Understanding Insurance

VERSION 1.0 | NOVEMBER 2024

Abstract

Managing your finances to meet your day-to-day requirements as well as your long-term goals can be a complex task. There are all sorts of issues you need to consider such as taxation, legislation, protecting your wealth and assets, associated costs and the inherent risks of investment. When undertaking a financial plan, it is important you understand how these issues will impact you and what you should expect over time.

Your financial adviser will provide you with a Statement of Advice (SOA) which sets out the details of the advice and how it will meet your goals and objectives. This document provides some additional information to help you understand the financial planning concepts discussed in the SOA in relation to INSURANCE.
Please contact your adviser if you do not understand anything or need further clarification.

AIFP PERSONAL RISK LIMITED T/A FG LIFE (FSP1003239) (NZBN: 9429050586899)

Disclaimer

This document has been published by AIFP PERSONAL RISK LIMITED T/A FG LIFE for use in conjunction with Statements of Advice prepared by its Financial Advisers/Authorised Bodies with whom it has a commercial services agreement.

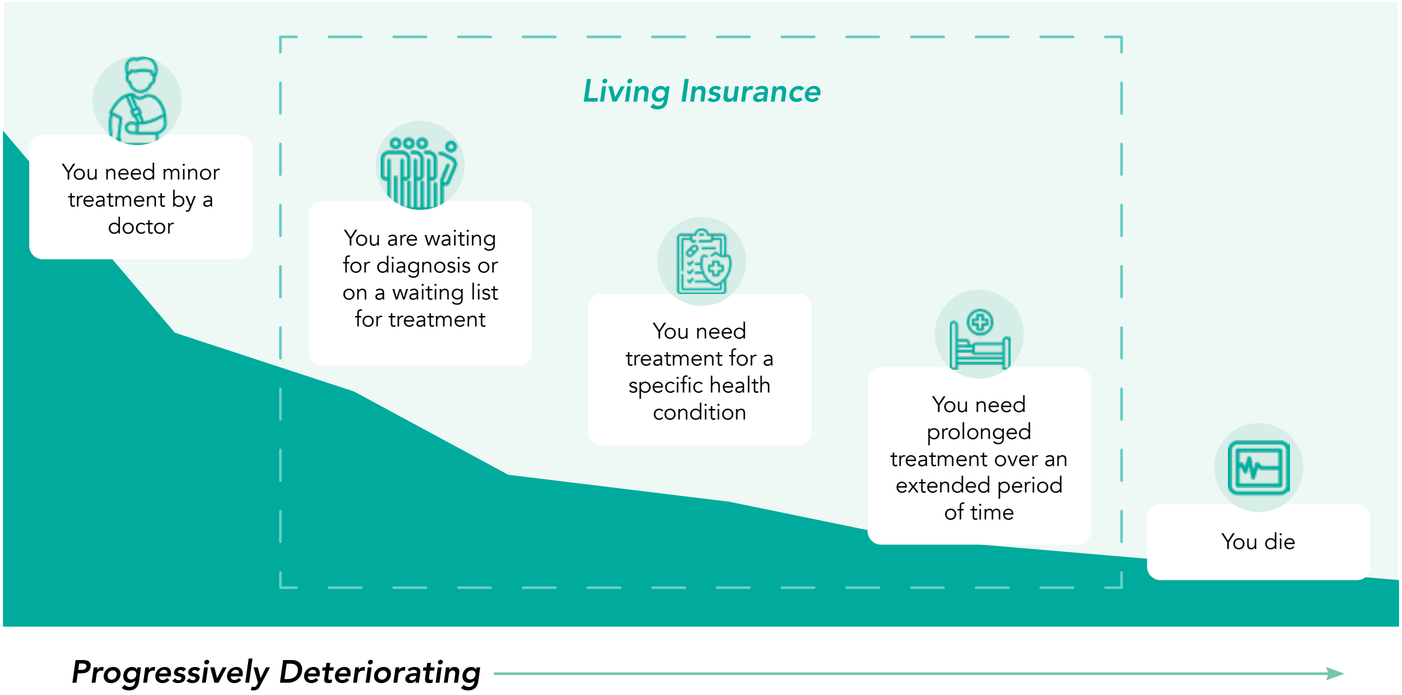
This document contains general information about the benefits and risks associated with certain product classes and strategies.

