GETTING SUPER-INSURED

Mike is 46, earns $131,000 a year and is self-employed. His marginal tax rate is 39%. He needs a payout of $500,000 to pay debts and look after his family if he dies prematurely.

	Fund via super (personal concessional contributions)	Fund via non-super policy (after-tax dollars)
Insurance premium (A)	$706.15	$706.15
Tax payable (B)	$105.92 Contributions tax = $706.15 x 15%	$451.47 Income tax at 39% means Mike needs to earn $1157.62 gross ($1157.62- $706.15 = $451.47)
Credit for the fund deduction for the premium (C)	$105.92 (Deduction = $706.15 x 15%)	Not available
Gross cost to individual (A+B-C)	**$706.15**	**$1157.62**

Numbers talk: go inside super

Ben Harvey

Saving hundreds of dollars a year usually involves something unpalatable like drinking cleanskin riesling or holidaying in a tent.

Well, here is a tip from the *Your Money* team that will justify many times over the $1.50 you paid for this edition of *The West Australian*: use your superannuation fund to pay your life insurance premiums.

Many super funds have their own insurance arms and you can take out a policy directly with them. Alternatively, you can give your own insurer the authority to deduct premiums from the fund. Not every insurance company does this but most bigger ones do.

Once you have set up the deductions you need to make a choice: allow the premiums to come from your super principal, which will free up immediate cash flow but erode your nest egg over time; or salary sacrifice an amount to cover the premiums.

Paying with salary-sacrificed before-tax dollars will keep our nest egg growing and save a bundle compared with paying the usual way with after-tax dollars. Have a look at our fictional case study "Mike" above. Now, not everyone is the same, but when you see that "Mike" saves more than $440 a year by paying his premiums through super (he doesn't care about eroding his nest egg) you can understand he is smiling for reasons other than having a dishy wife.

Janean Hicks, a financial adviser with South Perth firm Legacy, told *Your Money* there were four benefits to paying from your super.

■ Cash flow: Protect your day-to-day cash position by deducting premiums from your super balance.

■ Tax effectiveness: If you don't want to eat into your nest egg you can salary sacrifice extra super contributions to cover the premiums — which means you pay with pre-tax dollars.

■ Automatic acceptance: You often do not have to undergo a medical examination to get cover.

■ Lower cost: Insurance inside super is often at group rates.

Ms Hicks said there were downsides. "If you have insurance inside super by the super fund and you change employers, you may have to apply for new insurance," she said.

"A new insurer may look at your health history and you may not get the insurance or it may cost more. Insurance outside super means you can be insured regardless of where you work."

She urged people insured inside super to check the rules regarding the beneficiary of a payout.

Single life can lead to little death

Undoubtedly the best time in life to take out plenty of insurance is when you are young, healthy and, most probably, single.

While the last thing on the minds of many people early in their working life is insuring themselves against death or disability, it is the time when you are least likely to have any medical conditions that will make insurance costlier or subject to exclusions.

Financial planner Marijana Ravlich said a man or woman in their mid-twenties should get plenty of income protection, trauma and total and permanent disability insurance in case something goes wrong in their active life.

The Life Financial Planners chief said they should also get a big whack of death cover just in case they settle down with a partner, buy a house and maybe even start a family.

"If you want to get it down the track, it will be a lot harder if you have had any ill-health," she said.

With a mixture of insurance inside and outside superannuation, a 25-year-old male chartered accountant earning $80,000 a year could be well covered for $160 a month, with all but $45 coming out of their superannuation.

This would give income protection insurance cover for 75 per cent of their salary, a $1.5 million death benefit, $1.5 million in total and permanent disability and around $300,000 of trauma cover, according to Life Financial Planners figures.

By age 35, at least three out of 10 men would have had cancer, a heart attack or stroke — likely making them uninsurable for those events in the future. By the time a woman gets to age 35, there is a 25 per cent chance she will have had a cancer or heart condition.

Ms Ravlich said that if someone hit age 40 and they were happily single with no children, they could consider slashing their death cover but keep loads of trauma, income protection and disability cover. "You want to make sure you are not a burden on anyone else," she said.

