Colonial First State

We want what you want

Educational Series

What's your most valuable asset?

Is it your home, your super, or even your car? You may be surprised to learn that your most valuable asset is probably you!

'A 35 year old who receives an average salary of $50,000 each year over their working life would need a lump sum of around $1 million[1] to replace that income.' says Deborah Wixted, a Senior Technical Services Manager with Colonial First State.

What will happen to you or your family if you're no longer around, or can't work? Can you replace your lost earnings? Will the mortgage be paid? It's not a pleasant thought that your family would have to sell your home if they couldn't make ends meet.

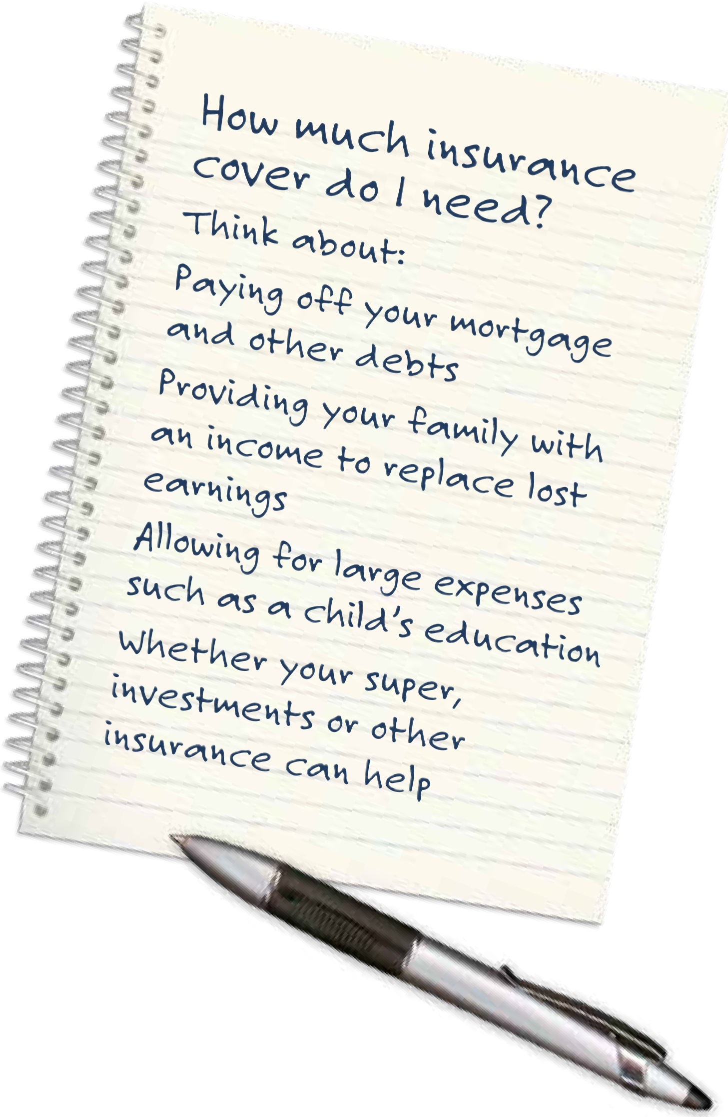
Unfortunately, while most of us will happily insure our car and home, we seem less than happy to insure that very valuable asset, ourselves. Just 55% of Australians have life insurance and 31% have income protection insurance[2].

Even if you do have insurance, you may well be underinsured. Average group life cover falls about $165,000 short of the amount of the average new mortgage[3]. It's probably no surprise then, that studies[4] have found that 60% of Australian families with dependent children will not be able to support the family on their insurance payout for more than one year.

You may feel uncomfortable thinking about insuring yourself and push the idea aside. After all, insurance gets paid when something unexpected and painful happens. But not thinking about life insurance may leave you and your family facing further painful financial consequences. Having sufficient insurance cover may help you avoid this.

How much cover do I need?

How much cover you need depends on your own situation. Deborah Wixted explains: 'You'll need to take account of your income and expenses, assets and debts, your family situation and age.' Some experts[5] recommend you'll need cover of around 10 to 13 times your taxable earnings if you're in your mid thirties with young children. If you're in your mid forties with older children, you'll need cover of around 6 to 9 times your taxable earnings. Your financial adviser can discuss these things with you and make a recommendation about the level of cover that's right for you.



1 Present value of $50,000 annual income from age 35 to 65, at a discount rate of 3% pa.

2 TNS/IFSA, Investigating Income Protection Insurance in Australia (July 2006).

3 IFSA Life Insurance Headland Statement (July 2007).

4 Underinsurance Key Facts, IFSA (August 2005).

5 RiceWalker Actuaries, for IFSA Cost of Underinsurance Project – Analysis of Life Insurance Needs (May 2005).

Can I arrange my insurance through my super?

If you've got some cover through your employer super fund, you're off to a great start. This can be a cost-effective way to arrange your insurance. This cover is often a fixed amount, so you'll need to check how much you've got and whether you can increase it. You should also check what happens when you leave your employer, as you may lose your cover.

You can also take out your own cover, through a policy in your personal super fund. This can be a good option if you're self-employed, can't increase your cover in your employer's fund, or need more flexibility. You can take this cover with you from job to job.

Some other advantages of taking out insurance in your personal super fund include:

- you can pay for the premiums out of your super benefits rather than from your after tax income, and
- if you're self employed, or employed and salary sacrificing, you can claim a tax deduction for your personal contributions or salary sacrifice contributions. This can be a tax-effective way of affording insurance.

What kind of insurance is usually available in super?

Death cover leaves your beneficiaries with a lump sum to help cater for their financial wellbeing in the event of your death.

Terminal illness benefits are a pre-payment of your death benefit if you have a terminal illness.

Total and permanent disablement (TPD) cover pays you a lump sum if you are totally and permanently disabled through illness or injury.

Salary continuance/income protection cover can provide you with a financial safety net of up to 85% of your salary if you are disabled due to illness or injury.

How can I change my cover?

If, after discussing your insurance needs with your financial adviser, you need to increase your cover or apply for a new policy, you will need to complete an insurance application form and questionnaire from a current Product Disclosure Statement. Further medical evidence to complete your insurance application may be required.

You can decrease or cancel your cover over time. It's important to note that if you wish to increase your cover again later, you will generally be required to provide medical evidence.

How can I find out more?

You should check with your current super provider on the amount and details of insurance cover held.

If you hold an existing super product with Colonial First State you can find out how much insurance cover you've currently got by checking your statement, by logging on to FirstNet and checking your 'Insurance details' in 'Account administration' or by calling our Investor Services team on 13 13 36[6]. For assistance with deciding on the type and amount of cover you need, we recommend you speak to your financial adviser.

6 Investor Services does not provide financial advice. Please speak to your financial adviser.

Need more information?

Please speak with your financial adviser or visit our website at colonialfirststate.com.au. Alternatively, you can contact us:

Enquiries about existing investments, please call 13 13 36

Enquiries about new investments, please call 1300 360 645

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