



**Money
Mechanics**

Strategic Financial Advice

Your backup plan and Personal Insurances

Create Wealth through Understanding

About Scott Malcolm

Scott Malcolm is director and principal consultant of Money Mechanics, a specialist Financial Life Planning firm in the areas of Superannuation, Wealth Creation and Education services.



Our life planning process brings together technical expertise and the human touch to create a solution tailored towards your overall life goals. We choose to not take upfront or ongoing commission on financial products, to provide our clients with a clear fixed fee for advice structure that isn't tied to any product providers.

Money Mechanics believes in the value of education and financial literacy. There is an array of jargon in the financial world and we aim to demystify this through conducting regular education programs.

Scott Malcolm B.Comm | SSA® | RLP | Adv Dip FS (FP) |
Authorised Representative (No. 262368)
Director and Financial Strategist

Contact advice@moneymechanics.com.au

Phone 1300 772 643

Website moneymechanics.com.au

Notice: While we have checked everything within this booklet, no person should rely on the contents without first making their own inquiries or obtaining advice from a qualified person regarding their personal circumstances

Money Mechanics Pty Ltd ABN 64 136 066 272 is authorised to provide financial services advice through PATRON Financial Services Pty Ltd trading as PATRON Financial Advice ABN 32 307 788 137 Australian Financial Services Licence No 307379

Types of Insurances

Generally there are insurances available for different insurance events. In very general terms these can be for a lump sum or regular income payment. There are generally two types of insurance, general and life.

General Insurance: is for anything that does not insure a personal life. For example this would include your car, house, contents, liability, indemnity and health and travel insurances.

Life Insurance: is for insurance over a person or linked to a person and can result in a lump sum or income payment.

Types of Life Insurances

Term Life – Generally the most basic form of life insurance as a lump sum is paid on the death of the life insured. Contracts can differ from policy to policy and could include an accidental death clause or suicide clause or restriction.

Total Permanent Disability – This insurance will pay a lump sum if the life insured becomes totally or permanently disabled. It is important to understand the contract of the insurance policy that you have as only certain events or classifications of disablement will provide the lump sum benefit.

Trauma – This insurance will pay a lump sum if the life insured suffers a defined trauma event. Trauma events are defined by the insurance provider and will be defined in the contract of the policy. Some basic policies will only cover events such as heart attack or stroke with limited cancer events so it is important to have an understanding of your family history as well as what is covered by the contract you have.

Income Protection – This insurance will pay a regular income payment for the life insured if they suffer total or partial disablement as defined by the policy document. You can control the level of cover by reducing or extending the payment period and the waiting period until a benefit is paid. Generally your sick leave and ability to fund lifestyle for a period will determine these levels. If you are self employed you can cover business expenses or protect income depending on the structure of your employment or industry.

The Contract

This is the most important part of an insurance policy as it details how and when the insurance company will pay a claim. Typically a policy will include the following headings:

Life Insured / Items Insured: What is covered under the policy could be an asset or a person.

Policy Owner: The policy owner is the beneficiary of the insurance payment so if you want to ensure money goes to a certain person you can control it with this part of the policy. You should be aware that this could mean a payment will not go to an estate of a person and be managed by their Will.

Terms: When and under what conditions the insurance company will pay the claim.

Exclusions: These are events in which the insurance company will not pay claim.

Premium: What you will pay for the insurance cover and how often.

Insurance Tips

1. Shop around for the best premium
2. Use longer waiting periods or higher excess amounts to reduce the overall cost if you can carry the risk
3. Read the contract and fine print (what is covered and what isn't!).
4. Don't sign anything if you are not sure about it. Ask questions!

Tax Point: *When it comes to the taxation and deductibility of life insurance premiums it depends on the structure the insurance is held. Lump Sum insurances held in your personal name are generally not deductible however in superannuation they can become a deduction for the super fund but then the conditions of payment must be met in order to access the benefits.*

For income protection insurance the premium could be deductible but there may be tax consequences if you go onto claim. If in doubt, speak with a professional adviser.

