Fact sheet

180 YEARS | Australian Unity Real Wellbeing

What is Personal Insurance?

Having adequate personal insurance cover provides you and your family with financial protection in the event of unexpected death, illness or injury.

Types of personal insurance

There are four types of personal insurance cover for different situations. These descriptions are general, so you should refer to the product disclosure statement for the full terms and conditions of your policy or speak to a financial adviser.

Life insurance

It pays a lump sum in the event of your passing. Some policies may pay a benefit if you are diagnosed with a terminal illness and have less than 24 months to live. It can help provide financial security for loved ones as they can receive a financial payment.

Total and permanent disablement (TPD) insurance

It pays a lump sum if you suffer a permanent disability that prevents you from ever working again. Becoming totally or permanently disabled can prevent you from earning an income at a time when you have additional expenses to cover such as medical and/or rehabilitation costs.

Income protection insurance

It can pay up to 75% of your pre-disability income if you are unable to work due to sickness or injury. It can help maintain your lifestyle and ensure your cash flow needs and expenses can continue to be met during a period where you are unable to earn an income.

You can usually choose a waiting period (this is how long you must be unable to work before the insurance begins to pay you) and the benefit period (how long the policy will pay you if you are unable to work).

The premiums are usually tax deductible which can help make cover more affordable.

Trauma insurance

It pays a lump sum to help you recover from a traumatic event such as a heart attack, cancer, stroke or paraplegia. It can be taken as a stand-alone policy or may be attached to a life insurance policy.

Did you know...

Research published by Rice Warner indicates the underinsurance gap has widened since 2017.

Underinsurance refers to inadequate insurance coverage which can cause financial hardship[1].

Your personal insurance needs

You'll need the right amount and the right type of insurance to ensure you and your loved ones are looked after financially if something happens to you. Consider the different types of insurance you might need, what you'll be covered for and how much you'll be paying in premiums.

To help you determine your personal insurance needs, consider the following:

- Day-to-day living expenses
- Outstanding debts e.g. mortgage, credit cards, personal or car loans.
- Cost of urgent or ongoing medical care e.g. operations, specialist care, medication, rehabilitation services, support of a carer.
- Funeral expenses
- Available savings, investments and superannuation
- Paid leave entitlements if you were injured or became ill and unable to work
- Government support and workers compensation
- Cost of home renovations or medical aids if you were to become less mobile

Your financial adviser can help identify the type of insurances you need and determine the amount of cover that is suitable for your circumstances.

How insurance premiums are calculated

Insurance premiums vary based on whether you have insurance through your superannuation, or if you apply for insurance directly or through a financial adviser.

When determining your premium, your insurer will consider several factors including your age, gender and potentially your health and lifestyle. You may be asked to provide additional information or undertake a medical assessment. Using this information, the insurer can accurately assess your risk and set your premium.

Depending on the type of insurance purchased, you can generally choose to pay either stepped or level premiums:

- Stepped premiums are recalculated at each policy renewal, usually increasing each year based on the higher chances of claim as you age.
- Level premiums ensure your insurance premium does not go up by age-related increases and your benefits remain the same.

[1]Underinsurance in Australia 2020 – Rice Warner.

Your choice of premium type has an impact on how much your premium will cost now and in the future.

You may be asked to provide additional information or undertake a medical assessment. Using this information, the insurer can accurately assess your risk and set your premium.

Regardless of whether you have stepped or level premiums, when you renew your insurance each year your premiums may vary due to rate increases, inflation, policy fee increases or if you add additional insurances to your policy.

Duty of disclosure

If you want to purchase insurance, you must comply with the Duty of Disclosure. The Duty of Disclosure is outlined in the Insurance Contracts Act (1984) which is Commonwealth legislation and it applies to all types of insurance.

Duty of Disclosure is a legal principle meaning that you must tell the insurer anything that you or a reasonable person in your circumstances would know and which is relevant to the insurer's decision to offer a policy to you.

The Duty of Disclosure applies whenever you apply for insurance, wish to change an existing policy, or renew a policy.

You do not have to tell the insurer anything which reduces the risk in offering cover to you. You do however need to tell it anything that you know might increase its risk in insuring you.

There are serious consequences if you withhold information when asked. In the worst-case scenario, the insurer may refuse to pay a claim and treat the contract as if it never existed. In other instances, the life office may reduce the amount you have been insured for or vary the insurance contract in a way that places the insurer in the same position you would have been in if you had disclosed everything you should have.

What happens if your insurance lapses

If you allow your insurance to lapse (or expire) you are no longer covered and may not be able to get the same level or for the same price again in the future.

If you want to take out cover a second time, you may need to go through an underwriting process. As your health can change over time, this could lead to exclusions (conditions that do not trigger an insurance payment) or increased costs.

It's not just the breadwinner who needs personal insurance

Families typically insure the breadwinner, but many do not insure the homemaker. However, if the homemaker dies and is not insured, the breadwinner and their children could be left financially vulnerable. Could the breadwinner afford to take extended time off work or take a less demanding but lower paying job to look after the children? Or could the breadwinner afford to hire a carer to look after the children?

If you are partnered and have dependents, it is important to ensure your partner is also insured. In the event either of you were to pass away, become injured or unable to work, access to a financial lump sum or ongoing income can help ensure your dependants are provided for.

For more information, please also refer to 'Common personal insurance questions' and other fact sheets available on the Client education website.

Visit us at
australianunity.com.au/advice
or call 1300 700 189

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