



## Why is it worth paying extra for life insurance?

### *(Feedsy Exclusive)*

There are a huge variety of life insurance products on the market. Some seem to cost a lot more than others. Do the cheaper options really provide value for money?

### **The types of life insurance cover**

Life insurance is there to provide an income for you or your family if you were to become seriously ill, be injured in an accident or die unexpectedly. In order to choose a policy it's important to look at your individual circumstances and decide what type of cover you need.

There are four different types of cover that are all classed as life insurance. It's possible that you might even need more one of these:

1. **Life cover:** This pays out a fixed amount of money when you die to the people you have named as your beneficiaries.
2. **Total and Permanent Disability cover (TPD):** This type of cover pays out a lump sum to you to help with your general living costs and rehabilitation if you become totally and permanently disabled. Many life cover policies also include TPD.
3. **Trauma cover:** Also known as critical illness cover or recovery insurance, this helps with your living costs if you are seriously injured or diagnosed with a specified, life-changing illness

such as cancer or a stroke.

4. **Income protection:** This provides you with the income you will lose if you are unable to work as a result of illness or injury.

### **What you should look for in life insurance cover**

As everyone's circumstances are different, you need to look for a policy that meets your individual needs. Firstly, the policy needs to be affordable, as you may not be covered if you default on any of your premiums.

However, that doesn't mean the cheapest options are always a sensible choice. You need to make sure the policy will pay out enough money for your dependants to survive on if your income was no longer there. Take into account all your expenditure such as your home loan, household bills and your children's education – do your dependants have enough in savings and investments to cover these costs? Your life insurance policy should be able to make up the shortfall.

Don't forget, you may already have life insurance cover through your super fund. Before you purchase a policy, you should check if you have this cover and if it meets your needs. If you do intend to purchase a life insurance policy, it's important to shop around and compare what different providers are offering to make sure you're getting what you need.

### **The pros and cons of cheap life insurance policies**

Cheap policies are often known as "term insurance." It is possible to get a good deal this way – many low-cost policies do offer large payouts. However, it's important to be aware of the conditions attached.

Term policies are flexible as you can choose when you want cover – you're only covered for the amount of time you keep paying your premiums. If you stop paying, however, and then want to resume your cover at a later date, it's likely to be more expensive as your increased age will make you more likely to make a claim. This is linked to another disadvantage of term policies – they have time limits. When your policy runs out, you may find yourself having to pay a lot more to get a new policy.

In addition, term insurance policies do not give refunds – if you outlive the term of your policy without making a

claim, or if you change your mind and want to cancel your policy, you won't get back any of the money you've paid in.

You should also be aware of cheap joint policies – these often do not offer the same amount of cover for both partners. One of you could be left without insurance if the worst were to happen.

### **Do you need different cover depending on your life stage?**

Your life insurance needs will change throughout your life, so it's important to have a policy that's appropriate for your age and personal circumstances. A cheaper policy can make sense if you're young and single, as you have no dependents. As you get older, however, you're likely to have more financial obligations. A partner and children might well have to be factored in, as will commitments such as a home loan, so you'll need a higher level of cover.

However, later in life, you may be able to revert to a less expensive policy, as your children will have left home and your mortgage will be paid off. In this case, your level of expenditure is lower. This means you and/or your partner would need less income in the

event of you not being able to work.

Please remember, however, that life insurance policies get more expensive the older you are when you apply. Statistically, you're more likely to run into health problems as you age, which means you are more likely to make a claim.

### **Should you regularly review your cover?**

As your personal circumstances change, your insurance needs will too. This is why it's essential to review your cover regularly to check it will provide you with the level of protection you need. This is particularly important during major life changes such as having a baby, taking out a home loan or changing your employment status, for example, if you decide to start your own business.

Life insurance is there to help you meet the challenges and experiences of life without having too much financial worry. This is why it's vital to get it right and to seek advice. Contact your Financial Planner today to discuss your requirements.

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