

Australia's family insurance crisis

Earlier this year, IFSA investigated the worrying patterns of personal insurance among Australian families. The results highlight our dire need to understand not only the cost of personal insurance, but the cost of not having it.



Our great nation is spoilt with ample opportunities for work and social freedom and provides, a safe, enjoyable place to raise a family. This lifestyle however can be altered in a second if, like 4,400 families per year¹, the death of a dependant parent occurs. Sadly, it seems few Australians are prepared for such a devastating blow.

Research companies TNS Research and RiceWalker Actuaries conducted the recent underinsurance investigations commissioned by IFSA (Investment and Financial Services Association). They focused on young Australian families, and with good reason – this demographic is largely underinsured, yet would benefit most when sufficiently covered.

RiceWalker found average full-time workers with young children required 10 to 13 times their taxable earnings to maintain their standard of living if their family experienced a death. For average Australians on \$50,000 p.a., this is more than \$500,000.

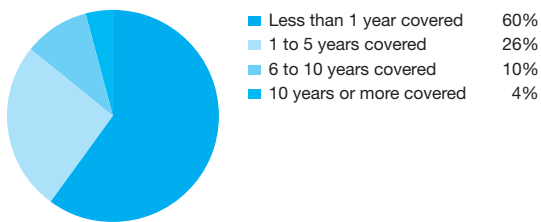
The insurance gap

Of the 5.5 million Australian families with dependant children at home, a mere 4% have adequate life cover. Also alarming is that 60% of families lack sufficient cover to look after their loved ones for more than one year after they die (see below).²

A study by re-insurance firm Swiss Re compared the life insurance gap in a number of countries, measuring actual insurance against what is required. Australia had the largest gap among all countries measured – equating to more than \$1,370 billion.³

How long will current levels of life cover maintain income?

Number of years of income covered by current life cover²



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Why do Australians avoid personal insurance?

Many Australians would not think anything of paying high premiums to insure their car, but few make the same financial commitment when it comes to protecting themselves or their families.

To help find out why this is the case, TNS Research surveyed a number of Australian families on the attitudes and behaviours affecting their insurance decisions. They found some common obstacles.

“It costs too much”

The majority of those surveyed understood the main purpose of insurance was to protect their family. They also believed in its benefits and positive outcomes. The most common reason parents avoided cover however, was they believed it was too expensive, complicated, and a hassle to maintain.

“Clearly our industry has to do a better job of dispelling the widely held belief that life insurance... is too expensive. Term life cover for up to \$700,000 can be bought for around \$1⁴ per day.” Richard Gilbert, IFSA CEO

“I already have it in my super”

40% of Australians know they have automatic life cover through their super fund². This may lead many people to believe they are protected when a tragedy strikes. In actual fact, for workers with average levels of super death cover, the insurance held represents less than 20% of average needs³.

A super solution to underinsurance

To help make it easier for your clients to take out or top up insurance cover, MLC has introduced MasterKey Protection Essentials Super.

MasterKey Protection Essentials Super takes the most popular features and options from MLC’s award-winning Personal Protection Portfolio (PPP), and provides your clients with a simplified protection offer that can be integrated with MasterKey Superannuation.

It’s now even easier for your clients to apply for insurance (or top up their cover) through super – potentially reducing the after-tax cost of premiums.

It is also easier for you with a simplified application process using Tele-Application Service. For more visit mlc.com.au

“I’m invincible”

Personal insurance apprehension is also fuelled by the thought ‘It’ll never happen to me!’ Walking your clients through the financial ramifications of such thoughts could help them see the need to protect themselves and their families in the long run.

Eradicating the life insurance myths

Greg Einfeld, General Manager of MLC Protection, believes public awareness is the first step to alleviating Australia’s underinsurance crisis. “The results of the IFSA report are not surprising. Australians are generally complacent and don’t understand how much cover they really need. We intend to run educational campaigns in conjunction with IFSA in an attempt to bring the crucial matter of underinsurance to the public’s attention”.

Research suggests many people know the importance of protecting their most valuable assets. But it is clear Australia is vastly underinsured.

