole owner without needing to raise extra funds or take on debt.

TIPS FOR A SMOOTH EXPERIENCE WITH LIFE INSURANCE

- **Review your cover at life events:** Whenever you have a significant life change (marriage, birth of a child, buying a house, starting a business, divorce, etc.), reassess your insurance. Many policies allow certain increases without full medical underwriting following these events (called guaranteed future insurability).

- **Keep beneficiaries up to date:** For life insurance (especially through super or group policies), ensure you have nominated beneficiaries and keep those updated.

- **Understand premium projections:** Premiums are not usually guaranteed. Whether you have stepped or level premiums (see more on these in the glossary), ask for a projection of how premiums might rise over the next 10 or 20 years.

- **Check if your employer offers any coverage:** Some workplaces provide group life insurance, and cover may also include TPD or income protection. Doubling up on cover – particularly income protection – can be tricky. In some cases, supplementing an employer policy with a retail policy can work well, for example adding longer-term benefits to shorter cover in super. However, this needs careful structuring and advice to make sure the policies work together and benefits aren't reduced or offset.

- **Be mindful of policy lapses:** Once you have a policy, pay premiums on time. If you miss payments, policies can lapse after a grace period, and you might need updated medical evidence or a fresh application to restart the policy.

- **Health and lifestyle improvements:** If you originally got a policy with a loading and later your health improves (you lose weight, blood pressure normalises, or you quit smoking), inform your insurer or adviser. You may find that your premiums reduce.

Ongoing industry changes: The life insurance industry does evolve. For example, in recent years regulators (APRA) introduced changes to income protection insurance to make it more sustainable, which affected how new policies are structured.

Also, laws now ensure more transparency and fairness in claims handling. Staying informed via news or through an adviser helps. But don't worry - once you have a policy, major changes usually only affect new policies; your existing coverage is typically unchanged.

Don't hesitate to ask questions: If something isn't clear - whether it's a term in the policy, why a premium changed, or how to adjust something - reach out (to your insurer, super fund, or adviser). They have customer service teams to help policyholders. Make use of these services! It's important you feel confident and understand what you have.

NAVIGATING YOUR LIFE INSURANCE JOURNEY

Taking out life insurance is a responsible step in securing the financial future of you and your loved ones in the event of your death or if you suffer a serious life changing illness or accident. In Australia, there are numerous options and a lot of information, but hopefully this guide has explained the key points in a simple way.

TO RECAP:

- **Know the types of cover** (life, TPD, income protection, trauma) and match them to your needs.
- **Consider how to buy** - whether through a trusted adviser for a tailored approach or on your own via super or direct, understand the pros and cons.
- **Evaluate policies carefully** - look at what's covered, any exclusions, and ensure you're comfortable with the terms. Don't just chase the lowest premium; consider value and reliability.
- **Consider leveraging support** - advisers can add significant value. If going solo, learn from resources like this guide, MoneySmart, or comparison tools.
- **Keep your plan updated** as life goes on. Flexibility is key; your insurance should evolve as your life does.

In the end, life insurance is about peace of mind. It's one of those things you put in place hoping you never have to use, but if you do, you'll be immensely grateful it's there.

Whether it's protecting your family's home, providing for your children's education, keeping your business running, or simply ensuring you can focus on recovery from an illness without financial worry - the right cover can make a world of difference.

As you set out to arrange or review your life insurance, use this guide as a roadmap.

You don't have to figure it all out at once. Take it step by step, ask for help when needed, and you'll navigate the insurance journey with confidence. Your future self (and your family) will thank you for the foresight and care you're taking today.

REFERENCE SOURCES & FURTHER READING

1. **MoneySmart -** www.moneysmart.gov.au
Provided by ASIC, this site offers clear guidance on life insurance, super, and financial products for consumers. For Claims acceptance rates head to https://moneysmart.gov.au/how-life-insurance-works/life-insurance-claims-comparison-tool

2. **ASIC (Australian Securities and Investments Commission) -** www.asic.gov.au
Regulatory authority for financial services and responsible for overseeing insurance advice standards.

3. **CALI (Council of Australian Life Insurers) -** www.cali.org.au Industry body providing data, resources and insights about life insurance in Australia.

4. **APRA (Australian Prudential Regulation Authority) -** www.apra.gov.au Regulates life insurers and provides regular statistics on the life insurance market.

5. **ATO (Australian Taxation Office) -** www.ato.gov.au Offers guidance around tax treatment of premiums and benefit payments (e.g. income protection, super claims).

6. **FAAA (Financial Advice Association Australia) -** www.faaa.au Represents qualified advisers and sets standards for ethical and professional conduct.

7. **Life Insurance Code of Practice -** www.lifeinsurancecode.org.au Sets service standards that insurers must follow when dealing with customers.

8. **ATO Superannuation Information -** https://www.ato.gov.au/Super Offers details on default insurance in super, inactive account rules, and fund contributions.

GLOSSARY OF KEY TERMS

Beneficiary: The person (or people) who will receive the insurance benefit if you pass away.

Benefit Period: How long income protection payments will continue (e.g. 2 years or to age 65).

Duty to take reasonable care: Your legal obligation when applying is to take reasonable care not to make a misrepresentation. You need to answer the insurer's questions honestly and accurately, providing all relevant details that could affect their decision to insure you.

Exclusions: Conditions or events that are not covered under the policy. A specific condition or event that isn't covered by your policy.

Income Protection: Insurance that pays a regular income after an agreed waiting period if you can't work due to illness or injury.

Indexation: Automatic annual increases to your cover amount to keep pace with inflation.

Loadings: Extra cost added to premiums because of higher risk factors (like health or occupation). An extra cost added to your premium if the insurer considers you a higher risk.

Own Occupation vs Any Occupation: Different definitions of disability used in TPD insurance:

- Own Occupation: You can't work in your current job
- Any Occupation: You can't work in any job you're reasonably suited for

Pre-assessment: A preliminary review of your health, lifestyle and occupation before formal underwriting begins, often used by advisers to determine the best insurer and strategy for your application.

Premium: The amount you pay (monthly or annually) to keep your insurance active.

Premium Structure:

- Stepped premiums (now often called "variable age-stepped"): Start lower but increase each year with age
- Level premiums (now often called "variable"): Start higher but designed to remain more stable over time

Note: *Recent industry changes have updated the terminology for premium structures. Your existing policy might still use the older terms "stepped" and "level" premiums, but newer policies typically use "variable age-stepped" and "variable" respectively.*

Product Disclosure Statement (PDS): The document that explains all details of an insurance product, including what's covered, excluded, and costs.

Sum Insured: The total amount that will be paid out for a successful claim.

Superannuation (Super): A retirement savings account that often includes automatic or default life insurance cover.

TPD (Total and Permanent Disability): A type of cover that pays a benefit if you're permanently unable to work due to illness or injury.

Trauma Cover: Pays a lump sum if you're diagnosed with a specified serious condition, like cancer or heart disease.

Trustee (of a Super Fund): The organisation responsible for managing your super and approving claims.

Underwriting: The process insurers use to assess your health, job, lifestyle and risk before offering cover.

Waiting Period: The time you need to wait after becoming unable to work before insurance benefits are paid (common with Income Protection). The amount of time you must be off work before income protection benefits begin. Typically from one month, or as long as two years.

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