Insurance Needs Analysis

There are many ways to determine your needs analysis for insurance products. One starting point is to look at your ability to fund your income requirements; the following table may assist.

***Replacement Income requirements** (for death, trauma and TPD):

	You			Partner		
	Death	TPD	Trauma	Death	TPD	Trauma
How long would income be required (A eg 5 years)?	___Y	___Y	___Y	___Y	___Y	___Y
Amount required p.a. after tax (B eg \$52,000)	\$			\$		
Expected Return on investment (C eg 5% = 0.05)						
Indexation (D eg 3% = 0.03)						
On Death	You			Partner		
TOTAL (B/(Ax(C-D)))						
= eg \$52,000/(5x(0.05-0.03))						
= \$52,000/(5x0.02) = \$52,000/0.1 = \$520,000						
For Total Permanent Disability (TPD)	You			Partner		
TOTAL (B/(Ax(C-D)))						
= eg \$52,000/(5x(0.05-0.03))						
= \$52,000/(5x0.02) = \$52,000/0.1 = \$520,000						
For Trauma Event	You			Partner		
TOTAL (B/(Ax(C-D)))						
= eg \$52,000/(5x(0.05-0.03))						
= \$52,000/(5x0.02) = \$52,000/0.1 = \$520,000						

After working out your family income needs in the event of Death, TPD or Trauma it is then important to factor in any other lump sum requirements as follows:

Death Cover:

Replacement income requirements: (see above pg 13*)

You	Partner
\$	\$

Capital requirements:

Reduce / Clear home mortgage

\$	\$
----	----

Reduce / Clear other liabilities

\$	\$
----	----

Childcare / Housekeeper / Nanny

\$	\$
----	----

Education Costs

\$	\$
----	----

Other

\$	\$
----	----

Less assets that could be converted to cash:

(\$)	(\$)
-------	-------

TOTAL TERM LIFE REQUIREMENT

\$	\$
----	----

Total & Permanent Disability (TPD)

Replacement income requirements: (see above pg 13*)

You	Partner
\$	\$

Capital requirements:

Medical expenses

\$	\$
----	----

Reduce/Clear home mortgage

\$	\$
----	----

Reduce/Clear other liabilities

\$	\$
----	----

Childcare/Housekeeper/Nanny

\$	\$
----	----

Home modifications

\$	\$
----	----

Recovery Income

\$	\$
----	----

Other

\$	\$
----	----

Less assets that could be converted to cash:

(\$)	(\$)
-------	-------

TOTAL TPD REQUIREMENT

\$	\$
----	----

Trauma Event

Replacement income requirements: (see above pg 13*)

You	Partner
\$	\$

Capital requirements:

Medical expenses

\$	\$
----	----

Reduce/Clear home mortgage

\$	\$
----	----

Reduce/Clear other liabilities

\$	\$
----	----

Childcare/Housekeeper/Nanny

\$	\$
----	----

Home modifications

\$	\$
----	----

Recovery Income

\$	\$
----	----

Other

(\$)	(\$)
-------	-------

Less assets that could be converted to cash:

