A Clear Direction Financial Planning

Level 19, 10 Eagle Street, Brisbane QLD 4000
scottk@acleardirection.com.au
(07) 3379 6068
ABN: 85 147 572 870

PERSONAL PROTECTION PLAN OVERVIEW

WHAT IS A PERSONAL PROTECTION PLAN?

A Personal Protection Plan (PPP) describes both what you feel are the most important elements of your family's financial future and how you can best insure these to occur. This is done through a process of knowing your current circumstances, what you desire for your family, and finally recommending insurance solutions that will provide the financial security you desire.

TYPE OF INSURANCE AVAILABLE

The types of life insurance protection that are available and regularly adopted within a family or individual's insurance protection are as follows:

- **Life Insurance** - this type of cover is designed to pay a lump sum, upon proof of death of the insured, to the policy owner or the estate of the deceased. Proceeds are generally tax-free in the hands of the policy owner or estate.

  Generally the most cost effective way to arrange this type of insurance benefit is yearly renewable Term Life Insurance.

- **Total & Permanent Disablement (TPD) Insurance** - this type of cover is designed to pay a lump sum upon proof of the insured being totally & permanently disabled, according to the policy definition, with the proceeds going to the policy owner. Again the proceeds are generally tax-free in the hands of the policy owner.

  Generally the most cost effective way to arrange this type of insurance benefit is as an addition to a yearly renewable Term Life Insurance.

- **Critical Illness (CI) Insurance** - this type of cover is designed to pay a lump sum upon satisfactory medical proof of the insured having suffered an insured, life threatening illness or traumatic injury, subject to the policy definition, with the proceeds going to the policy owner. Again the proceeds are generally tax-free in the hands of the policy owner.

  This type of cover is generally arranged on a yearly renewable basis and may in some circumstances be added to a Term Life Insurance policy.

- **Consolidated Life and Health Event** – this type of cover combines traditional Life, TPD and CI products into one simple alternative. The cover is broader than the traditional CI cover allowing for severity based assessments and multiple claims.

- **Income Protection Insurance (Salary Continuance)** - this type of cover is designed to pay a regular income for an agreed period of time in the event that the insured loses their ability to earn their income due to accident or illness, after an agreed exclusion or waiting period has passed.

  The policy proceeds are generally paid to the policy owner and they are taxable income.

  The benefit amount payable is up to 75% of your employment income, including superannuation. The waiting period is the time during which you self-insure. Normally the shorter the waiting period the higher the premium.

There are two styles of benefit, these are:

Agreed Value Benefit: Means that the monthly benefit received will be the amount upon which your benefits are based when you claim. Your benefit will not be reduced because your earnings are lower when you claim than they were when your policy was issued;

Indemnity Benefit: Means that the monthly benefit received may be reduced when you claim so that it does not exceed more than 75% of your earnings before the disability.

POLICY AND PREMIUM STRUCTURES – STEPPED VS LEVEL

Premiums

Premiums for insurance will vary depending upon the amount insured and the age of the insured person. Premiums may be increased for certain occupations, for dangerous pastimes or for some medical conditions.

Stepped versus Level - Protect Yourself Long Term

- Stepped Premium – Are less expensive at the start of the policy but they increase at a higher rate as you get older. With insurance that is yearly renewable using a stepped premium rate, the premium will increase each year as you become older. The premium will increase with your age even if there is no increase in the insured benefit.
- Level Premium – Are more expensive at the start of the policy but remain at a more constant level as you get older. Yearly renewable insurance with a level premium will not become more expensive with age unless cover is increased.

While stepped premiums are usually lower in the early years, level premiums can be a more cost effective option and make it easier to continue with your insurance for the long term. Level premiums are consistent over time, while stepped premiums increase dramatically as you get older.

Level premium does not mean that your premiums are guaranteed or do not change. Level premiums may adjust with rate, CPI and Policy Fee increase. However, unlike stepped premiums, they do not have age related increases.

The graph below illustrates a comparison between stepped versus level premium for an example 38 year old male. Please view the assumptions below.

