

Under-covered?

Are Australians really as underinsured as the life insurance industry claims?

Andy Kollmorgen checks the data



There are a lot of warnings out there about Australians not having enough life insurance or related types of cover – and a lot of those warnings are coming from the insurance industry itself.

The online insurance information service Lifewise, for instance, cites data showing that half of industry superannuation fund members need at least \$100,000 more life insurance cover

than they currently have. “Australia has proved to be one of the most underinsured nations in the developed world,” Lifewise concludes.

It’s worth noting, however, that Lifewise is an initiative of the Australian life insurance industry. And the data came from a 2008 survey arranged by two other financial services industry heavyweights – the Australian Institute of Superannuation Trustees and Industry Funds Forum.

The survey also yielded a few other troubling facts about industry fund members:

- 74% are underinsured by \$100,000 for total and permanent disability (TPD)
- 45% are underinsured by \$1000 a month for income protection. ▶

SO JUST HOW MUCH LIFE INSURANCE DO YOU NEED?

Data from an independent Rice Warner report offers a guideline for two representative parenting life stages (see page 34). But figuring out the size of the life insurance payout you’ll need to cover your debts and household expenses, provide for your dependants and allow them to maintain the lifestyle to which they’re accustomed is not an easy calculation, since circumstances vary widely.

Many super fund websites provide calculators that can be a helpful, if inexact, tool. In general, you should aim to provide your survivors with

at least 10 times your annual salary, and also think about having enough to cover these five critical financial commitments in your absence:

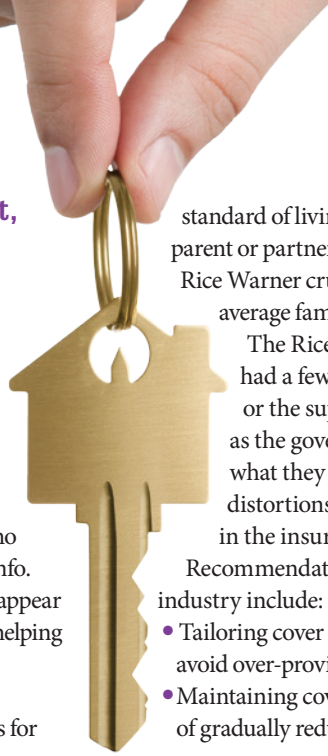
- Any remaining debts (such as credit card or car loans) and foreseeable expenses, including funeral costs
- Enough cash in a lump sum to make up for your lost income for a reasonable period of time (say, five to seven years)
- Enough to pay off your mortgage
- Educations costs for your children
- Enough to substantially fund your partner’s retirement

42%

Proportion of Australians with enough life cover for their survivors to maintain their standard of living

37%

Proportion of the working population with income protection cover*



They would say that, wouldn't they?

But are we really dangerously underinsured, or is this just a case of the insurance industry scaring us into buying more insurance? The perception that the industry is spruiking its products was recently raised by Brett Clark, CEO of insurance broker TAL Life, who told the industry website riskinfo.com.au that messages “which appear to be very self-serving” aren't helping the underinsurance problem.

It's also worth noting that financial adviser commissions for life insurance products are among the highest – generally between 90% and 110% of the first premium payment and up to 13% of annual premium payments until the policy matures, according to a recent Fairfax article.

Two more recent research projects suggest the industry has a point. A KPMG report found 55% of Australian employees were underinsured to the tune of a collective \$304bn – or 63% short of the coverage we should have. But once again, the report was commissioned by the Financial Services Council, which represents financial services providers, including insurance companies.

An independent view?

A Rice Warner report released in November 2013 backs up the KPMG findings, saying that unless you have a payout of close to a million dollars lined up, you may be underinsured if you want your dependants to be able to maintain their standard of living. Rice Warner's report was independently produced, “without funding or influence from the insurance industry”.

While the report shows the life insurance gap has significantly narrowed over the previous nine years, particularly for lower-income workers, it also says “the median level of cover is still only 64% of basic needs and 42% of the amount required to ensure that family members and dependents [sic] can maintain their

standard of living after the death of a parent or partner”.

Rice Warner crunched the numbers for average family scenarios (see below).

The Rice Warner researchers had a few recommendations for the super industry as well as the government, to reduce what they call “glaring distortions and inequities” in the insurance market.