Before making a commitment to purchase or sell a financial product, you should ensure that you have obtained a Statement of Advice that is based upon your personal circumstances.

Table Of Contents

What Protection Do Clients Need ?

Different life insurance products are designed to protect you from different events that can occur:



What Life Insurance Covers ?

- *Life cover* — pays a lump sum when you die;
- *Total and permanent disability (TPD) insurance* — pays a lump sum to help with rehabilitation and living costs;
- *Trauma insurance* — covers you if you're diagnosed with a major illness;
- *Income protection insurance* — pays some of your income if you can't work due to illness or injury; and
- *Mortgage protection insurance* – pays some of your income if you can't work due to illness or injury, you don't have to have mortgage to have this insurance.

What To Check Before You Buy Life Insurance ?

Before you buy life insurance, your adviser must give you a product brochure.
Check the product brochure for:

- what's covered and what's excluded under the policy;
- what information you'll need to give an insurer;
- information on premiums and how they change over time;
- waiting periods before you make a claim;
- how to make a claim; and
- how to complain about the claims process or decision.

Term Life Insurance

Term Life insurance protects your family and dependants by paying a lump sum if you die, or in some cases, the benefit can be paid earlier if you are diagnosed as being terminally ill.

Benefits

- Cover the cost of funeral expenses
- Repay your mortgage, credit card and other debts so you can pass on the full value of assets to your dependents
- Generate an ongoing income stream to help your family to meet their future living expenses and maintain their lifestyle
- Set money aside for future education costs for your children or grandchildren
- Enable your estate to treat your beneficiaries equitably without the need to sell particular assets
- Make charitable bequests
- Cover other expenses such as childcare and housekeeping

Without insurance, your family or dependents may need to run down their savings, sell assets, and/or rely on family or work and income for assistance. They may also find it difficult to maintain their standard of living.

How it works

Besides death, wherein the beneficiary on your life insurance policy gets paid automatically, some life insurance policies will pay out some or all of the life insurance cover if a doctor signs off that you are terminally ill.

Consequences

- For self-owned life cover, if you do not nominate a beneficiary, the proceeds will form part of your estate and will be distributed in accordance with your Will. Directing proceeds to your estate may provide the opportunity to use a inheritance trust to provide a tax-effective future income for dependants particularly if you have young children or grandchildren.

- No death benefit will be paid if death is due to suicide in the first 13 months or if you do not fully disclose all required information.

- To be eligible for payment as 'terminally ill' a doctor must certify you have less than a set number of months to live, usually 12.

- It's important to seek professional legal advice and consider your overall estate planning position to ensure your wishes are carried out upon your death.

- You should always carefully read the Product Disclosure Statement (PDS) and policy document for your selected insurance policy and keep these documents in a safe place.

Total and Permanent Disablement (TPD) Insurance

TPD insurance protects you and your family by paying a lump sum payment if you suffer a total and permanent disability and are permanently unable to work.

Benefits

It is important to work out individually what you need to protect and how much cover you need. But the lump sum payment can be used for goals such as:

- Reduce or clear your home loan and other debts
- Cover medical and rehabilitation expenses
- Generate on ongoing income stream to help you to meet your future living expenses
- Employ paid carers
- Pay for modifications to your home or vehicle
- Set money aside for future education costs for your children Protect your long-term wealth accumulation strategy.

Without insurance, your family or dependents may need to run down savings, sell assets, and/or rely on family or Work and Income for assistance. You may find it difficult to maintain your standard of living or pay for the care and medical assistance you need. This can place extra stress on you.

How it works

To receive a TPD payment, you must meet the definition in the insurance policy you select. Some policies require that you are unable to work in any occupation for which you are 'reasonably suited by training, education or experience' while other policies may provide cover if you are permanently unable to work in your own occupation.

Generally you need to be working but you may also obtain policies that cover other modified definitions. These might trigger payment if you lose limbs or your sight or are unable to undertake activities of daily living unassisted. This may provide cover for homemakers or others who are not working.

TPD cover under an 'any' occupation definition is less expensive than cover under an 'own' occupation policy but it could be more difficult to meet the requirements for a successful payment because the insurer may take into account other training and experience you may have when determining the extent of your disability.
The 'any' occupation definition may be suitable for you if you have only ever worked in the one occupation or you want the less expensive option.
The 'own' occupation option may be suitable for you if you have the cashflow to afford the higher premium and want the more flexible definition, or you have had a varied or specialist occupation history.

