# Life insurance: personal risk protection

Factsheet
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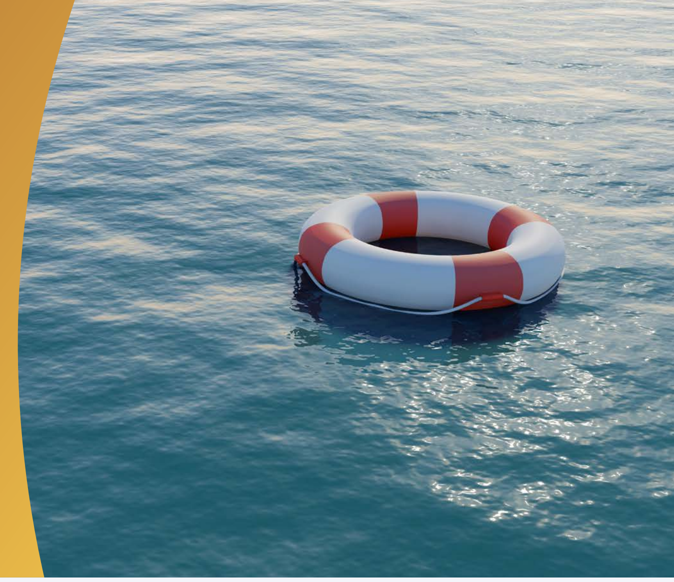

**It is commonly known that life insurance is there to protect against the risk of illness, injury and death. This factsheet explores the concept of risk, its relationship with life insurance and what is involved when developing a risk protection plan.**

## What is Personal Risk Protection?

There are two types of risks in life; speculative risk and pure risk. Speculative risk is the possibility of gain or loss e.g. investing in a business or property where you will either make a profit or loss.

Pure risk is the possibility of loss or no loss e.g. a tragic life event happens, bringing about financial consequences, or a tragic life event does not occur.

Personal risk protection deals with pure risk – mitigating against financial loss should a tragic event occur and is commonly associated with life insurance policies. This includes policies for:

- Life cover
- Total and permanent disability (TPD) cover
- Trauma cover
- Income protection cover
- Practice expense cover.

Before you seek such life insurance policies it is prudent to have a risk protection plan.

## What does a personal Risk Protection Plan involve?

Risk protection planning involves identifying you and your family's financial risk exposure in the event of death, disability or serious illness, and subsequently enacting a risk protection plan in the event the risk exposure becomes reality. Your risk protection plan needs to cover the allocation of adequate and appropriate resources to fund specific future needs (the risk exposure).

### Example: having a family home with a mortgage

You have a family home with a mortgage. Your income is needed to meet mortgage repayments and maintain standard of living. In the event of your death, the risk exposure is the possibility of mortgage default and a compromised standard of living for your family.

If you want to maintain the family home and standard of living for your family, you will need to have a risk protection plan to cover your risk exposure. This plan could involve using your emergency funds and disposal of liquid assets.

Where you do not have sufficient disposable assets such as savings or sufficient assets to sell to mitigate against the risk exposure to you and your family, you can either absorb the risk and hope for the best (not ideal) or mitigate part of the risk via purchasing personal risk protection policies with a life insurer.

The next page provides a summary of the main types of life insurance policies.

The following forms of life insurance policies generally provide lump sum payments, subject to the terms, conditions and exclusions of the relevant policies.

