

Insurance Needs Evaluation (Bob Potts)

Potts Plan (2018)

Bob Potts

Report Generated by Simon Simmons of Good Advice

Disclosure Statement

This software is not intended to offer, or be a substitute for, financial advice. Its purpose is to provide a dynamic mathematical model that shows the cause and effect of various financial transactions which are based on the information provided by you and assumptions about future values. Where this report has been generated by a Financial Adviser, they will have taken into consideration the most appropriate advice for your personal financial situation.

Default assumptions used for returns on investments are based on the approximate average returns in Australia for the twenty (20) years from the year 2000. In the case of the capital growth for Shares and Real Estate, the software has used the average Capital Growth for both asset classes. The aim is to not give an advantage of one class over the other, because, over the very long term, the rates are likely to be fairly similar. In relation to Interest Rates on Loans, the average Variable Standard Home Loan rate has been used for both home and investment property loans. A margin of 1% has been added to Margin Loans for Shares, and a margin of 3% added to Personal Loans. Gross Rent is increased at the rate of Inflation. Actual Rents may not rise in value at the same rate as Inflation.

Please ensure the information that you provide is complete and accurate, otherwise, the projections may not be accurate. Before acting on the information consider the appropriateness of it having regard to your objectives, financial situation, and needs.

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This report is a **Self-Evaluation of your Insurance Needs** to protect you from the risk of temporary or permanent loss of employment and the effect of death on your dependents in any one of the first three years.

It is recommended you seek professional advice from your Insurance Broker, Accountant or Financial Planner where appropriate.

Overview of Current Finances and Insurance

Snapshot of Finances

	Year 1	Year 2	Year 3
Income			
Current Salary (Bob)	\$160,000	\$164,000	\$168,100
Partner's Salary (Jan)	\$140,000	\$143,500	\$147,088
Investment Income (Gross)	\$20,085	\$22,000	\$24,092
Expenses			
Investments Expenses (General)	\$2,573	\$2,769	\$2,986
Investment Loan Payments (exc additional payments)	\$18,234	\$18,234	\$18,234
Home Loan Payments (exc additional payments)	\$2,122	\$2,122	\$2,122
Budget Expenses (inc personal loans) Less optional spending	\$96,762	\$96,694	\$94,100
Optional Budget Expenses	\$10,000	\$10,000	\$10,000
Total Expenses	\$129,691	\$129,820	\$127,443
Loan Balance at Start of Year			
Home Loans	\$20,000	\$19,201	\$18,347
Investment Loans	\$200,000	\$192,620	\$184,666
Net Value of Assets at Start of Year			
Net Value of Home	\$480,000	\$513,299	\$548,766
Net Value of Investments	\$194,980	\$251,292	\$312,758
Liquid Assets			
Cash Type Assets	\$44,000	\$52,749	\$61,915
Managed Funds	\$980	\$14,143	\$29,156
Shares	\$50,000	\$62,020	\$75,603
Estimated Emergency Funds	\$94,980	\$128,912	\$166,673

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Current Insurance Protection

	Year 1	Year 2	Year 3
Life Cover			
Benefit	\$200,000	\$200,000	\$200,000
Cost	\$500	\$500	\$500
Total & Permanent Disability			
Benefit	\$200,000	\$200,000	\$200,000
Cost	\$500	\$500	\$500
Trauma Cover			
Benefit	\$50,000	\$50,000	\$50,000
Cost	\$1,000	\$1,000	\$1,000
Income Protection			
Benefit	\$60,000	\$60,000	\$60,000
Cost	\$500	\$500	\$500
Cost of Insurance	\$2,500	\$2,500	\$2,500

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Short Term Risks

Risk - Accident or Sickness

	Year 1	Year 2	Year 3
Income			
Gross Investment Income	\$20,085	\$22,000	\$24,092
Partner's Salary after Tax (Jan)	\$98,223	\$100,789	\$103,430
Income Protection Insurance	\$60,000	\$60,000	\$60,000
Income from Social Security	\$0	\$0	\$0
Adjustments to Income	\$0	\$0	\$0
Total Income	\$178,308	\$182,789	\$187,522
Expenses			
Personal Expenses (After Optional Expenses)	\$96,762	\$96,694	\$94,100
Investment Expenses - General	\$2,573	\$2,769	\$2,986
Investment Loan Payments (Before Additional Payments)	\$18,234	\$18,234	\$18,234
Home Loan Payments (Before Additional Payments)	\$2,122	\$2,122	\$2,122
Adjustments to Expenses	\$0	\$0	\$0
Total Expenses	\$119,691	\$119,820	\$117,443
Income Less Expenses	\$58,617	\$62,969	\$70,079
Total Emergency Funds	\$94,980	\$128,912	\$166,673
Trauma Insurance may be available for some Medical Conditions	\$50,000	\$50,000	\$50,000

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Long Term Risks

Risk - Permanent & Total Disability (TPD)

	Year 1	Year 2	Year 3
Lump Sum Payment from TPD Insurance	\$200,000	\$200,000	\$200,000
Immediate Financial Obligations	\$50,000	\$50,000	\$50,000
TPD Amount Invested (After meeting obligations)	\$150,000	\$150,000	\$150,000
Estimated Net Value of Other Investments	\$150,000	\$200,000	\$300,000
Estimated Returns (%)			
Estimated Return on Insurance Cover Invested	4.50%	4.50%	4.50%
Estimated Return on Other Investments	4.00%	4.00%	4.00%
Total Estimated Income			
Partner's Salary after Tax (Jan)	\$98,223	\$100,789	\$103,430
Estimated Income on Insurance Cover Invested	\$6,750	\$6,750	\$6,750
Income Protection	\$60,000	\$60,000	\$60,000
Income from Investments	\$6,000	\$8,000	\$12,000
Estimated Income	\$170,973	\$175,539	\$182,180
Trauma Insurance may be available for some Medical Conditions	\$50,000	\$50,000	\$50,000