- *Stand-alone TPD Cover* - You can buy TPD insurance as a stand-alone policy that includes just TPD cover and no death cover.

- *Linked TPD Cover* - You can also purchase your cover so that it is 'linked' to your Term Life or Trauma Insurance. With 'linked' covers, if you make a TPD (or Trauma) claim and the claim is paid, the other two cover levels may reduce by this amount. Linking your covers in this way can reduce the cost of your TPD insurance. Most policies include 'buy-back' options to regain the reduced cover amount after a period of time has elapsed.

Consequences

- Benefit payment is usually excluded if you become totally and permanently disabled as a result of war (or act of war) or a self-inflicted act.

- You should always carefully read the Product Disclosure Statement (PDS) and policy document for your selected insurance policy and keep these documents in a safe place.

Trauma (or Critical Illness) Insurance

Trauma insurance protects you by paying a lump sum if you suffer a major illness or injury such as cancer, heart attack or stroke.

Benefits

It is important to work out individually what you need to protect and how much cover you need. But the lump sum payment can be used for goals such as:

- Pay for your treatment and care
- Gain access to the full range of rehabilitation services
- Relieve financial pressure by reducing debt
- Allow your spouse to take time off work to be with you or look after the children
- Employ a carer, nanny or home help
- Fund the gap between what you earn and cover from income protection
- Give flexibility to amend your lifestyle or spend more time with family.

How it works

What conditions are covered?
The actual conditions covered vary between insurers but generally include:

- Blood disorders including aplastic anaemia and medically acquired HIV
- Cancer
- Heart conditions including heart attack and coronary artery bypass surgery
- Neurological conditions including multiple sclerosis and stroke
- Permanent conditions such as blindness and loss of limbs
- Organ disorders including chronic kidney and major organ transplant.

For a trauma claim to be successful the diagnosis must meet the policy definition of the condition as outlined in the insurance contract. For example, it is not sufficient to be diagnosed as having cancer. You must meet the definition in terms of type and severity.

- *Stand-alone Trauma Cover -* You can buy Trauma insurance as a stand-alone policy that includes just trauma cover and no death or total and permanent disability (TPD) cover. These products have a 'survival period' and no benefit is payable if you do not survive this period.

- *Linked Trauma Cover -* You can also purchase your cover so that it is 'linked' to your death or TPD insurance. With 'linked' covers, if you make a Trauma claim and the claim is paid, the other cover levels will reduce by this amount. Linking your cover in this way can reduce the cost of your trauma insurance. Most policies include 'buy-back' options to regain the reduced cover amount after a period of time has elapsed.the claim is paid, the other two cover levels may reduce by this amount. Linking your covers in this way can reduce the cost of your TPD insurance. Most policies include 'buy-back' options to regain the reduced cover amount after a period of time has elapsed.

Consequences

- You will not be able to claim a trauma benefit if you suffer certain conditions within a certain period (Usually 3 months) from the date the policy commences or you do not fully disclose the required information.

- You should always carefully read the Product Disclosure Statement (PDS) and policy document for your selected insurance policy and keep these documents in a safe place.

Income Protection Insurance

Income Protection Insurance protects you by paying an ongoing income if you are unable to work due to illness or injury.

Benefits

Income protection cover pays an ongoing monthly benefit to protect:

- Your lifestyle by replacing your lost salary so you can continue to meet your living expenses and debt repayments, and
- Your wealth by reducing or removing the need to sell assets to generate cash.

Without insurance, you may need to run down your savings, sell assets, and/or rely on family or Centrelink for assistance. You may find it difficult to maintain your standard of living or pay for the care and medical assistance you need. This can place extra stress on your recovery.

How it works

You can usually apply for cover of up to 75% of your earnings. For business owners this is income after business expenses but before tax. The payments are taxable income but tax may not be deducted from each payment. So you should seek tax advice and make sure you set aside money to pay your tax liabilities.

The amount you receive may also be reduced if you receive payments from sick leave, social security, workers compensation or other legislative sources.

