A powerful yet deadly concept

TERM insurance[1], life insurance, death cover, call it what you like, but it is a powerful instrument that gives you valuable protection for your family, personal and business assets.

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With the appropriate cover, the dreams of maintaining a family, or business, can be protected and maintained.

Today with the rise of the direct market, especially in a variety of insurance covers such as car, home, health, and life insurance, possess a number of critical elements that need to be considered when purchasing such a valuable cover, other than simply price.

This article will examine such critical issues as:

- Definition of cover.
- Exclusions.
- Terminal illness.
- Guaranteed Future Insurability.
- Additional Rider Benefits.
- Expiry date of the cover.
- Policy upgrades.
- Other options/benefits.

Definition of cover

Term insurance is a fairly straight forward insurance cover; the benefit is paid to the policy owner, beneficiary(ies) or estate upon the death of the insured person.

Term insurance is generally guaranteed renewable, which means that once the insurance is issued it cannot be altered or cancelled by the insurer prior to the policy end date, as long as the premiums are kept up to date.

Term insurance **does not include** total and permanent disability (TPD) or trauma cover; these are separate insurance covers that can be added to a term insurance policy, or purchased as stand alone benefits.

Term insurance can be issued as an ordinary policy, or through superannuation either in a super account or as a standalone super policy. How the policy is issued will be determined by the insured's specific circumstances.

Insurance cover in super, or outside of super, has many benefits and withdrawals, and is outside the scope of this discussion, but is an important consideration as it may have taxation implications to the beneficiary or estate, and how the cover fits in with your estate planning arrangements.

Exclusions

In any insurance policy there may be medical or pastime exclusions applied by the underwriters at the time of issuing the policy.

There are not many standard exclusions applied for a term insurance policy, but there is one important exclusion that is applied by the majority of insurers and that is generally known as the 'suicide' clause, which effectively states that a benefit would not be paid if a claim was submitted within the first 13 months (or maybe some other specific term noted in the policy) for death from suicide or self harm.

You should check the specific policy product information statement for details on any standard exclusions before purchasing the cover.

Terminal Illness

Terminal illness may be a built in option or feature, and can be provided in a term policy in super or outside or super. Basically, a terminal illness definition is:

- The insured person is diagnosed with a condition that causes death within 12 months.
- The diagnosis should be based on clinical findings.
- The condition should be untreatable.
- The diagnosis should be supported by the insurer's chief medical officer.

If the above criteria are met then a claim may be paid from a term insurance policy for either the full sum insured, or partial benefit, depending on the policy terms and conditions.

The term sum insured would be reduced by the amount of the terminal illness claim, and if the term insurance was paid in full as a terminal illness benefit then the policy would be cancelled.

This is an important benefit as it allows the insured person to receive their benefit payment prior to their death, but unfortunately the insured has to be terminally ill to receive the payment. Again you should refer to the policy information regarding if a terminal illness benefit is provided.

Guaranteed future insurability

This benefit may be provided as a standard inclusion or as an added cost benefit, and can be provided for personal and business events.

Having a Guaranteed Future Insurability benefit means that the insured person can apply for an increase in the sum insured on the occurrence of certain events without supplying further evidence of health or insurability, generally up to the age of 55.

Events such as marriage, divorce, birth or adoption of a child, and changes to a mortgage could be covered for personal events, and events such as changes to key person financial interest in a business, buy/sell arrangements, or changes to the value of a business may be covered under business events.

Limits are applied to the amount of increased cover that you can obtain under any of the Guaranteed Future Insurability events so refer to the policy information for full details if this benefit is included.

What options are available under a business expenses policy?

All companies are different in respect to the options they provide, some may only provide a basic policy covering the standard items noted above, and some companies may offer an accident option, waiver of premium, and benefit indexation.

These options work in a similar way to the options provided under an income protection policy, and will generally attract an extra premium.

Additional rider benefits

As briefly mentioned above, a policy for term insurance may include riders such as TPD and trauma cover.

These benefits when combined in the one policy are known as bundled benefits, and this means that if a claim was paid for any of the benefits provided in the policy, it would reduce the amount of the sum insured payable under the other benefits covered.

For example, if you had a bundled term, TPD and trauma insurance policy, and all the benefits were insured for $500,000 ($500,000 term insurance, $500,000 TPD and $500,000 trauma), if you made a claim against the trauma cover for the full amount, it would effectively cancel the TPD and term insurance as they are covered for the same amount.

If the policy had term insurance of $1mil and TPD and trauma of $500,000, again if a full trauma claim was paid, the term insurance would be reduced by $500,000, and the TPD cover would be cancelled.

TPD and trauma cover can be purchased as standalone options which usually attract a higher premium then having a bundled policy.

Quite often term insurance is bundled

1 Provides a benefit upon the death of the insured person.

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