EXPATLAND PERSONAL INSURANCE

Scott Douglas
IMFG

Personal Insurance for Expatriates

Personal insurance relates to the insurances which protect you against sickness or injury to cover your costs of living and lump sums. Coming from another country to Australia, you are then exposed to a whole lot of new risks, issues, costs and lifestyle.

One of the key things you should be protecting is your personal wellbeing. As you are in a new country, you don't want to be put in a position where you have moved (and your family) and you can't fund or support yourself.

In Australia, the rules are quite different and the insurances you may have had from another country could be invalid. This is the first thing you should check preferably before you leave the country of origin. Our biggest asset is usually the least insured, that is our ability to earn an income.

Whilst it is frowned upon and in some cases illegal to not have insurance cover for your goods and possessions (for example car insurance), insurance for yourself should you suffer a sickness and/or injury is often overlooked.

There are 4 key insurances you need to consider that all have different purposes –

1) Income Protection
2) Life Insurance
3) Total and Permanent Disablement (TPD) Cover
4) Trauma (Critical Illness)

Below are the different types of insurance that are on offer to provide for you and your family in case of sickness and/or injury whilst you're in Australia.

These are high level details, the policies themselves will have the finer details.

1) Income Protection Insurance

When you arrive in Australia, this would be the number 1 consideration. As long as you have employment, Income Protection Insurance protects you by paying an ongoing income if you are unable to work due to illness or injury.

Benefits

Income protection cover pays an ongoing monthly benefit to protect:

- your lifestyle by replacing your lost salary so you can continue to meet your living expenses and debt repayments, and
- your wealth by reducing or removing the need to sell assets to generate cash.

Without insurance, you may need to use your savings, sell assets, and/or rely on family or government support for assistance. You may find it difficult to maintain your standard of living or pay for the care and medical assistance you need. This can place extra stress on your recovery.

How It Works

You can usually apply for cover of up to 75% of your earnings. For business owners this is income after business expenses but before tax. You may also be able to have an additional amount paid as contributions into your superannuation account and other ancillary benefits to help with your recovery.

The payments are taxable income but tax may not be deducted from each payment. You should seek tax advice and make sure you set aside money to pay your tax liabilities. If paid through superannuation, tax is usually deducted from each payment to help you manage this obligation.

The amount you receive may also be reduced if you receive payments from sick leave, social security, workers compensation or other legislative sources.

Agreed Value or Indemnity

You can obtain your income protection cover under an 'Agreed Value' or 'Indemnity' policy. Under an Agreed Value policy, you will receive the agreed monthly benefit at the time of a successful claim, regardless of the amount you are earning at that time. With an Agreed Value policy, you are required to provide proof of income at the time you apply for cover.

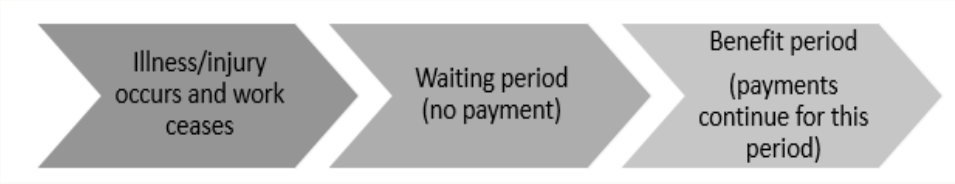
This may suit you if your income fluctuates over time, you are able to substantiate your income and want peace of mind at time of claim. With an Indemnity' policy, the amount you receive at the time of a successful claim will be assessed on the basis of your earnings in the 12 months prior to the disability. You will need to provide proof of income at time of claim and if your income has reduced you may receive less than expected.

This may suit you if you have a stable income and are likely to be able to easily substantiate your income at the time of claim, your occupation does not allow an Agreed value policy, or you have only recently established your business and do not have two years of financial evidence available. The premium for an Indemnity policy is less expensive than an Agreed Value.

Waiting and Benefit Periods

In the event of a successful claim, benefit payments do not start immediately a waiting period will apply during which no benefit is payable. The waiting period can be as short as 14 days or as long as two years.

When choosing a waiting period, it's important to take into account any sick leave and related benefits provided by your employer. The shorter the waiting period, the higher the premium. The maximum period of time that payments continue is called the benefit period. A range of benefit periods are available - some as short as one year, with the longest continuing through to your 65th or 70th birthday. In general the longer the benefit period, the higher the premium.



Policy Ownership

Income Protection Insurance can be owned either in your own name or within your superannuation fund.

Self-Ownership

Owning the policy in your own name may allow you to better tailor the cover to suit your individual requirements (e.g. to obtain more comprehensive benefits and ancillary benefits. With self-owned cover, you pay the premium from your cash flow.