Agreed Value or Indemnity -

You can obtain your income protection cover under an 'Agreed Value' or 'Indemnity' policy. Under an Agreed Value policy, you will receive the agreed monthly benefit at the time of a successful claim, regardless of the amount you are earning at that time. With an Agreed Value policy you are required to provide proof of income at the time you apply for cover. This may suit you if your income fluctuates over time, you are able to substantiate your income and want peace of mind at time of claim.

With an Indemnity' policy the amount you receive at the time of a successful claim will be assessed on the basis of your earnings in the 12 months prior to the disability. You will need to provide proof of income at time of claim and if your income has reduced you may receive less than expected. This may suit you if you have a stable income and are likely to be able to easily substantiate your income at the time of claim, your occupation does not allow an Agreed value policy, or you have only recently established your business and do not have two years of financial evidence available. The premium for an Indemnity policy is less expensive than an Agreed Value.

Waiting and Benefit Periods -

In the event of a successful claim, benefit payments do not start immediately; a waiting period will apply during which no benefit is payable. The waiting period can be as short as 14 days or as long as two years. When choosing a waiting period, it's important to take into account any sick leave and related benefits provided by your employer. The shorter the waiting period, the higher the premium.

The maximum period of time that payments continue is called the benefit period. A range of benefit periods are available - some as short as one year, with the longest continuing through to your 65th or 70th birthday. In general the longer the benefit period, the higher the premium.

Optional benefits -

Income Protection policies may offer important options including:

- An Increasing Claims option that ensures benefit payments are indexed in line with inflation
- Other ancillary and rehabilitation benefits.

Consequences

- Benefits are paid monthly in arrears so your first payment would be received one month after the end of your waiting period.
- Benefit payment is usually excluded if you suffer sickness or injury as a result of war (or an act of war), a self-inflicted act, or uncomplicated pregnancy.
- You should always carefully read the Product Disclosure Statement (PDS) and policy document for your selected insurance policy and keep these documents in a safe place.

Mortgage Protection Insurance

Mortgage Protection Insurance is disability insurance that pays a tax-free monthly benefit if you cannot work due to an accident, sickness or mental illness to pay your bank debt or rent & living costs.

Benefits

- You can use the benefit to pay your rental property or mortgage repayment.
- Tax-free monthly payout
- Gives you money while sick or after an accident

A short-term or long-term disability can quickly deplete your cash reserves, leaving you vulnerable financially. And if your doctor has given you an unfavorable medical diagnosis or has experienced an accident, disability insurance will help protect your assets and equity.

No Offsets: Pays even if ACC pays -
A disability can have a significant negative impact on your cash reserves and financial situation. Mortgage Protection Insurance pays even if you receive an ACC disability benefit, potentially resulting in two payments.

Financial wellness and independence -
It is estimated that three of five New Zealanders will suffer a major illness in their lifetime before reaching retirement age, leading to extended time off work. Sickness or disease affects people of all ages, demographics and professions.

How it works

- Mortgage protection insurance pays you an agreed sum each month if you cannot work.
- The payout can cover up to 115 per cent of your mortgage repayments or 45 per cent of your taxable income.
- The benefits payout can last until you turn 65, but a shorter benefit period, such as two years, is far less expensive.

Health Insurance

All New Zealand residents/citizens currently have a level of medical cover through the public system. Under public system, the Government covers your medical expenses in a public hospital. However, you do not have your choice of doctors and where your condition is not life threatening, you may experience lengthy waiting periods.

Private health insurance gives you the opportunity to choose your doctor and hospital, and can ensure you avoid waiting periods for elective surgery. Depending on the policy, private health insurance may also cover expenses relating to dental, physiotherapy, pharmacy and optical needs.

Be aware

- Health insurance does not have option of level premiums.
- There are different add on options to the Health Insurance e.g., specialist, GP, dental/optical.
- You can have different excess options ranging between $0 to $10,000 (depending upon the insurance policy). Higher the excess, lower the premiums are.

