



The Australian Finance Podcast Episode Transcript

Episode: 🚀 insurances explained - what you need | starter pack

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Episode transcript:

Owen Rask:

Kate Campbell, welcome to this episode of the Australian Finance Podcast.

Kate Campbell:

It is going to be our fastest episode ever.

Owen Rask:

Our fastest episode. Why Kate? Because it's about insurance, well, you don't necessarily like talking about insurance that much.

Kate Campbell:

Yeah, I think insurance is a really big topic and often needs experts involved, and I wanted to just do a super high level overview of all the different types of insurances that we could think of off the top of our head this morning, and maybe a little bit about what they are. Then if you're interested in each one, either let us know to do a whole episode on it or go and do some research and we'll provide all the links to learn about each of these insurances in the show notes.

Owen Rask:

Yep. Okay, so first of all, why do you need insurance? Insurance is really important, because you don't want to blow yourself up.

Kate Campbell:
Yeah.

Owen Rask:

People think that insurance is just an unnecessary cost, but it's actually something for that 5% of time or that 1% of the times when things go really bad. It's about protecting you and keeping you in the game. One of the things that I learned when I was studying finance is that typically what keeps poorer people poor is the inability to recover from loss, whereas rich people can recover from losses. That's the general definition. It's not my definition, but that's generally accepted. The way you protect yourself is by having insurance.

Kate Campbell:
Yeah.

Owen Rask:

We're going to talk about the different forms of that in just a moment. Just at the outset, a couple quick things terminology-wise. When we say premium, that's the amount that you pay. If you have \$1,000 car insurance premium, that's what you have to pay. When we talk about excess, that's what you have to contribute if something goes wrong. If you crash your car and you have to pay a thousand bucks, that's your excess. Waiting periods, that's the time for when you sign the insurance, how long till you can make a claim. A claim is when you actually lodge with the insurer. Okay, Kate, now we've done those definitions, let's get into a quick fire.

Kate Campbell:

All right, very first one, which we touched on in our super episode, life TPD and income protection insurance.

Owen Rask:

Yeah, so life should be called death insurance, because then you know what it covers. It covers if you pass away and it typically goes to whoever you nominate. If you hold this inside super, you can make a nomination as we talked about. TPD's the same, permanent disability. That's basically what it means. If you really hurt yourself, if you maim yourself, then for example, you will receive a payout to your estate or through your Superfund.

Owen Rask:

Income protection can be held inside or outside of super. I highly recommend income protection for anyone that has responsibilities in their lives. I'm talking about people that have a single income, family, mortgage, education expenses, and you might be out of work. If you work in a high risk industry, get it. If you play footy on weekends, get it. I hold my income protection inside super.

Kate Campbell:

If you're interested in learning more, you can call your Superfund and they've actually got experts you can talk to on the phone for free for information on this.

Owen Rask:

Yep, and they've actually got guides on their website as well that explain things.

Kate Campbell:

Yeah.

Owen Rask:

Yep.

Kate Campbell:

Awesome. The next one is health insurance. Something that's been very useful for me recently, because I have extras cover on my private health insurance.

Owen Rask:

Yep.

Kate Campbell:

You have maybe three different types, which you can combine. You've got the ambulance cover, which is going to cover you if you have to call triple zero and the ambulance has to come pick you up off the ground and take you to hospital.

Owen Rask:

Yep.

Kate Campbell:

You can get that through your insurance packaged in or you can go do something like Ambulance Victoria and just pay the one-off fee for the year.

Owen Rask:

Yep, so check with your state, because some states do it differently. For example, New South Wales needs through your private health insurance. In Victoria, for example, you have to go to Ambulance Victoria. You should also check reciprocal rights. If you have Ambulance Victoria and you are in a car crash in Queensland, what happens?

Kate Campbell:

Yeah.

Owen Rask:

Understand those risks and make an informed choice.

Kate Campbell:

Yeah, then you've got the basic level of private health insurance cover.

Owen Rask:

Yep, so the basic level of private health insurance cover basically is the cover. That covers you when you go to hospital. You said you got extras?

Kate Campbell:

Yes.

Owen Rask:

You made a claim on optical the other day.

Kate Campbell:

Yes, if you've got bad eyesight, extras come in very handy, because they cover your yearly visits to Specsavers.

