

WHY YOU NEED INSURANCE: THE FINANCIAL FACTS

The risks are real – what could happen, and if it did, what financial impact and help would be available to a typical couple?



MEET JACK & JILL – A NEW ZEALAND COUPLE LIKE PEOPLE YOU KNOW

Jack is 35, Jill is 32, both in management positions. They have two children under the age of 18. Neither smokes. A quick look at Jack and Jill's financial situation:

- Jack earns \$5,000 a month, Jill \$7,000 a month, before tax
- Jack's after tax income is \$3,809 a month, and Jill's is \$5,065
- They have a home loan of \$424,000 with monthly repayments of \$2,650
- Jill has a KiwiSaver balance of \$22,000, Jack has \$14,000
- Excluding their home and cars, they have cash & other investments of \$12,000

What could happen?	Dying	Becoming Totally & Permanently Disabled	Suffering a Critical Illness	Becoming Temporarily Disabled
What are the chances?	17% <i>chance of either Jack or Jill dying before age 65</i>	9% <i>chance of either Jack or Jill suffering total & permanent disability before age 65</i>	25% <i>chance of either Jack or Jill suffering from one of about 40 critical illnesses before age 65</i>	27% <i>chance of either Jack or Jill suffering a period of temporary disability, which means that they cannot work for 6 months, before age 65</i>
What's the financial impact?	LOSE AN INCOME <ul style="list-style-type: none"> • Budget short by \$5k - \$7k a month • A modest reduction in expenses 	LOSE AN INCOME <ul style="list-style-type: none"> • Budget short by \$5k - \$7k a month • An increase in expenses due to care costs 	COST OF CARE <ul style="list-style-type: none"> • Particularly if Non Pharmac subsidised drugs or treatment overseas is required 	LOSE AN INCOME FOR SIX MONTHS <ul style="list-style-type: none"> • Budget short by \$5k - \$7k a month • An increase in expenses due to care costs
What help would they receive for Jack? <i>These amounts are all non-taxable or after tax</i>				
ACCOMMODATION SUPPLEMENT Auckland Central & North Shore only	\$23.00 per week	\$41.00 per week	\$0.00	\$41.00 per week
CHILDCARE For children under 14 in approved childcare	\$3.98 per hour	\$0.00	\$0.00	\$3.98 per hour
SOLE PARENT SUPPORT / FUNERAL GRANT / SUPPORTED LIVING / DISABILITY ALLOWANCE				
	\$0.00	\$0.00	\$0.00	\$0.00
SPECIAL DISABILITY ALLOWANCE If Jill is in hospital or a rest home for over 13 weeks	\$0.00	\$0.00	\$32.28 per week	\$0.00
WORKING FOR FAMILIES	\$118.00 per week	\$58.00 per week		
What help would they receive for Jill? <i>These amounts are all non-taxable or after tax</i>				
ACCOMMODATION SUPPLEMENT / CHILDCARE / SOLE PARENT SUPPORT / FUNERAL GRANT / SUPPORTED LIVING				
	\$0.00	\$0.00	\$0.00	\$0.00
DISABILITY ALLOWANCE If Jack is in hospital or a rest home for over 13 weeks	\$0.00	\$0.00	\$32.28 per week	\$0.00
WORKING FOR FAMILIES	\$20.00 per week	\$0.00		

	Dying	Becoming Totally & Permanently Disabled	Suffering a Critical Illness	Becoming Temporarily Disabled
How long would their savings last?	<p>The \$12,000 cash at hand would only be sufficient to meet final expenses – funeral and other costs</p> <p>One KiwiSaver balance would be available immediately. The other could be available under the hardship clause (partial). The total of \$36,000 would last between 6-9 months at current rate expenditure</p>	<p>One KiwiSaver balance would be available immediately, as withdrawal is allowed in the event of Total and Permanent Disablement</p> <p>Most of the other could be available under the hardship clause. The total of \$36,000 would last between 6-9 months at current rate expenditure</p>	<p>The \$12,000 cash at hand would cover just under two months loss of Jill's income and under three month's loss of Jack's income</p> <p>KiwiSaver balances would probably not be available because of a possible return to work and the ongoing income from the working partner. They would become available if, say, recurrence, or disability meant a permanent loss of income or serious illness which poses risk of death</p>	
What other options do they have?	<p>SELL & BUY A CHEAPER HOUSE Which means moving schools and the costs and stress of moving are added to the grief of losing a partner and a parent</p> <p>SELL & MOVE HOME Older parents may not be able to accommodate the family for long</p> <p>SELL & RENT Which may also mean the stress of moving, changing location and may not save that much</p>		<p>If full recovery from the critical illness were likely then accessing some short-term debt is possible. But it isn't always known: will Jack get better or will the cancer recur aggressively?</p>	<p>If the disability is, say, a musculo skeletal problem: like a broken shoulder that will heal and the person can return to work then a combination of sick leave, extra debt, and using savings could work. But what if it is the onset of serious arthritis? – a slowly worsening disorder would soon mean losing the house.</p>



IT'S UP TO YOU

You don't have to take this much risk. Insurance can be an effective way of providing financial protection should the worst happen. One guideline commonly offered is that you should spend the income from one hour out of the typical 40 hours working week to protect your family.

TALK TO A FINANCIAL ADVISER

Whatever your attitude towards risk, we recommend that if someone – you, your partner, your children or your business partners depend on you somehow, then you should discuss the financial impact of the risk with a financial adviser who understands insurance.

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