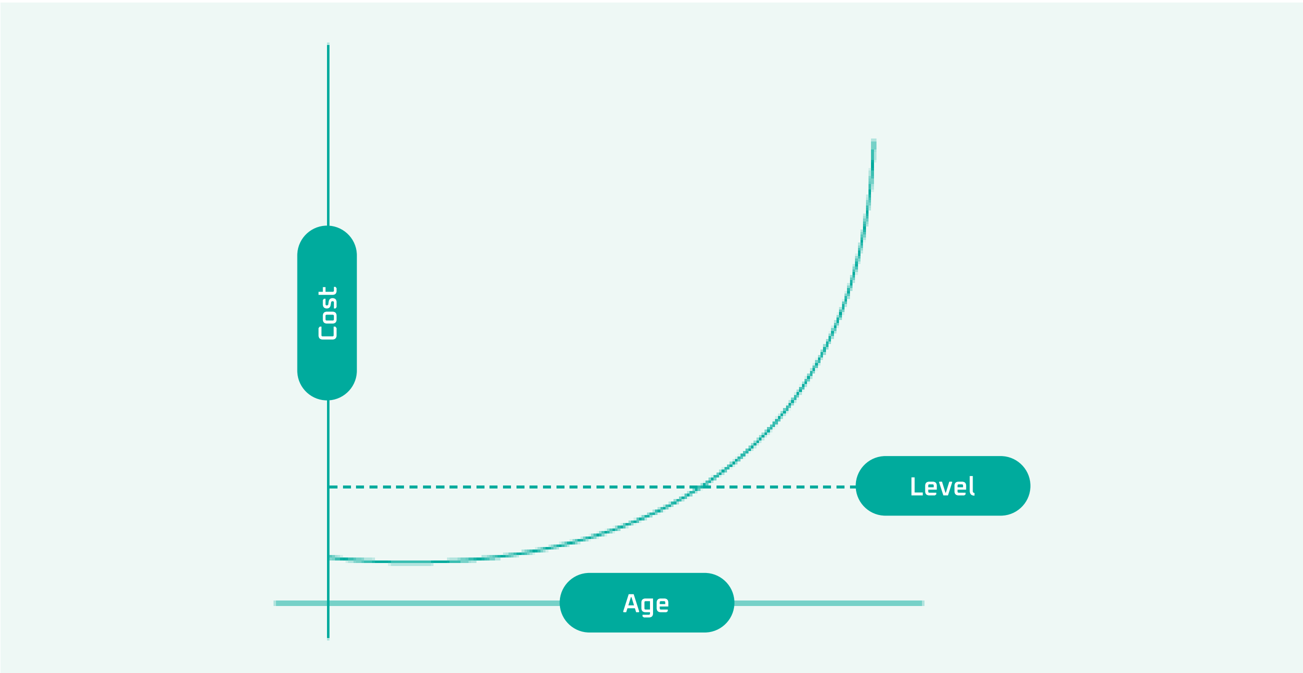
Premium Structures

When taking out insurance, there are generally two ways you can pay your premium.

- *Stepped premium* — Your premium increases every year with your age as well as annual inflationary and policy fee increases.

- *Level premium* — Your premium generally does not change (with the exception of annual inflationary and policy fee increases) and is based on your age when the policy commences.

While stepped premiums are usually lower in the early years, level premiums can be a more cost-effective option if you retain the insurance over a longer period. If insurance cover is only required for a short timeframe, a stepped premium may be more appropriate and cost effective.



*This graph is for illustrative purposes only and does not take into account inflation or general policy fee increases on premiums.

Level premiums are dearer than stepped premiums at the start.

However, as stepped premiums increase as you get older, level premiums are generally consistent over time and can end up cheaper – often at the stage in life when you need cover the most.

The premium savings in later years can make up for the additional payments in earlier years – saving you money over the life of the policy.

Combining stepped and level premiums

Just as you can opt for a combination of fixed and variable rate home loans, you may want to take out part of your insurance using stepped premiums and use level premiums for the rest. This way, the premium in the earlier years will be lower than if you opt entirely for level premiums.

Over time, you can reduce your stepped premium cover as you build up more assets and potentially need less insurance. As a result, you could end up paying level premiums on most (if not all) of your insurance in the later years and benefit from the lower premium costs associated with level premiums at that time.

Level vs Stepped Premiums

- The earlier you 'lock-in' the level premium the greater the potential long-term savings. This is because level premiums are generally lower if you take out the insurance at a younger age. However, as you approach age 65, the difference between the two premium structures diminishes for new policies.
- Level premiums are generally not guaranteed to remain the same. Level premium rates may increase over time due to annual inflationary and policy fee increases. However, unlike stepped premiums, level premiums are not subject to age related increases.
- Level premiums can make budgeting easier because you know with greater certainty what your insurance is going to cost.
- The maximum age you can start a policy with level premiums is generally lower than for stepped premiums.