\$	\$
----	----

TOTAL TRAUMA REQUIREMENT

\$	\$
----	----

Income Protection Insurance

In order to calculate your needs for income protection insurance

Income Protection

	You	Partner
Current Salary (annually gross) (A)	\$	\$
Current Superannuation Payments (B)	\$	\$
TOTAL Income Earned (C=A+B)	\$	\$
Cover required (generally will only cover 75%) (D)	<input type="checkbox"/> 75% of salary <input type="checkbox"/> Other: _____	<input type="checkbox"/> 75% of salary <input type="checkbox"/> Other: _____
Total Cover Required (C x D) =	\$	\$
Waiting period (days)	<input type="checkbox"/> 30 <input type="checkbox"/> 60 <input type="checkbox"/> 90	<input type="checkbox"/> 30 <input type="checkbox"/> 60 <input type="checkbox"/> 90
How much sick leave do you have?	<input type="checkbox"/> 180 <input type="checkbox"/> 365 <input type="checkbox"/> 720	<input type="checkbox"/> 180 <input type="checkbox"/> 365 <input type="checkbox"/> 720
Benefit period (For how many years?)	<input type="checkbox"/> 2 <input type="checkbox"/> 5 <input type="checkbox"/> to age 65	<input type="checkbox"/> 2 <input type="checkbox"/> 5 <input type="checkbox"/> to age 65

Affordability

The cost of insurance can often be an obstacle for people that can result in taking on more risk in order to reduce premium costs. Ensure you are comfortable with continuing to carry the risk or take on a smaller amount of the risk by adjusting benefit amounts or payment periods. As mentioned in the planning process, insure the big risks, minimise the small risks and be mindful in life to avoid the risks that you can!

Underwriting process

Under the law when you apply for insurance you are required to provide the insurance company with any information that a normal person would or could be expected to know about you and that may influence their decision to provide insurance.

The premium is calculated and determined by the insurance company based on their risk assessment and underwriting process.

If you have a family history or current health issue they may add an exclusion or excess to the policy that would result in no claim being paid under those circumstances.

A simple outline of the process includes the following:

1. Quote provided and agreed upon;
2. Application completed and lodged with Insurance company;
3. Underwriting process commences;
 - a. Blood Tests or Medical Requirements requested;
 - b. Substantiation of income may be required;
 - c. Family history and current health checked with Doctor via Past Medical Attendance Report (PMAR);
4. Any adjustments to the policy provided to client for review;
5. Policy agreed under terms of the contract and policy issued;
6. Review policy if any circumstances change.

Glossary of Financial Terms

Annual percentage rate - The rate at which interest is charged over a yearly period in respect of money that is owed.

Bankruptcy - A legal process that people go through when they can not pay their debts. A bankrupt person gives control of most of the debts and assets to a bankruptcy trustee. The trustee decides which (if any) of the assets can be sold to pay off the debts.

Comparison rate - The interest rate on a loan that includes interest and most (but not all) fees and charges for the loan. For example, if a bank advertises an interest rate for a home loan of 5.49%pa, the comparison rate (once fees and charges have been included) might actually be 6.75%pa.

Compound interest - Interest earned on money that is invested over a period of time that is added to the original amount invested (the principal) and interest is then paid on the entire amount. Over a long time compound interest can be a good way to increase your savings.

Creditor - Someone who is owed money.

Debts (liabilities) - A debt is money that is owed. Another name for a debt is a liability.

Debtor - Someone who owes money.

Debt to Equity Ratio - This is the amount of the loan compared to the value of the property or asset purchased with the loan funds, expressed as a percentage. For example, a loan of \$400,000 to buy a property worth \$500,000 results in a debt to equity of 80%. Also known as Loan to Value Ratio (LVR).

Equity - Equity can mean shares in a company or an equity position in a property. For example, owning equity in a company is having an ownership interest in a company.

Expenses - The amount it costs you for your everyday living including food, transport, housing, clothing and entertainment.

Fixed interest - An annual percentage rate, or an interest rate that does not change for a specified fixed period.

Income - The amount of money you earn, such as wages and salaries, rental income, interest and government allowances. For a business or a company, income is equal to revenue less expenses.

Interest only - An 'interest only' loan means that your repayments only go towards repaying the interest for a specified period, rather than repaying the principal amount of the loan. For example, paying your loan "interest only" means that the principal balance stays the same.

Managed funds - An investment fund that pools together money that has been contributed by many investors for the purposes of investing the total amount in different investments such as shares, listed property trusts, bonds and cash.

Net worth - Your assets less how much you owe on your assets is your net worth. In order to meet basic needs and life events, an increase in your net worth should be a basic financial goal of most people.

