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6 misconceptions about life insurance

The probability of you developing a serious illness or getting involved in an accident so severe you're unable to work, may seem highly unlikely... until something happens. It's often small events that remind us we're not completely in control of these possibilities, which is exactly what life insurance is for.

Unfortunately, there are a lot of misconceptions about life insurance which can lead to missed opportunities to protect ourselves and our dependants. In this article, we'll set the record straight for six of them.

1. You don't need insurance if you don't have dependants

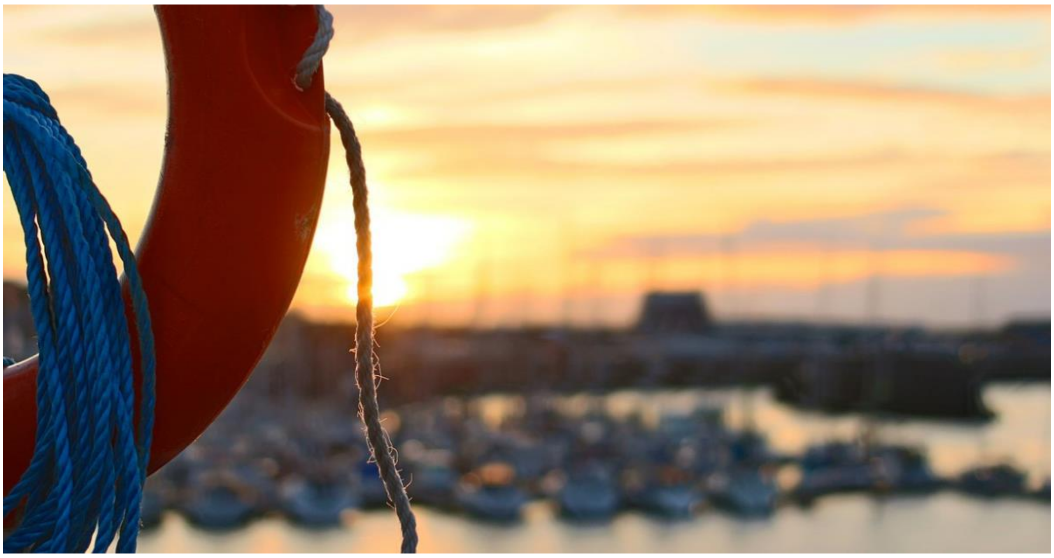
If you don't have anyone financially depending on you, you may be under the impression that you don't need life insurance, but it's not always the case. There are other financial commitments which could make it worth considering.

For example, if you fall sick or become injured for an extended period of time and are unable to work, you'll still need to meet day-to-day expenses. Having Income Protection may therefore help you in covering a portion of your income.

2. Life insurance is set-and-forget

Unfortunately, it's not enough to stuff your life insurance policy in a drawer and forget about it.
Adjusting your policy is extremely important as your needs change. If you decide to reduce your level of cover though, make sure you're not leaving yourself exposed. For instance, even if your children are no longer financially dependent on you, your spouse may still need financial support if you were to pass away. Reducing the total amount your cover could also place you at risk if it's not keeping up with inflation.

Speaking to a financial adviser can help you determine how much cover you actually need, if you are considering reviewing your life insurance.



3. Naming your child as a beneficiary is a good option

If you name your child or grandchild as your primary life insurance beneficiary, complications can arise if you pass away before they turn 18.

In most circumstances, if your child is under the age of 18, the courts will appoint a guardian or custodian to look after how the money is managed. Restrictions, legal fees and other costs may take a significant amount of your life insurance proceeds, at your child's expense.

A solution you could consider is to set up a trust on behalf of your dependants, which you can name as the recipient of your life insurance proceeds. This can provide financial security for those who can't or don't want to handle large sums of money or other assets.

4. You don't need insurance because you've paid off your debts

While your need for life insurance may reduce once your kids have grown up and you've paid off your debt, it's still worth considering it to cover things like everyday living expenses, any outstanding debts, medical and funeral costs.

Rather than removing it completely, you may therefore need to simply reduce it, depending on your needs.

5. You've got life insurance covered through super

Many super funds offer life insurance cover which is often cheaper than being insured outside of super. Your premiums are also deducted directly from your super rather than a bank account and there are some tax benefits too.

But it is possible that the amount of life insurance cover you have available through super, may not be sufficient for your needs.

So if you're unsure about it, consider finding out exactly what you could receive if you were to make a claim and compare this to what you actually need. Your super fund or a financial adviser can help you with this.

6. You only need to insure yourself if you're the breadwinner

If a dependant, such your spouse or child falls sick, you want to ensure that you're able to care for them.

Child cover for example, can provide a lump sum if your child suffers a serious illness or injury (refer to the product PDS to see if this is an option and what it covers). The money may also help you take time off work to focus on what matters most.

Of course, there is an added expense to insuring your family members under your policy, so consider whether it is worthwhile.

Source: BT, March 2019