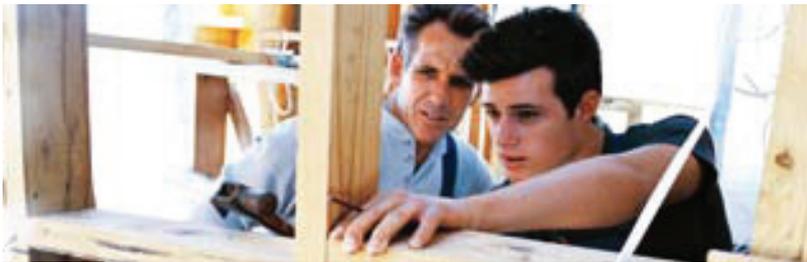


# Your money Your future



Financial Planning Newsletter - Edition 1, 2011

## Taking care of business



There are almost two million small businesses in Australia, and while 61 per cent have sole proprietors, the rest employ almost 4.8 million people or 48 per cent of private sector employees.<sup>1</sup> Small business is really big business!

But what happens when a key person in a small business dies or can no longer work?

It's estimated there's a 52 per cent chance that if there are two male business partners both aged 35 then one will die or become permanently disabled before age 65. If there are four partners this risk rises to 77 per cent, and to 89 per cent if the business has six partners.<sup>2</sup>

That's why all small businesses need insurance which allows the business to keep operating should the owner or a key employee become incapacitated. The smaller the business, the greater the impact can be.

### Keeping the wheels turning

The main insurances protecting business owners are buy/sell and key person insurance. While each type assists the business to continue operating, they are separate options that complement each other.

A business needs to maintain an effective continuity strategy.

Key person covers the company for loss of revenue or capital should a key player die or become incapacitated. While that person may not be a shareholder in the business, their knowledge and expertise is considered vital. This insurance provides the business with a lump sum to help keep the business afloat until a replacement is found.

Buy/sell insurance is not about cash flow but business succession, helping the remaining partners or shareholders fund a buyout if a partner dies or becomes incapacitated.

Without buy/sell insurance, surviving partners may be thrust into business with the spouse of their original business partner, regardless of their availability, skills or interest. The results can be devastating: surviving partners running the business single-handedly but having to share the profits, or locked in dispute with the new partner over key decisions. A buy/sell agreement lets the surviving partner buy the business, and sets an agreed sum in place so that the business is not sold for an unreasonable amount.

All businesses need an exit plan from day one, so why not talk to us about how your business can plan for and survive the unexpected.



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# How can trauma insurance help?

What would happen if you suffered from a traumatic illness and had to take time off to recuperate, or were unable to return to work in the same capacity?



Who depends on your income? How would you pay for your mortgage or children's school fees? How would you maintain your current standard of living?

Trauma insurance is one way to help you and your family cope financially with the impact of a trauma event such as cancer, heart attack or stroke. If you suffer a trauma event during the term of your plan a lump sum is paid which can be used to ease the financial stress due to a loss, or reduction, in income.

While it is hard to think about the possibility of suffering a major trauma event in your lifetime, the likelihood is very real. Currently one in three Australian men and one in four women will be diagnosed with cancer by the age of 75.<sup>1</sup>

Although death from a major trauma can be a reality, mortality rates for many of our leading health concerns are falling due to

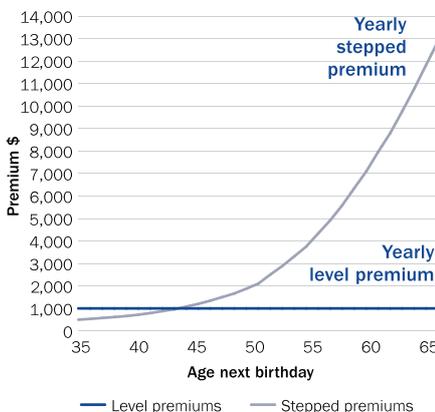
better diagnostic tools, earlier detection and improvements in the treatment of trauma events. Research shows great gains in the five-year relative survival for people diagnosed with cancer in the early 2000s, compared to those diagnosed in the early 1980s. For the 50–59 age group, survival increased from 50 per cent in 1982–86, to 71 per cent in 1998–2004.<sup>2</sup>

These survival statistics are positive news. However, those who do survive a major trauma still face the ongoing costs associated with their care, rehabilitation and existing financial commitments.

## Choosing a trauma plan to suit your needs

When taking out trauma insurance you can generally structure your premiums in one of two ways: stepped premiums or level premiums. Each option provides the same benefits for any given sum insured, however the premium paid over the life of each plan differs:

- **Stepped premiums** are linked to age so the premium rate increases, or 'steps up', each year in line with your age, reflecting the higher risk of a claim being made.
- **Level premiums** remain the same throughout the duration of your plan, although premiums can be indexed for inflation if required. Premiums are averaged over the term of the contract however, at a predetermined date, level premiums will change to stepped.



Age next birthday	Yearly level premium	Yearly stepped premium
35	\$1,009	\$508
40	\$1,009	\$729
45	\$1,009	\$1,211
50	\$1,009	\$2,109
55	\$1,009	\$4,343
60	\$1,009	\$7,969
65	\$1,009	\$12,894

## What are the benefits of stepped versus level premiums?

The answer to this question depends on your personal circumstances, including your age and how long you will require the cover.

Stepped premiums are likely to be the cheapest option at the beginning of your policy with lower payments than level premiums at the outset. However, as time goes by, stepped premiums overtake level premiums and can become prohibitively expensive around the same time your chances of claiming become more likely (typically between the ages of 40-55 according to historical claims).

Consequently stepped premiums may suit those, for example, who need a short-term insurance solution, during periods of high financial exposure, such as a home mortgage or business loan.

In contrast, level premiums may be more suitable for those seeking long-term protection, such as supporting a family and children until age 18 and beyond. While level premiums are more expensive at the outset, they remain constant, potentially making your premiums more affordable as you get older and your chance of making a claim increases.

## Blended premiums

A third option, offered by several insurers, is blended premiums. This hybrid option fills the gap between stepped and level premiums and offers the best of both worlds. Premiums are priced somewhere between stepped and level at the outset, rise during the first stage of cover and then level-out to a fixed rate. At a set age the blended premium reverts to stepped for the remainder of the policy.

Whether you choose stepped or level premiums, or a combination of the two, it is important to ensure you have a sufficient level of protection to cover any financial obligations in the event of the unexpected.

Speak to us for more information on the right level of cover and the right premiums for your needs and your budget.



Premiums calculated using AXA's Premium Quoting Tool. The premiums are not guaranteed and may vary in the future. Assumptions: Premiums have been calculated for a male, non-smoker, age 35 with \$250,000 sum insured trauma insurance with policy fee.

1 Source: Australia's Health 2008, Australian Institute of Health and Welfare (AIHW).  
2 Source: Australia's Health 2008, Australian Institute of Health and Welfare (AIHW).