The challenge is to ensure the actual costs and benefits of such an important investment are understood – putting personal insurance at the forefront of minds when financial management decisions are made.

Australia's underinsurance at a glance

- There are 5.5 million families in Australia with dependant children²
- Only 4% of families are adequately insured²
- Australia's insurance gap equates to \$1,370 billion³
- Superannuation cover represents less than 20% of needs³
- Parents require 10 – 13 times their earnings for life cover³
- A third (31%) of Australian's aged 18-59 years, have no life cover at all⁶
- 53% of adults believe they should have life insurance⁵
- 45% of people under 34 feel they need life cover when they are older⁶

- 1 Australian Bureau of Statistics – section 2.2
- 2 TNS Research, *Investigating the Issue of Underinsurance in Australia*. August 2005
- 3 RiceWalker 's report, *Analysis of Insurance Needs*. May 2005
- 4 Assumes a term life policy for a 30 yr old non-smoking female. Tax-free payment of \$700k from one IFSA member company costs as little as \$1.02 per day (\$1.10 per day if monthly).
- 5 CommInsure, *Life Insurance Study*. October 2004
- 6 Financial Advice Centre, *Australian Attitudes towards life insurance*. August 2004

Rob and Angela's Story

Rob and Angela celebrated Australia Day 2002 much like any other Australians – with a barbecue and beer. But not too much beer for Angela though, with only 6 weeks until the birth of their first child.

Five days later, their whole world was turned upside down when Angela suffered a severe brain aneurism, leaving her comatose and requiring immediate life support. While doctors felt Rob and Angela's baby could be saved, they were not as confident about Angela. Six days after the aneurism, baby Makenzie was born by Caesarean.

The long road to recovery

Angela remained on life support for a further three weeks before waking up and becoming aware of her precarious situation. Significant paralysis throughout the right side of her body meant she was not only paralysed but also unable to communicate clearly. The aneurism also left Angela suffering from Aphasia – a neurological disorder causing language and comprehension difficulties.

Three months of intense rehabilitation saw Angela re-learn how to walk, talk and do everyday tasks like boiling water.

Things were now starting to look up for the family from a health perspective. Their financial situation, however, was a different story.

Battling an uncertain financial future

Before Angela's life threatening aneurism, her future looked set. They were financially secure with a mortgage on their home in one of Brisbane's inner city suburbs and a baby on the way. Angela was earning around \$50,000 p.a. as an HR manager, while ironically Rob had recently given up a 6-figure salary to begin his studies in financial planning. Two years prior to marrying Angela, Rob was advised to take out income protection insurance which he did – just in case. However, he was not advised and didn't consider reviewing Angela's insurance requirements. And unfortunately, illnesses like brain aneurisms do not discern between those who have insurance and those who do not.

Without the benefit of insurance for Angela and with Rob in the middle of a career change they could not afford assistance at home. However, Angela could not cope at home alone with her disabilities and a baby, so they moved in with her parents. In order to continue to reduce their level of debt, the couple rented out their inner city home.

The hard road to independence

After nearly nine months of these living arrangements, Rob and Angela decided the time had come to go it alone. Unfortunately, as their level of debt was still too high to allow them to move back into their inner city home on just one salary, they moved to a suburb much further out to start their new life.

Had Rob and Angela had the benefit of insurance behind them, this story may have had quite a different ending. They might still be living in the inner city home they worked so hard to achieve, and they might not have had to depend on Angela's parents for so much assistance.

While Angela's great determination helped her to succeed in learning to walk again (in fact just 18 months after the aneurism, she ran the 42km Sydney marathon) and communicate effectively, the added pressures the couple experienced financially could have been avoided had they been advised about protecting their wealth.

Protecting Aussie mums

- 48% of full-time working mothers believe life insurance is too expensive.
- 20% of full-time working mothers have enough insurance to cover their income for 3 years or more.
- Families losing stay-at-home mums may require more than \$75,000 per year for child care or home help expenses.
- 50% of female parents have life cover compared to 62% of male parents.

Source: IFSA – *Australian mothers – undervalued and underinsured*, October 2005