Risk to Dependants on Death

	Year 1	Year 2	Year 3
Life Insurance	\$200,000	\$200,000	\$200,000
Debts to be Repaid for Dependants	\$100,000	\$100,000	\$100,000
Additional Living Allowance (Dependants) for 1st Year	\$20,000	\$20,000	\$10,000
Balance of Insurance Funds	\$80,000	\$80,000	\$90,000
Estimated Net Value of Other Investments	\$150,000	\$200,000	\$300,000
Estimated Returns (%)			
Estimated Return on Insurance Cover Invested	4.50%	4.50%	4.50%
Estimated Return on Other Investments	4.00%	4.00%	4.00%
Income Sources for Dependants			
Estimated Income on Insurance Cover Invested	\$3,600	\$3,600	\$4,050
Additional Living Allowance (Dependants) for 1st Year	\$20,000	\$20,000	\$10,000
Estimated Income from Investments	\$6,000	\$8,000	\$12,000
Estimated Employment Opportunity of Partner	\$120,000	\$120,000	\$120,000
Income for Dependants	\$149,600	\$151,600	\$146,050

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Glossary of Terms

Snapshot of Finances

- **Optional Budget Expenses:** In the *Budget Living Expenses* there is a check box beside each option for marking any item which is considered "Optional". Optional expenses are those expenses you could live without if your income were severely reduced. These Optional Expenses are NOT included in the living expenses tally in the Insurance Needs Evaluation Report.
- **Liquid Assets:** Liquid assets are those you can quickly convert to cash if you require emergency funds. These funds are also referred to as **Estimated Emergency Funds**. In Financial Mappers, *Cash Accounts, Shares and Managed Funds* are considered **Liquid Assets**. *Term Deposits* and *Bonds* are NOT included.

Current Insurance Protection

- **Life Cover:** Life Cover is a sum (benefit) paid upon the death of the person covered. Often Total & Permanent Disability (TPD) are included as part of Life Cover, but this is NOT always the case. Therefore TPD insurance is listed separately. You should check your Life Insurance policy for exactly what cover you have.
- **Total and Permanent Disability (TPD):** This policy type is usually linked to your Life Cover. A Lump Sum is usually provided where you are permanently disabled and unable to return to the workforce. You should check your policy and seek advice from your broker as to exactly what constitutes a "Total and Permanent Disability" condition upon which you would receive the benefit payment.
- **Trauma Insurance:** Trauma Insurance will normally pay a Lump Sum if you suffer a particular form of illness or impairment caused by accident. Each policy will have its own set of rules under which you are entitled to benefit from the policy. As it is not known whether your Trauma policy will be activated in the Insurance Evaluation sections for Total and Permanent Disability or Accident and Sickness, the amount is listed as a separate item at the end of each section. You can use this to evaluate your cash flow with and without the inclusion of the Trauma insurance benefit.
- **Income Protection:** This type of policy will generally provide cover for a nominated period of time, and the amount is usually listed as a percentage of your current income. The policy is intended to assist people who are unable to work due to accident or sickness.

Accident and Sickness

- **Adjustments to Income:** This item allows you to manually adjust your income. Positive numbers will increase your income and negative numbers will decrease your income.
- **Adjustments to Expenses:** This item allows you to manually increase or decrease your calculated expenses. Please note that Income Protection benefits may be taxable. If this is the case you should include the annual Tax Due as part of your expenses. Positive numbers increase expenses and negative numbers decrease expenses.
- **Income Less Expenses:** If the figure is RED and negative, the expenses are greater than the income.
- **Total Emergency Funds:** This is the same as your Liquid Assets which are Cash Accounts, Shares and Managed Funds, but excludes Term Deposits and Bonds.

Total and Permanent Disability (TPD)

- **Immediate Financial Obligations (TPD section):** In the event of a major medical event, you may require additional funds to set up your new life style. For example if you are in a wheel chair, you may require a ramp to be built to give you access to your home.
- **Estimated Net Value of other Investments:** It is likely that your current investments will require radical changes in a TPD event. You should consider how you would manage your current investments and estimate the Net Value from which you may earn an income. For example, you may need to sell a highly geared investment property and invest the remaining equity elsewhere.

Death

- **Debts to be Repaid for Dependents:** In the event of your death, which debts may need to be repaid from the insurance policy? For example, will the home loan need to be repaid?
- **Additional Living Allowance (Dependents) for 1st Year:** In the first year, there is likely to be additional adjustments for the family, and their living costs need to be considered.
- **Balance of Insurance Funds:** The cost of the debts to be repaid and the additional living allowance will be deducted from the Insurance lump sum. It is assumed that this remainder of the total funds will be invested to provide ongoing income.
- **Estimated Net Value of Other Investments:** The total value of other assets, less any other loans, will form part of the total estate value for beneficiaries.
- **Estimated Returns:** Using the estimated rate of returns, the likely investment income from the remaining funds is calculated.
- **Estimated Employment Opportunity of Partner:** With the death of a partner, the surviving partner may need to change their employment. The estimated new income should be included.

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