Life's super lessons

Nick Bruining

'I need a hand sorting things out because I don't know where to start," said the man on the phone.

While there's many a new client who starts a conversation with those words, sometimes the circumstances can just take your breath away.

A mum in her 30s, two gorgeous little girls, and this dad who's just been told his wife has breast cancer with the brutal prognosis that it's unlikely she will survive.

WA Police sergeant Rebecca West's battle with cancer ended with her death on April 19, 2012.

While Rebecca's achievements in tackling domestic violence have been widely recognised in the community with a women's refuge named after her, her husband Brett Claughton and daughters Lily, 8, and Lola, 7, have battled on for four years with only memories.

However, their struggle has been made less difficult than it otherwise would be thanks to Rebecca having good life insurance through her police super fund with GESB. The payout helped cover the costs of renovating the family home and clearing the mortgage.

"I don't think people realise how much stress you are under during those periods," Brett said. "You don't want to have financial stress when your partner is dying.

"Without that insurance, we would have had to sell the home that we all love and that relocation, added to pain of losing Bec, would have been unbearable."

Thankfully, many of us will never have to make a claim on our death cover, but the Claughtons' experience highlights the risks that we all face.

A young family's risk is broad. In a practical and financial sense, it is the loss of someone who helps run the household, a second breadwinner to generate sufficient income to meet the mortgage payments, school fees, holidays and the weddings to come.

Beloved: Brett Claughton with his daughters Lily, 8, and Lola, 7, and a picture of his late wife Rebecca. Picture: Bill Hatto

It is why we need to take so much more interest in our life insurance.

Whether it is built into our super funds, a standalone policy taken out through an adviser or even purchased through a television advertising campaign, the simple purpose of life insurance is to provide a lump sum cash payment on the death of the insured.

It can turn a deceased estate worth a few thousand dollars into several hundred thousand.

We can argue about the most effective way to buy life insurance cover and those cost differences, for the same end benefit, can vary by as much as 50 per cent depending on how it's done.

And insurance should be about getting as much bang for our buck as we can manage.

At the very minimum, we should have life cover that provides the resources, when added to the assets accumulated in life, to ensure our loved ones are provided for.

YOU DON'T WANT TO HAVE FINANCIAL STRESS WHEN YOUR PARTNER IS DYING.

The allocation between insurance and other assets in providing that total asset base is an important fundamental concept to remember.

When we're young with little to draw on, most of the estate would be met through insurance. At this stage in life, premiums are cheap. Hundreds of thousands of dollars of cover can cost the equivalent of a coffee a week.

As we age and wealth increases, insurance cover can reduce. That's fortunate because the older we get, those premiums escalate.

The premium for someone in their 50s is about five times the slug on someone in their 30s.

Yet all this becomes irrelevant if the dreaded call comes. Brett, Lily and Lola are living proof of the difference life insurance can make.

"You can never imagine what might happen and no matter what things you might be forced to cut back on in tough times, never, never stop the insurance," Brett said.

A really bung idea

FROM **P1**

cover that, with an ill-considered stroke of a pen or rushed exit from the workforce, can disappear and may be impossible to get again.

"When the government and superannuation companies say 'consolidate, consolidate' they are not thinking about the implications for insurance," West Perth financial planner Marijana Ravlich said.

"You might have got those insurance policies when you were in your thirties before you had that bung back, bung knee and a bit of cancer. You never cancel any policy before you do a full analysis."

It is not just closing a policy that creates problems. Retiring or leaving a company that has a good corporate super scheme also has implications.

Veteran financial planner Danny Maher currently has a seriously ill client who, like many women, had numerous jobs. Mr Maher said she has already collected a TPD payout from an industry super fund and he is now hoping her employment records will help locate other funds she might have opened as she moved from job to job and which might contain more insurance.

He said many people had super accountants whose value in insurance benefits were significantly more than the investment balance of the fund.

"Don't close your super fund before seeing someone — even if it is an adviser of the fund you want to consolidate into," said Mr Maher, who heads Cairns-based independent group Fiducia.

"If they get you to consolidate without taking into account the insurance you are losing, then you have a comeback if something goes wrong."

And, as Ms Ravlich points out, don't close your existing super funds until you are certain that any new or replacement cover is fully active.

Think thrice before heeding consolidation calls

Bruce Brammall

It's time to debunk a dangerous, omnipresent truism of financial advice.

"Consolidate your super."

The advice is portrayed as gospel. Question it and you're an idiot, wasting money, lining the pockets of super funds.

But, sadly, the "free advice" masquerading behind this truism is potentially fatal, financially.

Ever considered consolidating your super funds? The following story should scare you witless.

A WA mum-of-two was recently sent a letter by the Australian Taxation Office. She had two super funds, one of which hadn't received contributions for years.

The tax office suggested she sign a "super consolidation" letter and the tax office would organise for the "unloved" fund to be consolidated with another government fund.

The client did just that. The tax office duly organised a "rollover" to close the account and transfer the balance to the other super fund.

The mum did the right thing, didn't she? The tax office was doing the right thing? All sounds perfectly reasonable, doesn't it?

No. Not for this mum. Signing and returning the document was about to cost her family $1 million.

Yes, ONE MILLION DOLLARS.

The tax office didn't know the following facts when it sent the letter. But it's why these letters need massive warnings, or should possibly be banned.

Fact one

The fund the tax office suggested she close currently holds $850,000 worth of life and TPD insurance, taken out to protect her and her family.

Fact two

In 2014, the client had been diagnosed with cancer. In 2015, she was in remission.

Fact three

In 2016, within weeks of returning the form to the tax office, her doctor announced the cancer had returned. Viciously. It had now spread to other organs. She has been given five years to live.

THERE IS NOTHING MORE IMPROBABLE THAN GETTING INSURANCES WHEN YOU'RE TRULY NOT HEALTHY.

It turned out her "super consolidation" instructions had been acted on. She was in the process of having $850,000 of life insurance cancelled — an unmitigated disaster for her husband and two children.

I'm not suggesting the tax office should have known about her cancer. But the law that allows this "pseudo-advice" to be offered by super funds and others, including the tax office, needs urgent change. Possibly, it should be banned.

When the tax office, or any other super fund (they all do it), make offers to save Australians money on "lost" super funds, the warnings need to be stronger than simply hyperbole about the benefits of fee reduction by consolidating super.

In this mum's case, assuming a five-year lifespan, she might save around $600 to $700 in fees. But her family would miss out on a life insurance claim exceeding $1 million.

Thankfully, the disaster was discovered in time. The money was returned to the original super fund before the insurance was cancelled.

If you have ever received an offer — from anywhere —to consolidate your super, don't blindly sign the paperwork and send it back.

If you have multiple super funds and are considering consolidation, here's what to do:

First, consider your health. Is there anything that might make it hard to get insurance?

Thing about your circumstances. Do you have a spouse/partner, kids, big debts? Do you need cover? Does your family need you insured?

Call the funds to check how much insurance you have with each of them.

Only then can you make a decision as to which super fund to keep, or to switch to.

If you can't be bothered making the calls . . . get some help, from a financial adviser with insurance experience. Why? There is nothing more improbable than getting insurance when you're truly not healthy. Which, ironically, is when you're most likely to need it.

But those funds that have offered you insurance in the past can't simply cancel it on you.

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