Looking at the case of a single woman aged 45 earning $90,000 and with a $300,000 mortgage, Life Financial estimates her income protection insurance would cost her around $250 a month, trauma cover of $250,000 would cost around $110 monthly and total and permanent disability for $750,000 would cost around $750,000.

This could help pay for home care, as well as pay out the mortgage and bankroll required modifications to the home, according to Ms Ravlich. A little death cover could pay funeral expenses and provide time for heirs to sell the house.

Neale Prior

Straight talk from one of the nation's top financial analysts and humbug detectors

DEBTMAN

with Bruce Brammall

A welcome paddle when up a creek

"Hi, I'm Bruce Brammall. I'm a Shit Creek paddle salesman. When you're really up Shit Creek, I'll be the there to hand you the paddle. If you die, I'll look after your family. If you have a big accident, I'll look after you. If you're deathly ill, I'll get you out of the crap."

Welcome to the "elevator pitch" of a life insurance adviser. It's the best line I've heard in this industry. Sure, it's catchy. Sadly, it's true.

It would be theft to use it without attribution. And like the crackdown on download pirates — I have to give credit where it's due. It came from a South Australian adviser called Lucas Barsby.

But, like Lucas, I do "sell" life insurance. (I hate that word "sell".) Insurance is, or should be, about one-third of what a financial adviser does. (The other two-thirds are investment and superannuation.) But the figures suggest it isn't.

Life insurance, advisers are told, is "sold" to clients. It's a grudge purchase.

Nobody actually *wants to buy* insurance. They buy it because they've received the hard sell.

Bollocks. I've never understood this. I don't understand why people feel they have to be sold insurance.

Let me tell you something. There is nothing in my life that I love more than Mrs DebtMan and our DebtKids. Everything, even my love of beer, which would probably run next, has daylight streaming between it and my family.

And here's something else for free. If something happens to me tomorrow, I want Mrs DebtMan (and me if I'm still around) to be able to give our kids the life we've always talked about giving them. If I die tomorrow — Mrs DebtMan, that's not an invitation to go bat-crazy with a saucepan on my scone — my beautiful family will be ok.

Why? Because I've got life insurance. Enough to make sure the home loan and all of our other debt is paid out. And then some. My little DebtKids will go to private school. Mrs DebtMan will be able to stay home to care for them — if I'm dead and DebtBoy and DebtGirl don't have a dad, that's what I'd want her to do.

If I have that big car accident and end up in a wheelchair, or if my somewhat unearthly love of pizza causes me a heart attack …

Or, if some tropical disease picked up in the wilds of South America keeps me bedridden for a couple of years … I'll survive, financially.

Because I've covered my ass(ets) with insurance.

There are four types of life insurance, covered in detail elsewhere in *Your Money* today. But, roughly, they are life, total and permanent disability, trauma and income protection.

How much should you have? Try this instead: "How much do you love your family and your lifestyle?"

Here's what I generally recommend.

For those with young kids (say, under 12):

■ Life and TPD: About 12 times your income for both. Do it in super. Salary sacrifice contributions to cover the extra cost.

■ Trauma: Double your income, or $200,000, whichever is greater.

■ Income protection: 75 per cent of your income, plus super contributions, through until age 65, outside super.

As the kids get older, as the mortgage reduces, your investment assets grow in value, your super begins to look a bit valuable … then you start to cut your insurances.

But while you're young, get loads. It's cheap as chips when you're under 40, even 50.

Do you do it yourself, or get a professional in?

I've been doing this financial professional caper for 15 years. Before that I was a journalist.

I've always said that if I ever decided to go back to journalism, I'd continue to look after my own investments and super forever.

But I would go and see an insurance adviser every time. Insurance, particularly for those with even minor health conditions, is complex stuff. And a professional will prove their worth.

"Whatever excuses you may have for not buying life insurance now will only sound ridiculous to your widow." Unknown author.

Forgive the Shit Creek paddle salesman. For any line he uses to get you covered properly with insurance, it will be worth it.

Bruce Brammall is the author of Mortgages Made Easy *and managing director of Bruce Brammall Financial (brucebrammall.com.au)*