The premiums are tax deductible to you and benefits that you receive in the event of a successful claim are treated as taxable income and taxed at your marginal tax rate.

Superannuation Ownership

You may also be able to purchase your cover in your superannuation fund. If additional contributions are made into superannuation to cover premiums it is important to ensure you do not exceed the limits on how much can be contributed.

The proceeds in the event of a successful claim are paid from your superannuation fund as a temporary illness benefit and will be assessable income that is taxed at your marginal tax rate. You will first need to meet the release definition for superannuation which is not required under a self-owned policy.

For business owners it may be appropriate for the business to own the insurance policy.

This ensures any claim proceeds are paid directly to the business, so it can distribute the funds accordingly.

Optional benefits

Income Protection policies may offer important options including:

- an increasing claims option that ensures benefit payments are indexed in line with inflation.
- a superannuation cover option that allows you to have contributions made to your superannuation fund (above the level of salary cover).
- other ancillary and rehabilitation benefits.

Risks and Consequences

- Funding the premiums from your superannuation balance will reduce the growth of your retirement savings unless you make additional contributions to offset the premiums.
- Benefits are paid monthly in arrears so your first payment would be received one month after the end of your waiting period.
- Benefit payment is usually excluded if you suffer sickness or injury as a result of war (or an act of war) or a self-inflicted act.
- You should always carefully read the Product Disclosure Statement (PDS) and policy document for your selected insurance policy and keep these documents in a safe place.

2) Term Life Insurance

Term Life insurance protects your family and dependants by paying a lump sum if you die, or in some cases, the benefit can be paid earlier if you are diagnosed as being terminally ill.

Benefits

It is important to work out individually what you need to protect and how much cover you need. But the lump sum payment can be used for goals such as:

- cover the cost of funeral expenses
- repay your mortgage, credit card and other debts so you can pass on the full value of assets to your dependents
- generate an ongoing income stream to help your family to meet their future living expenses and maintain their lifestyle
- set money aside for future education costs for your children or grandchildren
- enable your estate to treat your beneficiaries equitably without the need to sell particular assets
- make charitable bequests
- cover other expenses such as childcare and housekeeping.

Without insurance, your family or dependants may need to run down their savings, sell assets, and/ or rely on family or government assistance. They may also find it difficult to maintain their standard of living.

How It Works

Life insurance can be owned either in your own name or within your superannuation fund.

Self-ownership

Owning your life insurance in your own name means you pay the premium from your cash flow and the proceeds are paid to your nominated beneficiary or to your estate.

Self-ownership gives you control over the policy, the right to nominate who receives the proceeds and the right to cancel if the need arises. The premiums for self-owned life insurance are not tax deductible but then the benefits paid are tax-free. This may be suitable for you if you have the cash flow available to pay the premium and you want to ensure the proceeds will be tax-free.

It may also suit you if you want the benefits to bypass your estate, so you can be certain that they are paid directly to your nominated beneficiary.

Superannuation ownership

Alternatively, you can apply for cover within your superannuation fund.

This allows the premium to be paid by making contributions to superannuation or simply be deducted from your superannuation account balance so it does not affect your cash flow.

The premium is a deductible expense to your superannuation fund and can reduce the tax payable on contributions and investment income. The benefit to you will depend on your superannuation fund.

In the event of your death, the insurance proceeds will be paid into your superannuation fund and form part of your account balance.

This may be suitable for you if you do not have the cash flow to make the premium payments, receive contributions from an employer into superannuation, are eligible to make salary sacrifice contributions, have a spouse on a low income or are eligible for co-contributions, or are self-employed. Specific tax advice is needed here when considering these strategies.

Risks and Consequences

- For self-owned life cover, if you do not nominate a beneficiary, the proceeds will form part of your estate and will be distributed in accordance with your Will.

- Funding the premiums from your superannuation balance will reduce the growth of your retirement savings unless you make additional contributions to offset the premiums. These contributions will count towards your contribution caps.

- Where your sum insured is large, not all of the benefit may be able to be taken as a tax effective income stream by your beneficiaries.

- No death benefit will be paid if death is due to suicide in the first 13 months or if you do not fully disclose all required information.

- To be eligible for payment as 'terminally ill' a doctor must certify you have less than a set number of months to live, usually 12.

- It's important to seek professional legal advice and consider your overall estate planning position to ensure your wishes are carried out upon your death.
- You should always carefully read the Product Disclosure Statement (PDS) and policy document for your selected insurance policy and keep these documents in a safe place.

3) Total and Permanent Disablement (TPD) Cover

TPD cover pays a benefit to you should you become totally and permanently disabled and are unable to work again.