| | Life cover | TPD cover | Trauma cover |
|---|---|---|---|
| What is it? | A lump sum paid by the life insurer upon death or terminal illness. Depending upon the structure of the policy, the premiums can be tax deductible. | A lump sum payable by the life insurer in the event you are totally and permanently disabled due to illness or injury and cannot return to work, for gain or reward. | A lump sum payable by the life insurer in the event you suffer a specified medical condition. |
| Who needs it? | Anyone who has dependents or debts. | Anyone who has dependents or debts. | Anyone who doesn't have liquid assets readily available to meet short to medium term needs such as medical expenses. |
| Why would you have it? | You have people that depend on you financially, or if you have debts and have assets you wish to leave behind to family. You want to secure your family's financial future. | You can't work again and need capital to meet immediate expenses such as medical or home modification costs and require ongoing income to survive.<br>You will have greater expenses and medical bills. You want your family to maintain their lifestyle even if you can't work. | Additional expenses are incurred when you have a major illness and you need financial resources readily available.<br>You may need time to recuperate without financial stress.<br>You may need to significantly restructure your lifestyle. |

The following forms of life insurance policies generally provide income stream payments, subject to the terms, conditions and exclusions of the relevant policies.

| | Income protection cover | Practice expense cover |
|---|---|---|
| What is it? | A replacement income paid by the life insurer as a monthly benefit if you can't work at full capacity or at all, due to illness or injury. | A replacement income paid by the life insurer as a monthly benefit to cover practice fixed expenses (e.g. rent, wages for support staff etc.) in the event you can't work at full capacity or at all, due to illness or injury. |
| Who needs it? | Anyone who would find it difficult to maintain their financial commitments and standard of living without their ongoing income. | Anyone who would find it difficult to keep funding operating costs without their regular income. |
| Why would you have it? | You need to maintain your standard of living but don't have endless savings to replace your regular income.<br>You want to protect the income you earn or have a family to provide for. | You don't want to have to resort to temporary closure of your practice and you want to maintain wages for your support staff.<br>You don't want to incur creditor debts upon your recovery and return to work. |

Below is a case study of a couple with a risk protection plan in place.

## Case study

Ana, a general practitioner, and Derick, a cardiologist in private practice own their principal home with a mortgage and have one son in secondary school and two daughters, one starting secondary school next year and the youngest in grade 5. They have four investment properties with mortgages and each have superannuation to which they are proactively contributing. They have savings aside, equivalent to six months of income for emergencies kept in their home loan offset account.

The investment properties, along with superannuation, are investment assets forming part of their long-term wealth creation plan. The children will ultimately inherit the properties as Ana and Derick don't foresee the property market will get any easier for their children to enter.

Derick loves his work and intends to remain working, although he would gradually transition out of surgical hours to consultancy work from age 65 onwards. Ana would like to get involved more with philanthropic projects after their youngest completes secondary schooling.

### Risk assessment

In the event of death, serious illness or injury, to either Ana or Derick, it is important to them that their children can continue with their schooling, all properties are maintained, and the family's standard of living is not diminished. This however cannot be achieved on either single income alone. Therefore, the family has risk exposure in the event of death, serious illness or serious injury.

In constructing a risk protection plan, Ana and Derick realise they do not have sufficient liquid assets to mitigate such financial risk and decided to defer some of this risk to a life insurer.

### Risk protection plan

Ana and Derick both obtained income protection cover and, in addition, Derick obtained practice expense cover as they are not in a financial position where they would get by without ongoing income.

They also obtained Life and TPD cover to provide for debt discharge, school fees, funeral expenses and supplementary income for the short-term to medium-term period to assist the surviving spouse.

Although Ana and Derick had savings, they decided six months' worth of income was not a sufficient cash buffer in the event either one was diagnosed with a major medical condition. They wanted peace of mind that in the event of serious illness they would have the financial resources to seek the best possible treatment. Although there is equity in their properties they did not want to be dealing with loan applications during such an event.

## How can Doctors Wealth Management assist you?

This factsheet provides an overview only of some of the notable aspects of formulating a risk protection plan.

For professional advice that will confirm the appropriate form of risk protection for your circumstances and ensure that it is structured correctly to achieve your objectives, contact the expert team at Doctors Wealth Management.

You can find additional resources and information about Doctors Wealth Management at **avant.org.au/doctorswealthmanagement** or call **1800 128 268**.



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