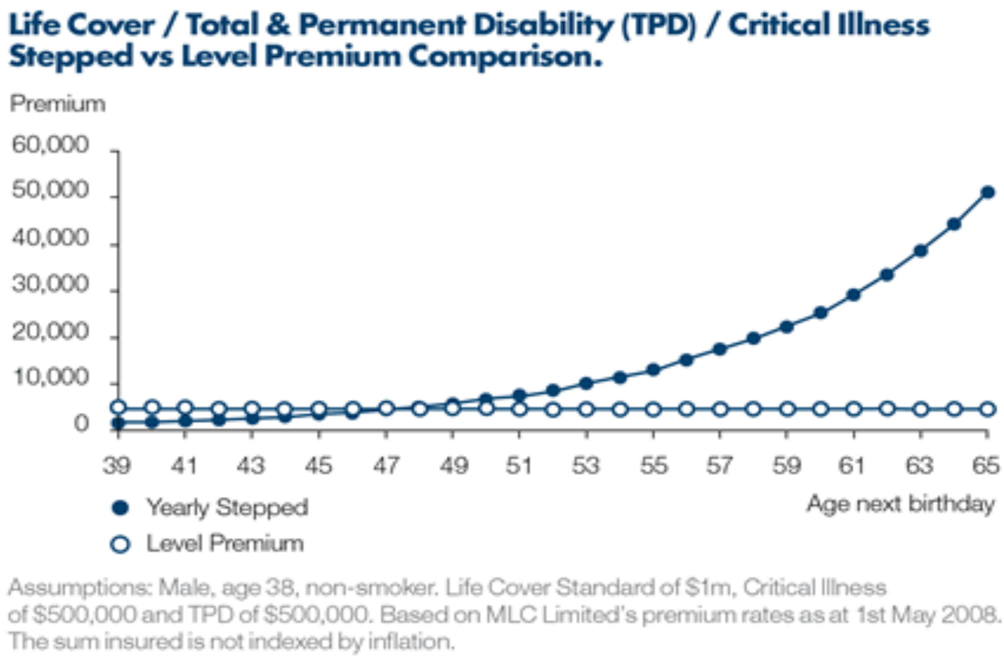

Chart sourced from MLC.com.au

OUR BASIS FOR SELECTING AND RECOMMENDING INSURERS

As your adviser, we feel it is our responsibility to explain our philosophy when firstly choosing and then recommending life insurers to adequately protect your family's financial needs.

In order of priority, we feel the following criteria should be considered when choosing a life insurer.

- **Assessing the Company's Capacity to Meet Claim Payments** – This is best assessed by considering the company's Standard & Poors credit rating.

  None of us would ever want to go through a HIH type experience.

- **Assessing the Company's Displayed Willingness to Pay Claims** – This is best assessed by the experiences of your broker.

  A low premium would be soon forgotten if a claim was denied or contested.

- **The Terms and Conditions of the Policy Being Offered** – Terms offered by the various life insurers vary significantly and it is vital to understand the precise extent of the cover that is being offered.

  Again a low premium would be no consolation for an unmet claim.

- **The Renewal Terms Offered by the Insurer** – Your ability to renew your insurance for as long as you wish is vital.

  We prefer to only recommend guaranteed renewable policies with an expiry date that is at or after your preferred retirement date.

- **The Current and Future Projected Premiums Rates** – Lastly, we believe that the policy offered must provide reasonable value for money.

Current & future projected premiums must be competitive even after taking into account all of the previous four criteria.

Based upon the above criteria, we believe that the only life insurers you should consider are Asgard, AMP, Asteron, Aviva, AXA, BT Life, Colonial, Comm Insure Prefsure, Macquarie Life, MLC, One Path, Tower and Zurich.

Each is either a major multi national life office, a major bank subsidiary or has a substantial global parent.

INSURANCE AND SUPERANNUATION

In many cases it is possible to fund Life, TPD and Income Protection insurance within the superannuation environment. It is important to understand all of the implications of this however, as there can be circumstances where although there are small ongoing benefits problems can occur if the insurance is claimed upon.

Benefits:

- Opportunity to reduce the net cost of insurance premiums.

Premiums for life insurance held outside of superannuation are generally paid with after-tax dollars.

However, where insurance is arranged inside a superannuation fund there is the opportunity to pay premiums from employer contributions that might be made from pre-tax income. With a cost saving on insurance premiums, there may be an opportunity to increase the amount insured.

- Reduce the superannuation fund’s taxable income.

Employer contributions received by a fund are generally subject to contributions tax. However, where life insurance premiums are funded from employer contributions (or salary sacrifice) the contribution is generally not subject to tax.

This is possible because the fund is entitled to a tax deduction for the insurance premium, which effectively offsets the assessable contribution.

- The fund can use the proceeds of the policy to commence tax effective superannuation pensions in favour of the client's spouse and young children.

The pensions paid to dependant children from life policy proceeds are partially tax free and partially taxed at marginal rates of tax (depending on the proportioning between taxed element of accumulations in the fund and the policy proceeds) or at 10% if the deceased was aged 60 or more at death. Note that, for taxation purposes, a child must be dependant upon the deceased if aged 18 years or more, and that dependency will be deemed to cease at 25 years of age, unless the child is totally and permanently dependant upon the deceased.

Further, the pension death benefit paid to the child must be commuted by the 25th birthday of the child. If the children are under 18 then the trustee of the fund will pay the pension to the children's parent/guardian to apply on behalf of the children.

- Possible tax rebates and concessions.

In addition to the tax effectiveness of employer contributions, a tax rebate is also potentially available for spouse contributions (where salary sacrifice might not available). To a lesser extent a tax rebate is available for non-concessional contributions made to a superannuation fund by low-income earners.

