Insurance

Trauma insurance

Aon Hewitt Financial Education Series

With advances in modern medicine many people survive medical conditions that used to be fatal. For example, many people are now recovering fully from heart attacks, strokes and many cancers.

Trauma insurance (also known as recovery insurance, or critical illness cover), provides you with a lump sum upon diagnosis of a specified illness or condition. The list of conditions covered will vary between insurance companies and the policy selected, but usually includes conditions such as heart attack, stroke, cancer or other life threatening conditions.

Policy definitions

After determining the level of cover, the policy definitions are the most important factor to consider. You need to review not only the number of conditions covered, but the specific definition pertaining to each of those conditions.

For example, one company could pay out if you were diagnosed with any melanoma, while another could specify that the melanoma needs to be 1.5 mm thick.

What can the funds be used for?

You can use the insurance proceeds for any purpose. For example, you could reduce debt, or use the funds to pay for your medical expenses. Alternatively you could reduce your working hours and use the funds to help make up the difference between your new and old salary.

Tax payable

If you are taking out trauma insurance to cover yourself (and not for business purposes), then the premium is not tax-deductible, however the proceeds will be received tax-free.

Example – Benefit of trauma cover

Katie, an accountant is aged 30, single and has recently bought her first home. Everything was going well until Katie started feeling tired and unwell. Katie went to her GP who ordered some tests, and diagnosed cancer. Katie needed time off work for the treatment, and even after the cancer was in remission it took her over a year to recover fully and be able to return to work full-time.

Fortunately, Katie had seen her financial adviser who had recommended $500,000 of trauma insurance. Upon diagnosis, her financial adviser took care of the claims process and Katie received $500,000. This enabled Katie to clear her mortgage and provided $100,000 for medical expenses. Katie also had income protection insurance which paid out 75% of her salary. With the mortgage paid off, and the medical bills covered this enabled Katie to concentrate fully on her treatment and recovery.

Can you have trauma cover through superannuation?

From 1 July 2014, superannuation laws changed so that any new insurance policies you hold through superannuation are only offered with conditions that allow you to access your benefit in the event of claim. This means that trauma policies cannot be established insider superannuation (including a Self Managed Super Fund) from 1 July 2014 as there is no direct superannuation definition that is aligned with trauma. However existing trauma policies inside superannuation before 1 July 2014 may continue to be held.

Your financial adviser can provide advice in regard to your personal situation.