Life insurance cover among Australian families

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In May 2005, a study conducted on behalf of the Investment and Financial Services Association (IFSA) by Rice Walker Actuaries estimated that **as many as 60% of all Australians are underinsured.** Today, the problem is still of major concern. The harsh reality is that in the event of an accident or illness leading to death or permanent disablement, many Australian families would not receive a large enough payout to cover even a year's income and an estimated **80% of people would only have enough cover to last up to 5 years.**

For couples in their mid-thirties with young children, it has been estimated that their life insurance needs would range from around 10 to 13 times their taxable earnings – depending on the level of their partner's earnings. Australian Bureau of Statistics (ABS) figures show that around 4,400 parents with dependent children die each year.

With so many families with nowhere near the level of cover required, it is not surprising that the underinsurance problem is of growing concern. When considering Australia as a whole, it is estimated that the level of underinsurance for parents with dependant children is of the order of $1,300 billion.

It is not a nice thought, but imagine how difficult it would be for these families to deal with this unexpected financial pressure at an already emotionally challenging time?

Expenditure needs

Today it is more important than ever for families to take steps to protect themselves financially. With increasing levels of mortgage, credit card and other debt it is critical for Australian families to protect themselves in the unfortunate event of an accident or illness.

Families with dependant children are likely to be the most significantly impacted when considering the financial consequences of the death or permanent disablement of an individual. According to Rice Warner Actuaries, these are basic requirements for an Australian family:

Single with no dependants

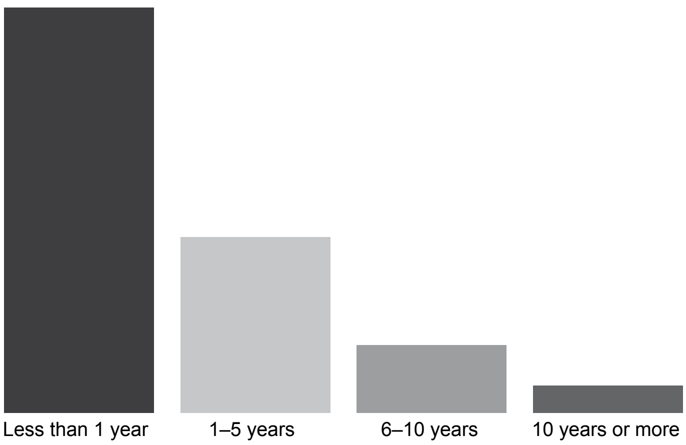
- Needs ranges from 2 times taxable earnings at younger ages to 6 times taxable earnings at older ages

Parents with younger children

- Needs estimated to be 10 – 13 times taxable earnings (full-time)
- $500,000 – $650,000

Parents with older children

- Needs estimated to be 6 – 9 times taxable earnings (full-time)
- $300,000 – $450,000



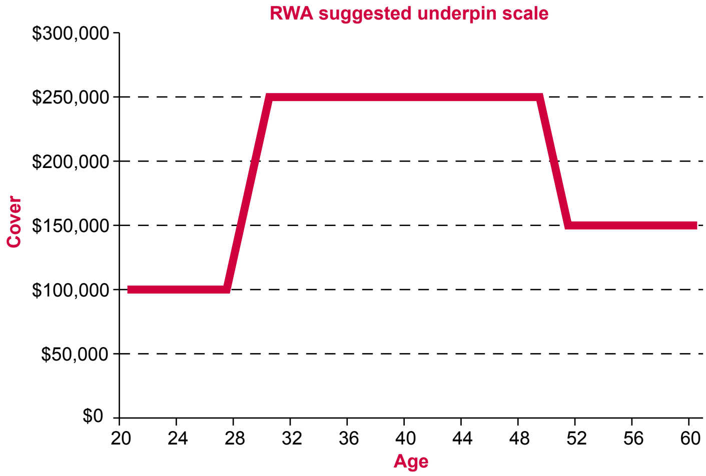
Number of years of income covered by current life cover

Minimum insurance required

There will be different views as to the level of life insurance protection required. Rice Walker's view is that a reasonable objective could be defined as:

'The maintenance of the current living standard of any partner together with any dependants for as long as they may be expected to remain dependants.'

The below scale of cover is a suggested **minimum** coverage based on the findings of the Rice Walker Actuaries study into sufficient insurance coverage. The assumption was made that most people under 30 will be single; most people between 30 and 50 will be married with young children, while those over 50 will have older children.



So, in considering these facts, it can be seen that life insurance is clearly not just an issue for the elderly. **Life insurance in fact should be an essential component of every family's financial plan.**

To discuss the issue of underinsurance further and how you may look to help address this issue, please contact your local Sales Manager or our Adviser Services team on Freecall 1800 033 490 (option 4).

Except where otherwise indicated, all references to statistics and tables in this article are sourced from the study titled *Cost of Underinsurance Project – Analysis of Life Insurance Needs*, by Rice Walker Actuaries on behalf of the Investment and Financial Services Association (IFSA), May 2005.

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