Illustration

You are 35, your partner is 33 and you have two kids ages 7 years & 10 years.

You have a mortgage of $700,000 owing on your house.

	Age	Income			Expense
		Gross p.a.	**Net p.a.**	**Net p.m.**	**Monthly**
You	35	$75,000	$55,985	$4,665	
Your Partner	33	$75,000	$55,985	$4,665	
Total		**$150,000**	**$111,970**	**$9,330**	**$7,500***
Savings	**$50,000**				

*Monthly expense includes mortgage repayment of $5,000

Scenario 1 (No Insurance)

You meet with an accident and are off work for 6 months. You require hospitalization and surgery costing $70,000 including a rehabilitation program.

You have 4 weeks sick and annual leave accumulated. ***After 4 weeks:***

- The household income drops to $4,665 a month.
- Your wife must take leaves to take care of you and that could further reduce income
- You can't even afford to repay the mortgage without digging into your savings.
- All your savings will be used in your treatment.
- You will either need to sell your home, downsize, or top up the mortgage (increase debt) to pay for expenses.
- You could get some loan from family or friends to meet the expenses

Scenario 2 (Fully Insured)

Everything else remaining the same, now imagine this -
After 4 weeks:

- You continue receiving 75% of your income
  (You Have Income Protection)
- You don't have to pay anything, besides a small excess, for your treatment
  (You Have Health Insurance)
- You don't need to worry about mortgage repayments
  (You Have Mortgage Repayment Cover)

Now imagine after six months, due to some complications, your condition becomes such that your doctor tells you won't be able to work again.

- You get paid a lump sum amount to pay-off your mortgage or plan for your future
  (You have Total and Permanent Disability Insurance)

Five years have gone by and you have your life on track with everything been taken care of. You are unfortunately diagnosed with cancer and the doctor tells you that you have less than a year to live.

- You are paid a lump sum amount which will ensure that your family is financially secure and can afford to pay for your kids' education and can have the life you would have wanted them to have.
  (You have Life Insurance)

Government Support And Its Impact

In the event of disability, you have following government support.

ACC (Accident Compensation Corporation)

If injury is within New Zealand, ACC can assist with following:

1. The cost of medical treatment and other rehabilitation service.
2. Weekly Income Support: up to 80% of net taxable income or income cover structured under the plan of ACC cover plus extra.
3. Rehab programs to help injured person to get back to work or live independently.

ACC does not cover following:

- Non-occupational gradual process injuries
- Ageing process
- Illness
- Injury to teeth arising from their natural use
- Hernia by coughing or sneezing
- Stress (unless related to sexual abuse, personal injury, or traumatic event at work).

Impact on the Insurance Cover Recommended:

In event of disability due to accident, Income Protection Cover will be partially impacted depending upon the sum insured under cover plus extra.

There would be no impact of a WINZ benefit paid on any lumpsum benefit received by you e.g., life cover, TPD or trauma type claim payments. TPD payment will not be impacted by any government levy.

Government Support And Its Impact

In the event of disability, you have following government support.

ACC (Accident Compensation Corporation)

If injury is within New Zealand, ACC can assist with following:

1. The cost of medical treatment and other rehabilitation service.
2. Weekly Income Support: up to 80% of net taxable income or income cover structured under the plan of ACC cover plus extra.
3. Rehab programs to help injured person to get back to work or live independently.

ACC does not cover following:

- Non-occupational gradual process injuries
- Ageing process
- Illness
- Injury to teeth arising from their natural use
- Hernia by coughing or sneezing
- Stress (unless related to sexual abuse, personal injury, or traumatic event at work).

Work and Income New Zealand (WINZ)

Work and Income New Zealand (WINZ) is a government agency providing financial assistance and employment services throughout New Zealand. They can help people into work and may provide income support on behalf of the government.

Caring for someone -
A client caring for someone at home who would otherwise need hospital level, rest home or residential care, as the caregiver they may qualify for the Supported Living Payment, or Funded Family Care payment depending on their relationship with the person being cared for.

Financial wellness and independence -
If a client needs full-time care in a hospital, rest home or residential treatment program, depending on the circumstances they may be entitled to a Residential Care Loan of Residential Care Subsidy.

