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Key Facts About Trauma Insurance

- Less than 2% of the Australian population has trauma insurance;
- 1 in 2 Australians will suffer a medical trauma event during their working lives;
- At any time, 65% to 85% of trauma claims will be as a result of the Big 4 – Cancer, Stroke, By-Pass Surgery and Heart Attack.
- It has been shown that 1 in 3 men and 1 in 4 women will contract cancer in their life;
- 78% of the population report that they have at least one long-term medical condition;
- There is a 50% chance that you will suffer a stroke in your lifetime.

Source: CommInsure



Differences Between TPD and Trauma Insurance

When recommending different types of cover for clients, the importance of including Trauma and Total and Permanent Disability (TPD) insurance should not be overlooked.

Some life advisers still maintain that recommending both TPD and Trauma insurance is not necessary, as they both provide a lump sum based on illness or injury.

Some believe a payment from Trauma insurance is a more realistic scenario than TPD benefits, based on the prevalence of cancer, stroke and heart attack. Others back the theory that TPD is a more important benefit, as payment is based upon ability to work. When looking at the cost of overall premiums, it may be decided that only one benefit is required.

As the majority of claims for TPD are paid based upon the definitions relating to inability to work (any occupation, own occupation and home duties definitions) we will be focusing on this key area.

Note: Some trauma policies include TPD as a defined event, which provides effective coverage, however this article will concentrate on trauma and TPD as two separate products.

➤ **Diagnosis** – A payment from TPD benefit is based upon the life insured's inability to ever work again and further classified by their occupation, or previous training, age or experience; whereas a payment from a Trauma benefit is based on fulfilment on the exact definition.

Consider a customer who has only taken Term Life and Trauma cover and suffers a back injury that renders him/her unable to ever work again. Unless some form of paralysis occurs (that fulfils the definition under the Trauma contract) he/she will not be eligible for a payment from their Trauma insurance.

Meeting the requirements of 'Activities of Daily Living', a common Trauma

benefit can be onerous, as the assessment is based on the life insured being unable to perform usually at least two of the defined activities, including being unable to bathe, feed, dress, or go to the toilet independently.



• **Eligibility** – When applying for TPD insurance, the occupation of the life insured is given careful consideration, and some occupations such as unskilled or heavy manual workers will not be eligible for cover. Trauma insurance is usually available irrespective of the life insured's occupation (excluding risky occupations such as underground miners or explosive workers – an additional premium may be imposed, or perhaps some defined events excluded).

Medical history may also cause concerns during the underwriting process as conditions such as depression and back problems are viewed as an adverse risk for TPD benefits but are usually not a major concern for Trauma (depending on severity).

• **Outcome of a claim** – Being eligible for a payment from a Trauma benefit doesn't mean the life insured will not be able to return to work. However, payment under TPD does mean the life insured is unlikely to ever return to their current, or any occupation they have done in the past (depending on the definition).

getting you from **a** to **b**

- **Claims assessment** – Most companies specify that the life insured must be totally disabled for six consecutive months before a claim can be assessed. In reality the payment of the claim may take longer than this as the insurer's claims department may require additional medical information from specialists, additional information from the life insured and an occupational physician's report if required.

If medical information received is contradictory, or evidence is supplied to the life company casting uncertainty on the reality of total disablement, the claim may be deferred until more definitive medical information can be supplied.

The definition of the TPD benefit will also have an impact; consider the assessment of an 'own occupation' compared to assessment of 'any occupation'. Another important consideration may be the wording of the definition in regards to being 'unable to work...' or 'unlikely to ever work again...' as the former definition requires a specialist to give an opinion of certainty, whereas using the word 'unlikely' does allow some subjectivity.

However, it's important to note that some cases where the illness or injury is clearly irreversible (major stroke or injuries from a motor vehicle accident) or terminal (cancer) the claim may be paid before the six month waiting period.

A Trauma insurance claim may be paid as soon as medical evidence supporting fulfilment of the specific condition is supplied. The main concern relates to the fact that the life insured must meet the exact condition under the policy benefits.

- **Pricing** – Premiums for Trauma insurance are considerably higher than premiums for TPD benefits. This is due to the higher incidence of claims paid for a Trauma condition (eg heart attack, cancer etc) than a TPD payment.

Using TPD and Trauma – why and how much?

The examination of the main features of TPD and Trauma insurance, and the identification of the difference between the two products confirm that whilst similarities exist, each product fills a different need for the customer.

TPD – Why?

A principal concept of risk protection aims to place the life insured in the same/similar position for their financial future as if the claimable event had occurred.

To make sure a customer has a full wealth protection strategy in place, TPD insurance needs to be included to provide protection in the event of the life insured cannot work again in the future. Where an insurer accepts a claim, Income Protection insurance will pay a monthly benefit whilst the customer is disabled on either a permanent or temporary basis, however, the maximum amount payable will normally be based on a figure relating to 75% of income (and indexation) and may only be paid for a two-year period.



If the life insured cannot work again and does not have TPD in place, he/she may be required to pay all mortgage and debt repayments as well as any unexpected medical costs associated with their disability on approx 75% of their previous income!

Another major consideration is the 'safety net' feature of TPD – basis of payment is inability to work again in future (depending on definition). Therefore, the specific illness or injury is not as important as in Trauma insurance, where the specific diagnosis must be met.

How much?

The following factors need to be considered and included in the calculation of the desirable amount of TPD for the life insured:

1. Clear all existing debt;
2. Provide an amount for rehabilitation / lifestyle / modifications;
3. "Top up" of previous income / provide replacement income stream (dependent on Income Protection benefit); and
4. Unexpected medical expenses.

Trauma – Why?

Most customers understand the increasing likelihood of being diagnosed with cancer, or suffering a heart attack in their lifetime. This can be related back to the extensive media coverage of medical conditions such as breast cancer and a customer's own personal situation. It is unlikely these days that many people over the age of 25 would be able to say that they haven't known a family member or friend who has suffered cancer, stroke or heart disease.

The improvement in medical technology and diagnostic techniques has also led to a significant increase in diagnosis of these conditions at an earlier stage, providing a better prognosis in terms of treatment and recovery.

Trauma insurance provides the life insured with a lump sum on diagnosis, which enables the life insured access to a lump sum without having any waiting period (exception is new policies which will have a waiting period for some conditions of at least three months). As previously stated, the payment is based on diagnosis of the defined condition.

How much?

Three scenarios may occur upon diagnosis of a defined event from a Trauma policy. The life insured might die from the illness / injury, survive the illness / injury but never be able to return to work, or survive the illness / injury and return to work.

If adequate Term Life and TPD insurance have been put in place to clear debts in the event of death or permanent disablement, the amount of Trauma insurance required can be based on:

1. Medical expenses associated with condition;
2. Any rehabilitation costs;
3. Funding leave without pay from work (client may be certified as able to return to work but require some "time out");
4. Partially clear debts.

Additional Trauma insurance needs to be considered if the life insured is unable to obtain any disability benefits (TPD or Income Protection/Disability Insurance). Full clearance of debt and a future income stream would need to be addressed.

Source: Asteron