Important Considerations:

A lump sum death benefit paid to a financial dependant is tax free. However, where a death benefit pension is paid to a dependant where both the dependant and the deceased was aged less than 60 at the time of death, the assessable income of the pension which relates to the insurance proceeds (referred to as the untaxed element in the fund) will be fully taxed. The balance of that income will be tax free. Where either the dependant or the deceased was aged 60 or more at the date of death (or reach that age where the death benefit was paid to them earlier), the untaxed element in the fund will still be taxed but with an offset so that it is taxed at rate of 10%.

INSURANCE TERMINOLOGY AND STRUCTURE

Pure Risk Insurance

It is important to note that all of these policies are pure risk insurance, the same as house and car insurance. If you terminate your policy at anytime, there will be no cash value in the policy to be redeemed.

Underwriting

Underwriting is the process by which an insurer determines whether or not it will accept an application for an insurance policy. The underwriter only has one opportunity to affect the terms of a contract, so must collect all relevant information before making an assessment decision. Underwriting is designed to ensure premiums are appropriate for levels of risk.

The underwriter assesses information about the person to be insured based on the information contained in the application form. This means that not every person will undergo the same tests and the underwriter is relying on the basic personal statements to have been answered completely and accurately in considering what extra information should sensibly be required.

There will be times when the underwriter will require additional information and listed below are the most common sources of obtaining this additional information.

Additional questionnaires covering specific health or pastimes and pursuits (e.g. asthma and scuba diving)

Medical examination report (a full medical exam required by either the life to be insured's own doctor or one nominated by the life insurance company)

Report from life to be insured's medical attendant (in relation to previous consultations)

Additional specific medical reports (e.g. previous x-rays, electrocardiograms, blood tests etc.)

Policy Fees

All companies charge an annual fee (usually around $70) to cover their costs. Each year they can increase this by CPI.

General Exclusions

The underwriters may exclude certain conditions or activities from the cover that they offer. If this occurs, you will be informed of the exclusion. You will then have the right to accept the insurance (and proceed with your application) or decline (and withdraw your application).

Income Protection Exclusions

With income protection insurance policies there are general exclusions for war, suicide within 13 months of policy commencement, workers compensation for income protection and self inflicted injury. Please ensure that you read the relevant PDS to ensure you understand the relevant exclusions to your recommended policy.

Life Cover Exclusion

You will not be able to claim on the Life cover in the event of death by suicide for a period of 13 months from the commencement of the policy. Please ensure that you read the relevant PDS to ensure you understand the relevant exclusions to your recommended policy.

Critical Illness Waiting Period

Some critical conditions are covered only after a period of time, known as the waiting or qualifying period, has elapsed. This means that you are not covered for those conditions when they first appear, first happen or are diagnosed within the qualifying period after the Critical Illness insurance has begun, was last reinstated or increased.

Survival Period

Your Critical Illness policy includes a survival period. This means in order to claim the full benefit amount you must live for at least 14 days after suffering the critical condition.

CPI Indexation

Most policies provide for an automatic annual increase in cover to protect the benefits from being effectively devalued by inflation. If these increases are accepted by the insured then the premiums (both stepped and level) will increase to reflect this each year.

Buy back

Where you hold TPD or Critical Illness cover as an extension of your Life cover, should you claim on either your TPD or Critical Illness policy, your Life cover will be reduced by the value of the claim. In order to allow you to remain insured at your required levels, the Buy-back feature allows you to buy-back the cover that was lost and return your Life cover to the original levels. This feature allows you to retain the correct level of cover throughout the life of the policy for a slightly increased premium.

HOW DO YOU PAY FOR INSURANCE?

Once coverage is in place you will be charged a premium by the provider. This can be paid monthly or annually in advance with a discount applied to annual payments. The method of payment will depend on whether you hold the policy in or outside of a superannuation accumulation account.

HOW ARE FEES CHARGED BY A CLEAR DIRECTION FOR PROVIDING PERSONAL PROTECTION ADVICE?

The standard approach in the industry is for an adviser to receive a commission from the insurance provider based on the level of premium in force.

To remove any potential bias from the advice process, A Clear Direction will negotiate an annual fee with the client that will cover initial advice, implementation, review and claims support. The level of fee will be dependant on the scope and complexity of the advice sought by the client.

In order to spread the initial cost of advice across the life of the policy, the annual fee will be a flat amount. We guarantee that this fee will never be more than the commission that would otherwise be payable.

LOOKING FOR MORE INFORMATION

Please do not hesitate to get in contact to seek further information about how A Clear Direction can put in place for you a Personal Protection Plan:

Email: scottk@acleardirection.com.au

Ph: 07 3379 6068

Fax: 07 3303 0385

Address: Level 19 AMP Place
10 Eagle Street
Brisbane QLD 4000