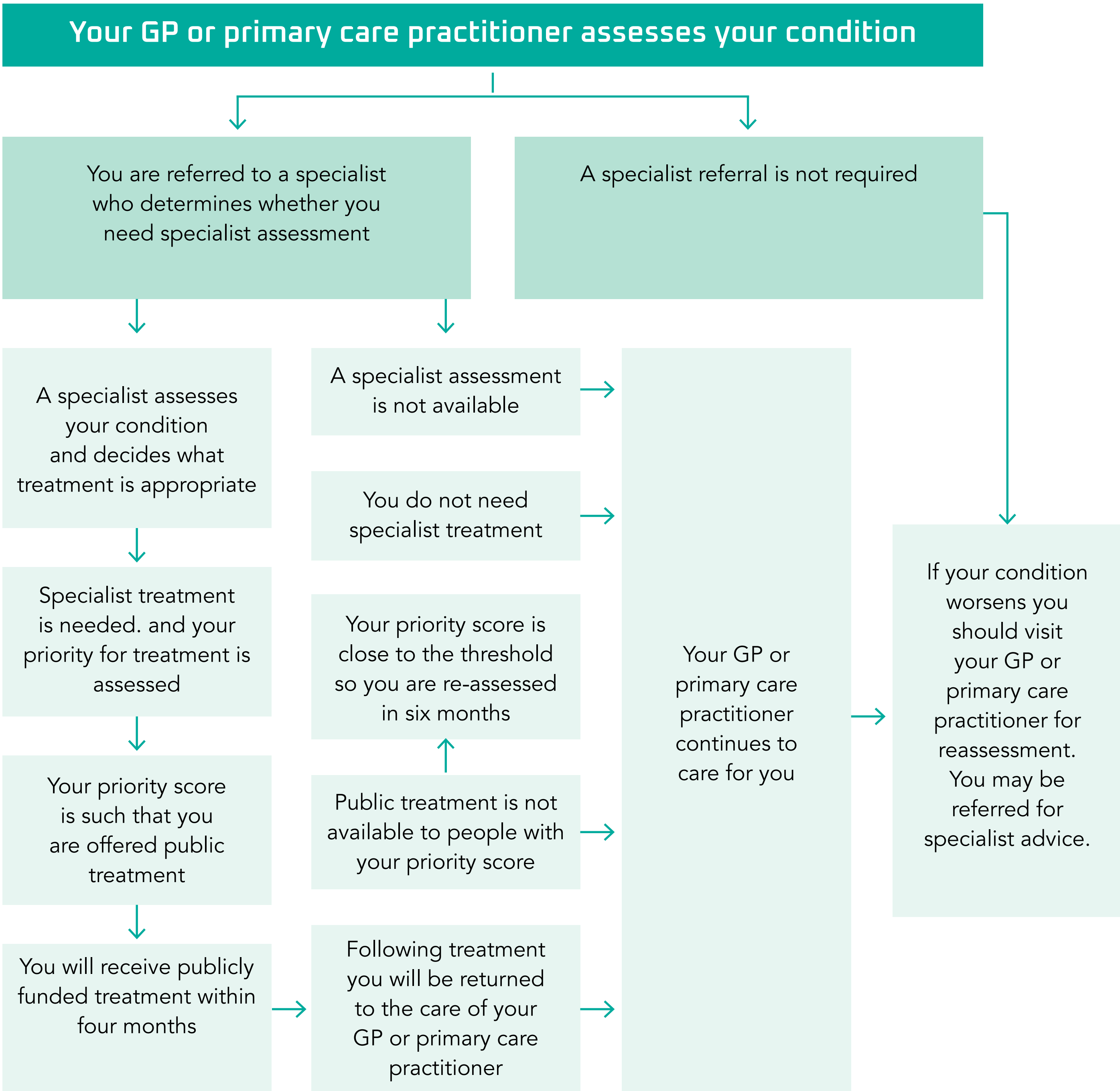
Potential Impact of WINZ payments with the insurance recommendation

1. Weekly income support could be reduced or abated totally for any type of disability income cover.

2. There would be no impact of a WINZ benefit paid on any lump sum life cover payment such as life, TPD or trauma type claim payments. However, WINZ weekly income support payments would be offset against personal disability income benefits if paid for the same disability that gave rise to the private insurance claim.

