



March 2020

Welcome to the latest edition of our client newsletter! We've included a mix of articles designed to share our insights and experiences, we hope you enjoy reading them.

If you would like to discuss any of the issues raised in this newsletter, please don't hesitate to contact us.

In the meantime, we hope you enjoy the read.

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Life insurance and Income Protection for the self-employed

There are over two million self-employed Australians in the workforce today.ⁱ Running your own business can be rewarding in many ways. However, without the safety nets and security offered by larger corporations, it's important to consider financial protection as part of essential business planning.

When small business owners think about their insurance needs, they immediately think to put cover in place to protect their physical assets, such as cars, equipment and buildings. However, they often miss the most important asset in their business – themselves and their key people.

People are the most important asset in any business. If a person is lost to a business due to death, sickness or disability it will have a significant impact. An event like this can lead to a drop in revenue, loss of clients and could even lead to the banks calling in any debts or liabilities.

What are the benefits of income protection for the self-employed?

As a self-employed worker you are not entitled to workers' compensation. This scheme only provides payment for illness or injury that may arise out of employment and by law the self-employed do not meet this definition.

Income protection will generally cover up to 75% of your monthly income in the event that you are temporarily unable to work for a period of time due to illness or injury. It is paid out as a monthly benefit which you can use to pay ongoing personal and business financial obligations.

Premiums are tax deductible and you can also choose to fund these through your superannuation.

Why do you need life insurance if you are self-employed?

Being self-employed means that you not only carry the personal obligations associated with providing for your family, but also the business expenses that may need to be paid out in the unexpected event of your death. This includes any outstanding accountant, lawyer and adviser fees, Government taxes and any overheads relating to employee salaries, suppliers and lease payments. It's important to ensure

the proper safeguards are in place so there is no risk to their estate.

A death in the business may also result in a change in the business ownership structure. If a business owner dies, their shareholding rights may revert to their estate. For the remaining business partners this may mean that they are now in business with people they have may have no intention of being in business with.

Life insurance if purchased as a stand-alone policy is not tax-deductible for the self-employed. However, income protection and business expense cover are both tax deductible as stand-alone policies.

As most businesses are unique, it's important to seek advice to assess your situation and work out the cover that best meets your needs.

ⁱ <https://www.youtube.com/watch?v=REsTulSPuFY>



Scattered super? Consolidate now!

It's not unusual these days to change jobs several times as you build your career. Before you know it, you've got multiple super accounts and a vague feeling that you should do something about it one day. Australians do not consolidate their superannuation accounts for a number of reasons including not knowing how to, believing it would be too difficult and simply not getting around to it.ⁱ If this sounds like you, you're not alone.

While it's common practice to spread your retirement savings across a wide range of investments, a process known as diversification, it's rarely a good idea to have more than one super account. That's because super isn't an investment, it's simply the structure used to house your investments. When it comes to super accounts, less is generally more.

Consolidating your super can help:

- reduce costs by paying only one set of fees and only one set of default life insurance premiums. A portion of your super is used to pay the insurance premium which means you have less money working for you;
- reduce paperwork and time spent keeping track of multiple accounts;
- make it easier to manage your investments and develop a coherent investment strategy. This is especially the case if all your money is 'default' investment options which may not be appropriate for you.

If you've put super into the too hard basket, we can guide you through the process of consolidation and work out an investment strategy tailored to your personal goals and needs.

Teresa's story

Teresa is 42, divorced with a long career in nursing. She has worked in many public and private hospitals and in her words "hasn't got much super".

Teresa decided to seek advice after seeing how limited her parents' options were in retirement. Despite a lifetime of hard work, they were only able to afford a very basic lifestyle and could only dream about travel overseas or around Australia. She was surprised to find she had a total of just \$72,000 across six different accounts.

What's more, all her super was in the default "balanced" option. Balanced options typically invest about 70 per cent of your money in shares or property and the remainder in 'safe' but low return cash and bonds.ⁱⁱ

Not only was she paying fees to manage six accounts, but the balanced option was unlikely to provide the retirement she dreamed of.

Teresa was pleased to get some help to understand basic investment principles such as the relationship between risk and return, diversification and her time horizon. Because she has at least 25 years until she retires, Teresa agreed she could afford to invest more aggressively because she had time to ride out market fluctuations. The amount of money Theresa had in growth investments was increased to 85 per cent. As she gets closer to retirement she can choose to wind that back to reduce risk and preserve capital.

Now that Teresa has a senior role in health management she can afford to make additional contributions to super. So she has decided to give her savings a boost by setting up a salary sacrifice arrangement with her employer.

As Teresa's experience demonstrates, consolidating your super isn't just about reducing. It's often the first step in taking control of your retirement savings to build a brighter, more secure future.

ⁱ <https://www.superguru.com.au/grow-your-super/consolidating-your-super>

ⁱⁱ <https://www.moneysmart.gov.au/superannuation-and-retirement/how-super-works/super-investment-options>



Insurance in super – is your cover adequate

If you've got super you probably have some life insurance included. It's an easy way to get a basic level of cover, but is it enough to give you and your family true peace of mind?

More than 70% of Australians hold life insurance policies, more than 13.5 million separate policies, through their super funds.ⁱ Yet despite this, underinsurance remains a huge problem in Australia.

Rice Warner estimates that the median level of life cover in super meets only 60% of the basic needs for the average household and less for families with children. The position is even worse where total and permanent disability (TPD) and income protection cover are concerned. The median level of cover in super will provide just 13% of TPD needs and 17% of income protection needs.

Of course, some insurance is better than no insurance and insurance in super is convenient to set up and pay for. But it comes with a couple of points to be aware of and this is where professional advice is invaluable.

Limited cover

Firstly, a portion of your super is used to pay the insurance premium. This can help your cash flow if money is tight, but it also means you may not be contributing as much to your retirement savings as you thought.

It's also worth keeping in mind that super funds offer standardised 'off the shelf' policies that may not suit your needs. This helps keep costs down, but that's no consolation if your policy falls short when you need it most.

Because the insurer pays your super fund which then pays you, it may take longer to receive the money. What's more, unless you make a binding nomination the fund trustees have the ultimate say in who receives benefits when you die. Your beneficiaries may also be taxed more heavily than they would if you held the insurance outside super.

A tailored solution

Your insurance needs are as individual as you are and should be reviewed regularly along with your other financial affairs. Whenever your circumstances change – if you marry, have a child, or buy a new home for instance – your life insurance should be reviewed.

It's easy to underestimate what it would cost to ensure your family is able to maintain their current lifestyle, come what may. It's important not to forget

partners who don't earn an income and may not necessarily have cover in their super, particularly where dependent children are involved.

Take the example of Mark, whose wife Suzy, 43, passed away suddenly after an illness. Thankfully, the couple had arranged a full suite of insurance cover in and outside their super. Mark claimed on Suzy's life insurance which covered his mortgage, credit card and car loan repayments; it also allowed him to hire a part-time nanny to help with their two children.

Getting additional insurance outside super can be a little more expensive but you will have access to a wider range of policies that can be tailored to your individual needs. Some policies, such as Trauma insurance, can only be bought outside super.

Even if you have some level of cover inside super, it's important to do your sums to work out exactly how much your family would need to maintain your current lifestyle if you or your partner were to die or become seriously ill. It may take a little time, but with so much at stake guestimates won't do and we will be only too happy to assist.

ⁱ Ricewarner, Insurance through superannuation, 20 April 2016.