Offset account - A bank account that is linked to a nominated home or residential investment loan. The balance of the offset account reduces the amount of interest payable on your linked loan.

Per annum (pa) - This means for the year.

Principal - For an investment, the principal is the amount of money invested. For a loan, the principal is the amount of the loan (the face value of the loan) upon which interest is then calculated and charged.

Power of Attorney - operates in circumstances where you may be suffering from either a temporary or permanent legal disability and are unable to make decisions for yourself.

Simple interest - Interest is paid on a set principal only and not re-invested.

Superannuation - An employer is required to contribute a proportion of a person's salary or wage to a superannuation fund on behalf of the employee. The money in the superannuation fund is invested with the aim of generating returns for retirement.

Term deposit - A banking product that offers a slightly higher annual percentage rate than savings accounts payable on the amount invested. A term deposit has a fixed term (which can vary) during which the amount invested cannot be accessed.

Trust - An agreement to hold an asset for another person usually called a beneficiary.

Trust Deed - A document, which explains how, a trust has been set up and the rules involved in its operation.

Trust account - An account that is usually used by lawyers, accountants and other professionals such as stockbrokers to identify and control their clients' money.

Variable interest - A type of interest where the rate may go up and/or down during the term of the loan.

Will - A legal document stating how you wish your possessions to be distributed after your death.

Further Resources

Government Agencies

Australian Securities and Investment Commission (ASIC)

Consumer protection regulator for financial services.

Phone: 1300 300 630 Web: www.fido.gov.au or www.understandingmoney.gov.au

Australian Taxation Office (ATO)

Can provide information on taxation and superannuation matters.

Personal Tax: 13 28 61 Business: 13 28 66

Superannuation: 13 10 20 Super Seeker (lost super): 13 28 65

Web: www.ato.gov.au

Centrelink

Provides information on various government payments for students, unemployed and retirees.

Employment services 13 28 50

Youth and Students 13 24 90

Retirement services 13 23 00

Financial Information services 13 63 57

Web: www.centrelink.gov.au

Financial Counselling

The following contacts provide a financial counselling service, or can refer you to an appropriate service in your state or territory. These services are free and confidential.

ACT	Care Financial Counselling Service	02 6257 1788
NSW	Credit and Debt Hotline	1800 808 488
NT	Anglicare (Darwin)	08 8985 0000
QLD	Financial Counsellors Association	07 3321 3192
SA	Unitingcare Wesley Adelaide Inc	08 8202 5180
TAS	Anglicare Financial Counselling	1800 243 232
VIC	Financial and Consumer Rights	1800 134 139
WA	Financial Counsellors Resources	08 9221 9411

Superannuation and Retirement

National Information centre on retirement investments (NICRI)

Provides free information for people planning to retire or those facing redundancy.

Phone: 1800 020 110 Web: www.nicri.org.au

Superannuation Complaints Service

Deals with complaints about superannuation services and annuity providers.

Phone: 1300 780 808 Web: www.sct.gov.au

Financial Products and Services

Financial Planning Association (FPA)

Find a financial planner in your area, some educational brochures.

Phone: 1800 626 393 Web: www.fpa.asn.au

Self Managed Super Fund Professional Association (SPAA)

Find a specialist SMSF adviser in your area.

Phone: (08) 8212 5999 Web: www.spaa.asn.au

Australian Securities Exchange (ASX)

Provides share market information and investor education.

Phone: 1300 300 279 Web: www.asx.com.au

CPA Australia

Represents both accountants and licensed financial planners.

Phone: 1300 737 373 Web: www.cpaaustralia.com.au

Financial Ombudsman Service

Provides accessible, fair and independent dispute resolution.

Phone: 1300 780 808 Web: www.fos.org.au

moneymechanics.

Financial Life Planning | Superannuation | Wealth Creation | Education

ph: 1300 772 643 Web: www.money-mechanics.com.au