Public System Explanation

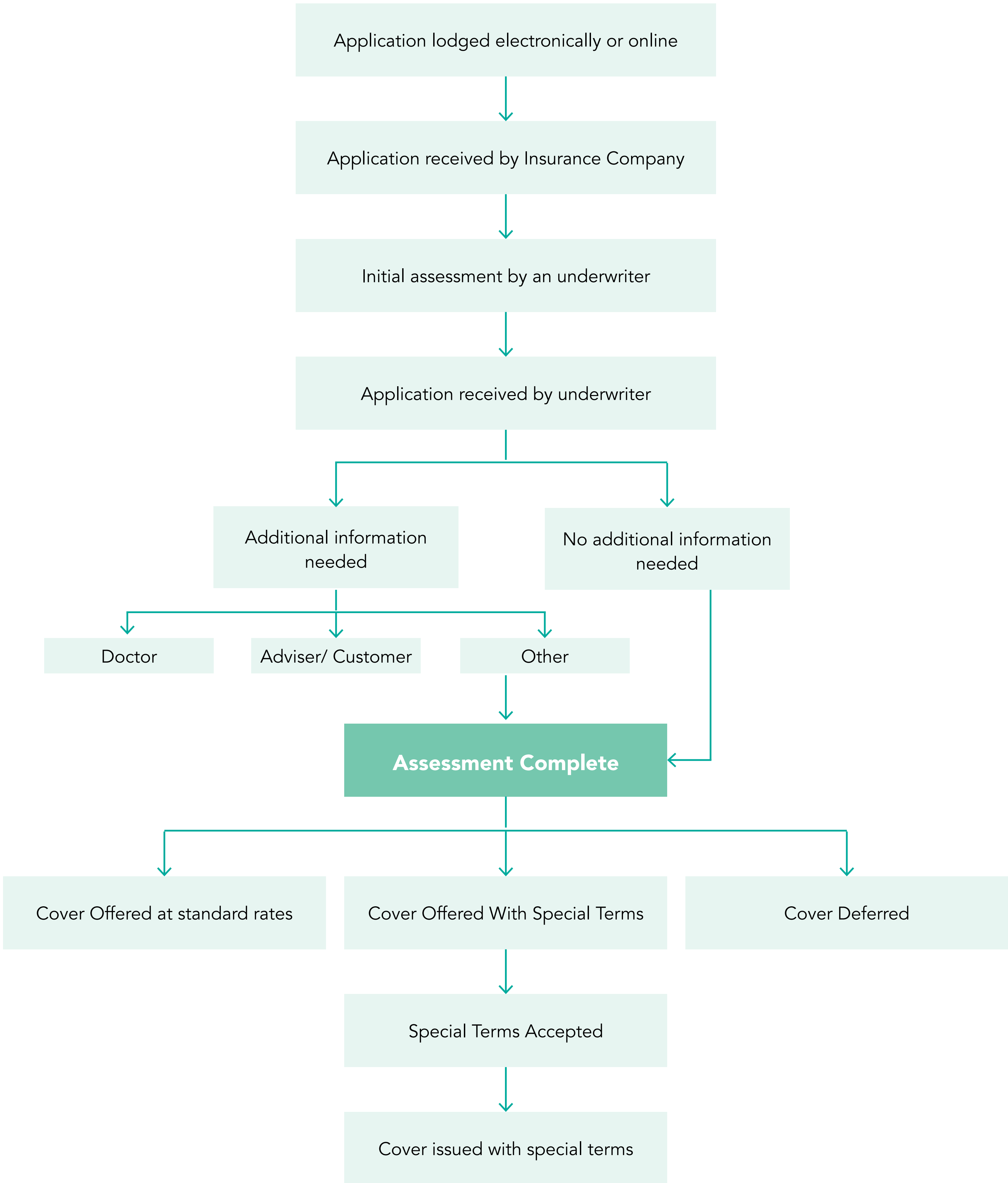
From the time someone is referred for specialist advice through to tests, surgery and follow ups, service users' and health providers alike will have a clear, shared view of the health journey. The health journey is the time from when you develop a condition needing treatment to the time the problem is either resolved or under control. This flow diagram outlines the basic steps in the Planned Care process.



*Your 'Priority Score' is an assessment of your level of need and ability to benefit from treatment compared to other people.

Insurance Application Process

Below chart explains the Application process when you apply for your personal insurance:



fglife

A WISE CHOICE