



Mind the insurance gap

At a time when many people have been focused on their family's health and livelihood, having adequate life insurance has never been more important. Yet the gap between what we need and what we have, has been growing.

Life insurance is all about ensuring your family can maintain their lifestyle if you were to die or become seriously ill. Even people who do have some level of protection, might discover a significant shortfall if they had to depend on their current life insurance policies.

That's because 70 per cent of Australians who have life insurance hold relatively low default levels of cover through superannuation.

Default cover may not be enough

The most common types of default life insurance cover in super are:

- **Life cover** (also called death cover) which pays a lump sum or income stream to your dependents if you die or have a terminal illness.

- **Total and permanent disability (TPD)** cover which pays you a benefit if you are disabled and unlikely to work again.

If you have basic default cover and are part of what is considered an "average" household with no children, then it's likely you only have enough to meet about 65-70 per cent of your total needs. The figure is much lower for families with children.

Indeed, a recent study by Rice Warner estimates that while current levels of insurance cover 92 per cent of death needs, they only account for a paltry 29 per cent of TPD needs.¹

Such a shortfall means that you and/or your family would not be able to maintain your current lifestyle.

A fall in cover

The Rice Warner study found the amount people actually insured for death cover has fallen 17 per cent and 19 per cent for TPD in the two years from June 2018 to June 2020. This was driven by a drop in group insurance within super which has fallen 27 per cent for death cover and 29 per cent for TPD cover.

This was largely a result of the introduction of the Protecting Your Super legislation. If you are young or your super account is inactive then you may no longer have insurance cover automatically included in your super. You'll now need to advise your fund should you require cover.

It may make sense not to have high levels of cover, or even insurance at all, when you are young with no dependents and few liabilities – no mortgage, no debt and maybe few commitments. But if you work in a high-risk occupation such as the mining or construction industries, or have dependents, then having no cover could prove costly.



Another reason for the fall in life insurance cover has been the advent of COVID-19. With many people looking for cost-cutting measures to help them through tough times, insurance is sometimes viewed as dispensable. But this could be false economy as this may be exactly the time when you need cover the most.

There is also the belief that life insurance is expensive which is certainly not the case should you ever need to make a claim.ⁱⁱ

An appropriate level of cover for you

It is estimated that an average 30-year-old needs \$561,000 in death cover and \$874,000 in TPD cover. As you and your family get older, your insurance needs diminish but they are still substantial. So a 50-year-old needs approximately \$207,000 in death cover and \$499,000 in TPD.

These figures are just for basic cover so may not meet your personal lifestyle. When working out an appropriate level of cover, you need to consider your mortgage, your utility bills, the children's education, your daily living expenses, your car and your general lifestyle.

It's also important to consider your stage of life. Clearly the impact of lost income through death or incapacity is much

greater when your mortgage is still high, your children are younger, and you haven't had time to build up savings.

While having some life insurance may be better than nothing, having sufficient cover is the only way to fully protect your family. So why not call us to find out if your current life and TPD cover is enough for you and your family to continue to enjoy your standard of living come what may?

Now more than ever, in these uncertain times, you may find that you too are significantly underinsured and need to make changes.

i <https://www.ricewarner.com/new-research-shows-a-larger-underinsurance-gap/>
(All figures in this article are sourced from this Rice Warner report.)

ii <https://www.acuitymag.com/finance/confusion-around-life-insurance-leaves-australians-vulnerable-nobleoak>



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