

Why DisabilityCare is no replacement for life insurance

The Government's Budget announcement that it intends to partially fund the national disability insurance scheme, DisabilityCare through an increase to the Medicare levy of 0.5% has generated a lot of interest. One question being asked is 'Why do I need to pay for life insurance when the Government will provide for me if I become disabled?' It's important to understand what DisabilityCare is and is not before answering that question.

A snapshot of DisabilityCare

DisabilityCare Australia is aimed at those who are most in need, providing long term, high quality support for people who are born with, or who later acquire, a permanent disability that significantly affects their communication, mobility, self-care or self-management.

Support may be provided if the disablement is permanent or where early intervention can reduce the impact on the individual's ability to function (primarily aimed at children). Participants in the scheme will have a personalised support plan developed and the necessary funding provided. It will also include a comprehensive information and referral service, to help people with disabilities who need access to mainstream, disability and community supports.

Once fully operational, the scheme will provide support to about 460,000 individuals¹ – a fraction of the four million Australians who suffer some type of disablement and the 1.25 million with severe or profound disablement according to the ABS².

Launch sites

The DisabilityCare scheme will initially only rollout to five launch sites commencing from 1 July 2013 and will cater for different parts of the community³. These include:

| | |
|-------------------------------|----------------------|
| South Australia | Children aged 0 – 14 |
| Tasmania | Persons aged 15 – 24 |
| The Barwon region of Victoria | All ages |
| The Hunter region in NSW | All ages |
| The ACT (from July 2014) | All ages |

The launch sites will run for a number of years before the scheme is fully rolled out in 2018-19 and will initially only provide assistance up to 14,000 Australians⁴.

¹ www.budget.gov.au (Budget Overview - May 2013)

² Disability, ageing and carers, Australia: summary of findings – December 2010, Australian Bureau of Statistics

³ <http://www.ndis.gov.au/ndis-launc/launch-faqs/>

⁴ <http://www.ndis.gov.au/ndis-launc/launch-locations/>

What DisabilityCare is not

| | Is it covered? | What the scheme rules say |
|-------------------------|----------------|---|
| Day-to-day living costs | ✘ | The scheme will not fund any day-to-day living costs that would generally be incurred by the general community such as rent, groceries and utilities. |
| Income replacement | ✘ | The scheme will not provide support that is for income replacement purposes. The Disability Support Pension will continue to provide this level of support. |

Since the DisabilityCare scheme is primarily concerned with providing necessary funding and support for those that are disabled, the draft scheme rules outline the things to be considered if funding is to be provided. This includes what it is reasonable to expect families, carers, informal networks and the community to provide. In practice, this means that those with greater support from families and others in the community will receive less funding than someone without that same level of support.

Why life insurance is still important

1. The DisabilityCare scheme **will not** cover people for loss of income nor assist with other living expenses such as paying the rent or mortgage.
2. Life insurance is primarily concerned with whether the insured person meets the insurance policy terms and conditions regardless of the level of support available to them through their families, carers or the community in general.
3. Income Protection can provide individuals with a regular income while temporarily unable to work and may also include payment of rehabilitation expenses.
4. Critical illness or total and permanent disablement insurance gives individuals greater flexibility over how they use their lump sum benefit.
5. Lump sum insurance benefits can be used to support rehabilitation, pay for necessary aids or future medical costs or to provide an income over the longer term.
6. Part of a life insurance benefit could also be used to pay for a holiday for the family or to supplement income that is foregone as the individual is able to gradually return to work at their own pace. This freedom helps to alleviate the stress and anxiety on individuals and family members.

A practical example

John is 53, married to Ann with two high school age children. He suffers a stroke and is unable to work for six months but expects to be able to gradually return to work, albeit in a reduced capacity.

If John has long term income protection cover then he'd receive the full monthly benefit while he is totally disabled and a partial benefit when he does eventually return to work in a reduced capacity provided he met the insurance policy terms. This benefit would cover John's loss of income.

If John has taken out Crisis Recovery cover then he would receive a lump sum benefit provided he meets the insurance policy terms. This amount could be used to pay for out of pocket medical expenses and modifications to his car and home. John has control over how he chooses to spend this amount and could decide to take an extended time off work. This amount could also cover any income foregone if Ann chose to stay at home to care for John.

If John was relying on qualifying for support under DisabilityCare, provided he was accepted for funding support, this could cover things like ongoing physiotherapy to assist with improved functioning and perhaps a motorised wheelchair to assist John's mobility but would not provide income replacement support or cover other day-to-day living costs.

Impacts to underinsurance

Australians already chronically underinsure their lives. According to RiceWarner,⁵ for total and permanent disability, the level of underinsurance is over \$8 trillion and, for income protection alone, more than \$600 billion. According to their research, the level of insurance cover held by individuals is less than 20% of their insurance needs.

This is concerning given the number of Australians who will be impacted by accidents or illness each year. A 2008 survey conducted by the Melbourne Institute⁶ found that more than 235,000 working-age Australians, living as members of a couple, with dependent children, had suffered a serious illness or injury in the previous 12 months. This same survey found that more than 17,000 of this same group were unable to continue working due to illness, disability or injury during the previous 12 months. This emphasises the need for adequate levels of life insurance.

This should not necessarily be a choice between DisabilityCare and life insurance. It's impossible to predict whether a future disablement will be severe enough to qualify for DisabilityCare. Life insurance allows individuals to take control should the unexpected happen, whether it's to replace income or provide a lump sum that can be used for a variety of purposes, such as to cover debts and other expenses.

DisabilityCare is a big step forward and will assist many people – but in our view, it's not a substitute for life insurance.

To find out how you and your family can benefit from life insurance, contact our office on ...

Copyright © 2013 AIA Australia Limited (ABN 79 004 837 861 AFSL 230043). All rights reserved.

This information is intended for financial advisers. It may be provided by a recipient financial adviser to his or her clients and potential clients solely at the adviser's discretion. This information is not for wider distribution. AIA Australia makes no recommendation as to the suitability of any adviser's communications, including any communication by an adviser that contains the information in this document. This information is current at the date of distribution and is subject to change. This is general information in summary only, without taking into account the objectives, financial situation, needs or personal circumstances of any individual, and may not be exhaustive. It is not intended as financial, legal, medical or other advice.

⁵ Underinsurance in Australia, RiceWarner Actuaries, December 2012

⁶ *HILDA User Manual – Release 8*, Melbourne Institute of Applied Economic and Social Research, The University of Melbourne 2010 (available at www.melbourneinstitute.com/hilda/statreport.html)