



Trauma Insurance

What trauma is and isn't

Trauma insurance – sometimes known as critical illness insurance – provides a lump sum payment in the event of a major illness or injury, such as a cancer diagnosis, heart attack or stroke. In all, it covers more than 40 different conditions and provides financial support for the family at a difficult time to cover medical costs, time off work (for the spouse as well as the insured) and potentially mortgage relief.

In the last 12 months, PrimeWealth, together with MBS Insurance, has worked with several clients on trauma claims. In total \$1,712,188 has been paid out in that time and it is, without question, the cover that we see pay out more than anything else – it is incredibly valuable.

In some cases, the client was not aware that their illness was covered by the insurance, and had no intention of making a claim, highlighting how important the right financial advice can be. These payouts have made a huge difference in our clients' lives, and helped them at a time when they have been most vulnerable.

As with other types of personal insurance, the cost of a trauma policy will vary depending on how likely you are to make a claim. This is calculated with reference to your age, gender, occupation, health status and the amount of cover you're seeking. A non-smoking 35-year-old male, for example, should be able to take out a \$150,000 trauma policy for around \$300 a year and this will entitle him to a \$150,000 tax free lump sum **on diagnosis** of one of the defined conditions.

Why you may need it

You may be wondering why you might need a trauma insurance policy if you have private health insurance. If you have other forms of personal insurance that provide a much larger payout if something goes wrong, you may wonder

why you need to bother with trauma cover?

The answer to the first question is that trauma cover pays for large medical bills not covered under private health funds (the gap), rehabilitation, carers, other forms of treatment and loss of income that health insurance does not. The answer to the second question is that trauma is best seen as a complement to, rather than substitute for, these other forms of personal insurance:

- **Life insurance** pays your dependants a lump sum if you die
- **Income protection insurance** replaces (most of) your salary for the period you are unable to work due to illness or injury.
- **Total and permanent disability (TPD) insurance** provides you with a lump sum payment if you suffer an injury or illness that prevents you ever working again.

It is also particularly relevant for couples with one income – the working spouse may have income protection cover that protects them in the event of illness or injury but if the non-working spouse is taken ill, trauma insurance can provide a lump sum to ensure that the working spouse is able to take time off to care for their partner (or at least alter their existing work arrangements) without undue financial pressure.

A small outlay for a lot of peace of mind

If you have superannuation you almost certainly have some life insurance, TPD cover and possibly even income-protection cover 'baked in', although the amount of cover is often low so you may need to buy a separate policy outside super. Trauma cover can only be purchased outside super, which brings us back to the issue of why bother.

Take the 35-year-old who is paying \$300 a year for trauma insurance. Let's say he's diagnosed with cancer. He has a life insurance policy but it's not going to pay out anything unless it's terminal cancer. He's got TPD insurance but it's not going to pay out anything unless the cancer is going to result in a total and permanent disability. He's got income-protection insurance but that's only going to pay out, after a waiting period, once proof has been provided that the cancer is preventing him from earning an income.

With trauma insurance, there are no ifs or buts. Once the diagnosis is made, he qualifies for a tax free lump sum of \$150,000. That's not going to set him up for life by any means, but it will allow him to cover medical expenses and pay the mortgage if he needs to, or chooses to, stop working for a while to concentrate on getting well.

If, like our hypothetical 35-year-old, you have financial responsibilities and want the reassurance of a payout if you suffer an insurable health-related setback then trauma insurance may be for you.

Avoiding being under or over insured is no simple task. If you'd like us to help you work out your insurance needs, give us a call on 02 9415 1511.

