

How much insurance is enough?

How much insurance is enough for you? And what is a reasonable level of insurance that you should have? The answers to these questions greatly depend on your individual circumstances and needs. Some key issues that contribute to your insurance needs include:

> Age:

This is a key determinant of the level of cover you need. A young single person will see very little need for death insurance. However, this changes quickly once they get a mortgage and/or start a family. The need will generally stay high for many years, usually until the mortgage is nearly gone and the children are off their hands. At that point the need for insurance will generally start to reduce.

> Income level:

The insurance provided in super funds is really insuring against the loss of future earnings. So the higher your salary, the greater the need for insurance. In addition, debt levels are typically linked to salary level; the higher the income, the higher the level of debt.

> Level of debt and assets:

Most people would like to think that their debts were cleared upon their death. The death of a loved one is obviously stressful enough, but this stress will be greatly magnified if the family also have to worry about how to deal with remaining debt. Likewise, if a person has lots of investments that can readily be converted to cash to cover any debts, this reduces the need. However, the family home does not normally fit into this situation as the family will still need to live somewhere.

> Number and ages of dependents:

Feeding, clothing and educating children is very expensive, so these costs should be factored in to any calculation of required insurance.

Lifestages

To provide a simple guide, the following broadly outlines what level of insurance may be appropriate at different lifestages. They are purely indicative and are to be used as a general guide only.

> Debt and dependent free (approximately ages 18 to 30)

One year's salary should be sufficient in the event of death, but if you were to become totally and permanently disabled (say in a car accident), you may need more like 10 to 15 times your salary.

> Debt and or dependants (approximately ages 30 to 50)

A reasonable approach for people at this stage in their life would be to have insurance equal to the amount of their debt, plus an amount equal to 25% of their salary for each year remaining to age 65.

On this basis, a 40 year old on a salary of \$80,000 and a mortgage of \$300,000 may need insurance for \$300,000 + \$500,000 (25 x 25% x \$80,000) = \$800,000.

> Reducing debt and dependents (approximately ages 50 to 60)

People in this category can use the same basis as the group above. For example a 53 year old with a salary of \$95,000 and a debt of \$50,000 may need insurance of \$50,000 + \$285,000 (12 x 25% x \$95,000) = \$335,000.

> Debt and dependent free (approximately ages 60+)

Members in this group have little need for cover and one year's salary may be sufficient to settle their affairs and give their spouse sufficient immediate income to continue living.

Insurance Calculator

For an example of your insurance needs, you can visit the Financial Services Online website <http://www.financialservicesonline.com.au/Calculators/TermLifeCalculator.htm> that has a simple calculator to help you calculate a recommended amount of cover for your own circumstances and needs.

Need advice?

If you would like more advice on the amount of insurance that is right for you, we recommend you obtain financial advice. Equisuper is able to provide you with personal advice relating to insurance. To find out more please contact our Helpline 1800 682 626.

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The taxation information included in this brochure is a general guide only. As taxation laws are complex and individual circumstances vary, you should seek individual taxation advice from a qualified advisor.

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