

## Personal Risk Management

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### What is personal risk management?

A well-constructed financial plan has two parts – wealth creation and wealth preservation. Wealth creation is designed to build and preserve capital based on the assumption that you will have continued good health and live to a certain age. However, wealth preservation is transferring the risk to another party in the event that something may happen that will prevent you from meeting your long-term financial and lifestyle objectives.

Wealth preservation is known as risk insurance and is concerned with assessing your financial circumstances and ensuring that your assets and resources are protected. Risk insurance is a simple means of transferring risks from individuals who cannot afford to retain the risks, to insurers who can.

### Why have risk insurance?

Risk insurance management is important to relieve you and your family of the financial burdens associated with the loss of income if an event occurs such as death or permanent/temporary disablement. It provides peace of mind that you and your family are financially secure by providing an ongoing income source, debt repayment, a replacement housekeeper/nanny while your children are young, and possible funds to meet your children's future education needs.

### Why should a professional assess my risk insurance needs?

Given the complex nature of risk management, professional assistance should be enlisted to ensure that the correct type and amount of insurance is established. The type and amount of risk insurance will depend upon your personal financial circumstances and objectives, lifestyle needs, number of dependants and your age.

### What types of insurance are available?

The types of insurance policies available are:

- term life insurance,
- total and permanent disability,
- income protection, and
- trauma insurance

### Life Insurance

Life insurance provides financial protection in the event of death and the cost of the insurance depends on the type of cover selected. A regular review of your cover is necessary to ensure you are not under or over insured.

In determining the most appropriate policy, a balance must be achieved between affordability and the most favourable policy conditions.

To determine the amount of cover required, the following considerations are important:

1. Current levels of assets and liabilities.
2. Income required to maintain your family's standard of living.
3. Costs of a housekeeper, day care etc, should these services need to be provided.

Life insurance such as term insurance is usually taken out to repay debts, to cover dependants from the loss of an income provider and/or to secure a business.

## Total and Permanent Disability (TPD)

TPD is an additional cover to death cover and it is designed to provide a lump sum should you suffer an illness or injury which totally and permanently incapacitates you and prevents you from working again. TPD can be taken out to repay debts, to cover capital gains tax liabilities and to cover dependants from the loss of an income provider.

Before purchasing a TPD contract, you should establish the circumstances under which the insurance company will pay a claim, as the precise definition of TPD and the conditions that must be met to receive compensation vary considerably with different companies.

## Income Protection

An income protection policy will pay you an income in the event of being unable to work due to illness or injury. Income protection insurance replaces up to 75 percent of your monthly income for a specified period.

Income protection provides quality cover and a variety of additional features to give added protection and to help you get back on your feet in the event of a claim. The premiums you pay on this type of policy are tax deductible, and the income payments received under the policy will be assessable income for tax purposes.

## Trauma Insurance

Trauma insurance is a lump sum payment for those who suffer a specified traumatic event such as the diagnosis of cancer, coronary disease, etc. The specific purpose of this is to provide for medical treatment, child care and debt management.

The benefit on a trauma policy is that it is paid to you when the diagnosis is confirmed, not when you die of the condition. This is important because it provides you and your family with a lump sum to use at your discretion, when it is most needed. It may be needed to pay for the additional medical care, or perhaps to pay the mortgage to relieve the financial pressure on the household.

## Why should you read and understand the contract?

When you take out insurance cover you should obtain the policy contract and read it thoroughly to ensure you understand exactly what the policy is insuring you for. If you are unsure about any aspect of the contract, ask your financial adviser to explain anything that you do not understand. This will help you avoid any complications that may arise if you or your estate should need to make a claim on the policy.

## Why participate in ongoing reviews?

As your wealth grows as a result of the implementation of your financial plan and your personal circumstances change, your need for insurance cover may decline or increase over time. Therefore, it is beneficial to periodically review your insurance cover.

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