Recommendations for the super industry include:

- Tailoring cover levels for younger ages to avoid over-providing life insurance cover
- Maintaining cover at older ages instead of gradually reducing it

- Encouraging fund members to keep their cover up to date by reporting life changes, such as having dependent children
- Increasing TPD/income protections to meet current needs

Recommendations for government:

- State governments should remove stamp duty from life, income and TPD protections provided by general insurers
- Remove GST on income protection and TPD insurance provided by general insurers
- Equalise the tax treatment of risk insurance inside and outside of superannuation

Insurance needs for parents aged 30



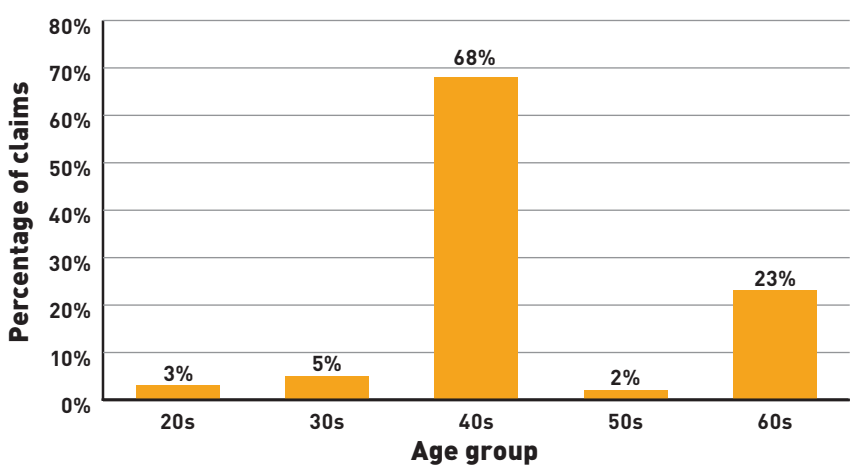
\$640,000 to provide a basic level of life cover
\$1,000,000 to provide an income replacement level of life cover
\$940,000 of TPD cover
\$4900 per month of income protection

Insurance needs for parents aged 50



\$420,000 to provide a basic level of life cover
\$650,000 to provide an income replacement level of life cover
\$670,000 of TPD cover
\$5600 per month of income protection

Percentage of trauma insurance claims by age group

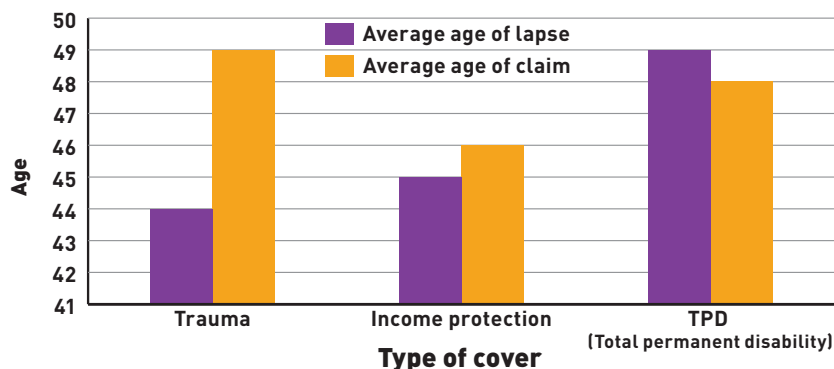


Bailing out too soon?

Research by Asteron Life (part of the Suncorp group) in 2013 suggested that Australians let their life insurance policies and related cover lapse about five years too soon, and that the vast majority of trauma, income protection and TPD claims are made by people in their 40s.

The average age at which Australians let their cover lapse is 44, Asteron says, while the average age at which claims are made is 49.

Average ages for letting risk cover lapse



Five things you need to know about life insurance

1 Duty of disclosure Insurance claims can be knocked back if you fail to disclose everything to the insurer. This includes information such as being a heavy smoker, being involved in risky sports or activities, having a serious health issue or a terminal illness, drug use or having a mental health condition. You can still likely get cover if you have a pre-existing condition, but you may have to pay more for it.

2 Work or recreational risk Some work or recreational activities are considered high risk by insurers and may affect your application for life insurance – but you still need to tell them about it. You'll still be able to get cover if you work in a dangerous working environment such as mining or construction, or are into bungee jumping or car racing, but be prepared to pay more for it. If you fail to divulge such details and meet your fate while involved in one of these risky activities, your beneficiaries may be left empty-handed.

3 Update your details It's all too easy to buy life insurance – or have it as a default inclusion with your super account – and then forget about it. But you should always keep an eye on your level of cover. If you take out a policy and then have children, move house or get a better-paying job, you may become underinsured if you don't make a change. It's also important to let your beneficiaries know you have a policy and how to contact the provider in the event of your death. ASIC holds unclaimed life money due from insurance companies or friendly societies for three years after the policy matures. ASIC's Unclaimed Money Search database goes back to 1952 for life insurance companies, and back to 2000 for friendly societies.

4 Understand your policy Every life insurance policy has its own inclusions and exclusions, so make sure you read and understand the policy documents or product disclosure statement (PDS). It's generally not good to wait to find out what is and isn't covered until after you file a claim. If you're covered under a group insurance plan through your superannuation fund, ASIC requires the fund to make your insurance benefits clear.

5 Binding nomination vs preferred beneficiary For life insurance inside superannuation accounts, it's important to make a binding nomination regarding who will receive the proceeds when the policy matures (i.e. when you die or are incapacitated). The alternative to this is naming a preferred beneficiary. In this case, the super fund manager can investigate to make sure there are no other eligible recipients, such as a former spouse. ■

SOURCE: ASTERON LIFE IMAGE: SHUTTERSTOCK