The cover will assist with medical and rehabilitation costs, providing a level of financial security for you and your family. You can choose the definition that's right for you: Own occupation, Any occupation, Home maker or General. TPD cover can be added to your Life policy or taken as a standalone policy.

You can apply to change your level of cover at any time, so your policy continues to suit your needs no matter what life stage you're at.

4) Trauma (or Critical Illness) Insurance

Trauma (or Critical Illness) insurance protects you by paying a lump sum if you suffer a major illness or injury such as cancer, heart attack or stroke.

Benefits

It is important to work out individually what you need to protect and how much cover you need. The lump sum payment can be used for goals such as:

- paying for your treatment and care
- gaining access to the full range of rehabilitation services
- relieving financial pressure by reducing debt
- allowing your spouse to take time off work to be with you or look after the children

- employing a carer, nanny or home help
- funding the gap between what you earn and the 75% cover from income protection, and
- allowing flexibility to amend your lifestyle or spend more time with family.

Without insurance, you and your family or dependents may need to run down savings, sell assets, and/ or rely on family or government assistance.

You may find it difficult to maintain your standard of living or pay for the care and medical assistance you need. This can place extra stress on your recovery.

How It Works - What conditions are covered?

The actual conditions covered vary between insurers. Here are some of this illnesses covered:

- blood disorders including aplastic anaemia and medically acquired HIV
- cancer
- heart conditions including heart attack and coronary artery bypass surgery
- neurological conditions including multiple sclerosis and stroke

For a trauma claim to be successful the diagnosis must meet the policy definition of the condition as outlined in the insurance contract.

Stand-alone Trauma Cover

You can buy Trauma insurance as a stand-alone policy that includes just trauma cover and no death or total and permanent disability (TPD cover. These products have a 'survival period' (generally 14 days where only a nominal benefit is payable if you do not survive this period.

Linked Trauma Cover

You can also purchase your cover so that it is 'linked' to your death or TPD insurance.

With 'linked' covers, if you make a Trauma claim and the claim is paid, the other cover levels will reduce by this amount.

Policy Ownership

Trauma insurance is usually owned in your own name. The premium is not tax deductible and the proceeds from a successful claim are paid directly to you as a tax-free lump sum. Trauma insurance is not available through superannuation.

Risks and Consequences

- You will not be able to claim a trauma benefit if you suffer certain conditions within a certain period (usually 3 months) from the date the policy commences, or you do not fully disclose the required information.
- You should always carefully read the Product Disclosure Statement (PDS) and policy document for your selected insurance policy and keep these documents in a safe place.

Visa Restrictions

If you are living in Australia under a working visa (457) it is good to note that to apply for Life Insurance cover within Australia, a visa with a term of two years or more is required.

Temporary residents working and living in Australia who are currently applying, or intending to apply, for permanent residency in Australia may be assessed on an individual basis.

You should check this all out and be aware of it before you consider and types of personal insurances.

Other considerations

- Visa Status – ensure you understand where you're at with this.
- Intention to stay – take out appropriate insurance for your time period in Australia.
- Employment - your type of contracts and employment arrangements will determine this.
- Tax Status – need to check your taxation status
- Super to fund premiums – If you have super in Australia, this will help fund your premiums
- Medical underwriting including history – You need to ensure you have good clear medical records from overseas.

Advice

- It's very important to seek appropriate advice by a fully licensed Adviser who can provide you with what is necessary. The adviser will do a full needs analysis and make a recommendation on the products that are appropriate to you and your needs.
- If you get the wrong products for the wrong levels and types of cover, this will cause problems down the track.
- We recommend you do this when you arrive in Australia.

AT A GLANCE

- Personal insurance provides protection against sickness or injury. It aims to protect the personal wellbeing of a person.
- An expat is exposed to new risks, issues, costs and lifestyle due to the move from their home country. Considerations in relation to personal insurance therefore take on a more important role.
- The four main categories of personal insurance are income protection, term life, total and permanent disablement, and trauma and critical insurance cover.
- Income protection insurance provides protection to an insured by paying up to 75% of their income if they are unable to work due to illness or injury.
- Term life insurance protects an insured by paying a lump sum to their family and dependents should they die. In some cases, payment can be when they are diagnosed as terminally ill.
- An income protection and term life insurance policy can be entered into, and paid for, either directly or via a person's superannuation fund.

- Total and permanent disablement cover pays a benefit should a person become totally and permanently disabled and unable to work again.

- Trauma and critical insurance cover pays a lump sum if a person suffers a major illness or injury such as cancer, heart attack, or stroke.

- Visa restrictions apply to certain insurance categories. For example, an expat holding a 457 working visa can only qualify for life insurance if their visa is for a minimum term of two years.

- Due to the various types of personal insurance and various types of cover it is important that an expat obtain professional advice prior to entering into any personal insurance policy.