FACT SHEET

Avoid the underinsurance trend

Many Australians are frighteningly underinsured. Avoid being part of the statistics by calculating your life insurance needs adequately.

The day you've been waiting for has arrived, your brand new car is ready to take home. The first thing you do before driving it out of the lot is ensure you have insurance. There's no way you'll risk anything happening to your brand new car!

This is a common scenario. Most of us don't think twice about car insurance, ensuring we can meet unexpected repair costs, but what about repairing ourselves? If you were in an accident and couldn't work, how are you and your family going to afford your medical bills? That's on top of your mortgage and daily expenses, too.

96% of Australian families lack enough life insurance to protect their families for 10 years or more, according to a study by TNS Research[1]. So for young families, this underinsurance trend can be quite devastating.

Underinsurance facts

- There are over 5 million families in Australia with dependant children[2].
- Only 4% of families are adequately insured[3].
- Australia's insurance gap equates to $1,370 billion[4].

How much life insurance do you need?

Average full-time workers (earning approximately $50,000 p.a.) in their mid-30's with young children require cover equal to 10 to 13 times their annual pre-tax income, according to Rice Walker Actuaries[2]. This, of course, will fluctuate according to age, income and lifestyle goals.

Or, to calculate a more accurate amount, try using the following formulae:

Total lump sum needed to fund an ongoing income for your spouse and dependants + Total lump sum required to extinguish your debts + Total lump sum to pay for medical and funeral expenses − Total value of existing assets that would be converted to cash (e.g. existing insurance or superannuation) = Life insurance shortfall

If your life insurance cover does not meet these requirements, then you are considered underinsured and your family may struggle to pay the bills if something were to happen to you or your partner.

If you're unsure how much life insurance you have and whether it'll meet your needs, it is definitely time to find out.

How much insurance do you have?

Many Australians already have life insurance cover through their superannuation fund, so that's a good place to start looking. Check your statement or contact your fund directly to find out your current level of insurance.

Also, find out if you have stand-alone life insurance. Your spouse may have arranged the cover, or you may have forgotten about an old policy.

Once you've uncovered how much insurance you have, it is important you read your policy terms and conditions. You can then assess how much you are covered for and identify if you are underinsured.

My super cover is enough

Like many Australians, you may have discovered your only life insurance is through your superannuation. You may be surprised how small an amount this cover is actually for. Rice Walker Actuaries estimate the average insurance amount payable from superannuation is approximately $70,000[2]. This amount is far from the average minimum required to be appropriately protected.

To meet your life insurance needs, you may need to consider additional and separate cover to your superannuation cover.

1 TNS Research, Investigating the issue of underinsurance in Australia, August 2005

2 RiceWalker Actuaries, Analysis of Insurance Needs, May 2005

ANZ

What about the homemaker?

Some may think – 'I'm a stay-at-home parent, I don't need life insurance.' What most parents don't realise is that if the homemaker wasn't around, their family would require a lot of assistance, both emotionally and financially.

If your household was to lose the homemaker, the effects on the primary breadwinner could be devastating. If the homemaker dies or becomes disabled, their partner is often left with limited options. They can either reduce their working hours to look after the household, or employ outside help. Either option requires additional funds.

Families losing a stay-at-home parent may require more than $75,000 annually for child care or home help expenses[3].

3 IFSA, Australian mothers – undervalued and underinsured, October 2005

To ensure you correctly identify how much insurance you and your partner have and how much you need, you should seek advice from your ANZ Financial Planner. They will be able to look at your overall financial situation, and help you make the right life insurance decisions to avoid the underinsurance trend.

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