



Imagining the unthinkable: Patrick Canion has made plans to protect his children Charlotte, 23, and Alex, 26. Picture: Michael O'Brien

# Picking up the tab if things go wrong

**Neale Prior**  
Personal Finance Editor

While the grief that comes with losing a child is unimaginable to those of us who have not endured it, financial planners know full well the financial and lifestyle toll of death at life's various stages.

It is something that veteran financial planner Patrick Canion, the head of Subiaco-based ipac WA, contemplated last year as he was watching the premiums on his own life insurance surging as he headed towards 50.

With his mortgage paid off and his wife Sue, a successful career woman, Mr Canion realised that some of the biggest potential threats to their finances and lifestyle came from their son Alex, 26, and Charlotte, 23.

The former national director of the Financial Planning Association had seen many cases of the retirement, finances and lifestyle plans of loving parents thrown into disarray by one of their grown-up children dying or being incapacitated.

"God forbid, if anything were to happen to them it would be me picking up the tab," Mr Canion said.

Grandparents can be left to look

## THE COST OF GOOD POLICIES

Based on: Female, non-smoker, aged 25 with level premiums for \$500,000 of cover.

■ **Company:** TAL  
**Product:** Accelerated Protection – Life Insurance  
**Annual Premium:** \$291.50  
**Canstar Rating:** ★★★★★

■ **Company:** OnePath  
**Product:** OneCare – Life Cover  
**Annual Premium:** \$312.51  
**Canstar Rating:** ★★★★★

■ **Company:** ClearView  
**Product:** LifeSolutions – Life Cover  
**Annual Premium:** \$328.83  
**Canstar Rating:** ★★★★★

after grandchildren who had a parent die without adequate life insurance, or elderly parents can be looking after a child who was no longer able to work because of a serious disability.

Mr Canion has cut in about half his own life insurance policy, a stepped policy that rises in premiums every year and will rise exponentially in his sixth decade.

Mr Canion used a big part of the premium savings to take out sizeable life insurance policies for Alex and Charlotte in what is known as a level premium policy.

A level premium policy maintains the same premium throughout the insured person's life, meaning they do not cop the big premium hikes that come later in life. Mr Canion said level premiums for young people were particularly competitive right now.

Basically, Mr Canion will be paying more upfront but the premiums will probably be level pegging or even cheaper when he hands them over in a decade or so.

West Perth financial planner Marijana Ravlich takes a similar view to Mr Canion about the risks presented by her daughters, Michela, 27, and Madeleine, 25.

"If you've got kids and something stuffs up in their lives, you are the first port of call," Ms

Ravlich said. "You are going to pay for it."

The Life Financial Planners chief has taken a slightly different approach to insuring against the unthinkable. She has made sure that Michela and Madeleine have plenty of life, income protection and total and permanent disability insurance inside their super.

Ms Ravlich said she recently had to rethink and rejig the cover for her daughters because of changes to rules covering insurance held in superannuation.

Among other things, the changes could affect the conditions of releasing TPD payments and the calculation of the sum insured for income protection insurance.

Ms Ravlich's daughters now have a portion of TPD and income insurance outside their superannuation. She is happy to cover the stepped-premium life insurance policies, rather than costlier level premium policies.

"It's cheaper now," Ms Ravlich said. "I've got love but I don't have that much love."

Alex Canion, who is the bass guitarist for the band Voyager, said he appreciated the value of insurance from his former day job deciding general insurance claims. "He's going to take out a hit on me," Alex joked of his dad.

## FUNDAMENTALLY SPEAKING

**Ben Harvey**  
Group Business Editor



# The ABCs of ABPs

Account-based pensions, previously (and sometimes still) called allocated pensions, are devices financial planners often use to convert your superannuation nest egg into usable cash.

They are completely different to the government age pension because they are drawn from your own super. Your account-based pension is your own money, not Centrelink's.

They are used widely because the payments are not taxed — nor are the earnings within the fund (these earnings come from the returns from the investments which form your super fund).

Each week or each month, an amount of money is taken from your nest egg and paid to a nominated bank account. It can be set up through your super fund — simply ring them to organise it. Better still, if you have a financial adviser, get them to handle it for you.

You have to draw down a minimum amount from the fund each year. How much depends on your age — it is 4 per cent for under-65s rising to 14 per cent for those aged over 95 (Federal politicians must think we will go on a shopping binge when we near 100).

The government insists minimums are drawn to stop account-based pensions being used as tax rorts. Essentially, they want you to spend it all by the time you die.

The minimum drawdown is calculated on the July 1 balance and that amount must be paid by June 30 each year. Where the account-based pension starts mid-year, you can pro rata the payment.

Income from account-based pensions should last as long as you do, which won't happen if your earning rate is less than your drawdown rate. And there's the rub: if you have a few bad years of returns, you will soon eat into the nest egg's principal, reducing future returns.



Catch Your Money on 96FM each Monday morning.



## Q&A with Nick Bruining

**Q. I have an investment property which generates about \$400 a week and wish to keep this in retirement. However, I am uncertain about how it will be assessed by Centrelink. The property is valued at \$600,000 but has an interest-only mortgage of \$200,000 at 5.5 per cent.**

**A.** Centrelink determines your pension rate by applying a means test which looks at assets and income. Whichever test produces the lowest pension is the one used.

For investment properties, Centrelink assesses the net income receipt, which in your case is likely to include the gross rent, less real estate agent charges, rates, insurance, maintenance and the interest cost.

The asset-test treatment is much more complicated. If the \$200,000 mortgage is secured against the investment property alone, then the total value will be offset by the mortgage, leaving a net figure of \$400,000.

However, if the loan is secured entirely

against your own home, then because the loan is secured against an exempt asset (your home) no offset is available and the full \$600,000 will be assessed.

If security is against both properties, Centrelink will perform a calculation that essentially looks at the total values of both properties and apportions the mortgage accordingly.

Please email your questions to our finance experts at [yourmoney@thewest.com.au](mailto:yourmoney@thewest.com.au) Nick Bruining is a WA financial adviser