Owen Rask:

Yeah, that's it. There's two different things here. We have the extras, which is physio, dental, all that, and then we have hospital cover and that's actually if you go to hospital. They're two different things, it's important to recognise, but the hospital cover is the thing that gets you out of paying extra tax if you earn over \$90,000 or \$180 as a couple, and the hospital cover covers you if you go to hospital. Pretty basic. The extras cover is all the extra stuff, dental, optical, physio, myotherapy, all that sort of stuff that might be bundled in there.

Kate Campbell:

Of course you can always use the public healthcare system and you can self-insure yourself for health insurance. You could put \$100 away each month when you're paid for things like getting glasses and going to the dentist, you can just create your own fun.

Owen Rask:

We are in a truly wonderful country, Kate, where we have the best healthcare system in the world, or maybe France or maybe Italy or the UK will disagree with me there, but basically we do.

Kate Campbell:

Yeah.

Owen Rask:

That means that you can rely on our healthcare system. If you want to do things like elective surgeries, obviously you probably want to have private health insurance, but remember this, if you earn over \$90,000 as a single, or if you earn over \$180,000 as a couple or family, you will be paying something called the Medicare levy surcharge. We've got a separate video on that,

and that's an extra tax that you pay. Go back and listen to our other episodes on private health insurance.

Kate Campbell:

Yeah. All right, next one, Owen, car insurance. Which I like to remain willfully ignorant on, because I do not enjoy driving.

Owen Rask:

Yeah, basically there are a few different levels. There's bomb insurance, which is the idea of this is that you drive a bomb, a terrible car and bomb insurance basically just protects everyone else and not your car. If you ram your car into another car, it protects the other car, but not yours. This is basic. You have to have this cover in Australia, because it also protects for things like pedestrians, it's part of the legal requirement in every state.

Owen Rask:

There are others like fire and theft. It's basically the next one up from bomb insurance, which is basically where if your car explodes in a fire, or if it is stolen, you will either get market value or they'll try and replace that car. That's the next one up, but the top of the range is comprehensive car insurance. This would be extras and hospital cover from the health insurance equivalent.

Kate Campbell:

If someone scratches your car while getting out of the car park.

Owen Rask:

Yeah, that's it. This is the type of thing that could be covered on that. Important point though. Let's say you scratch your car or someone scratches your car and it causes \$500 worth of damage, you probably don't want to make a claim, because you'll be out of pocket with your excess that you have to pay. Typically what happens here, how do you make a decision between whether I get the cheap insurance or the comprehensive insurance?

Owen Rask:

This is particularly important if you're under 30, is would you be able to afford to replace your car? I think that's a really good question. If you can afford to replace your car in cash, you probably don't need insurance. You probably don't need to comprehensive, you'll still need third party, but if it's the type of car where it is quite expensive, you need comprehensive. Also if you've got finance on your car, you'll need comprehensive car insurance. It's typically a requirement. Some rules, shop around every year. Kate's got a reminder here to say set a reminder in your phone for when it comes up, because typically what happens is new insurance customers get the better deal than the existing, so shop around.

Kate Campbell:

Also, finding out what your excess is.

Owen Rask:

Yep.

Kate Campbell:

It might be \$2,000 if you're younger and make sure your emergency fund incorporates this in because you need to be able to cough up this money. And it won't be part of your normal financial planning because you didn't expect this event to happen.

Owen Rask:

Yep. Just like with superannuation, we had the your super website with health insurance, we've got health.gov.au and with car insurance, you can basically head anywhere like the comparison sites have them. You can start with like your say, like the RACV, RACQ, all of those big names that you know, and compare a few and see what the go is. Kate, home and contents insurance. One of these applies to homeowners. One of them applies to renters. Well, I guess both of them apply to homeowners. So what are they? Yeah.

Kate Campbell:

Home insurance is going to protect your house if it burns down or any number of things like the storms recently.

Owen Rask:

Yep.

Kate Campbell:

If it's damaged, all sorts of reasons, you can pick what amount it's covered up to, aren't you?

Owen Rask:

There are two different options basically. You have replacement cost, but you can also have like an agreed value.

Kate Campbell:

Yeah.

Owen Rask:

You just got to always be careful with the T's and C's here, it's important to shop around and to call the insurer and ask them what you are and are not covered for. Is this especially important? If you are in a bushfire prone area, if you are in a flood prone area, these two things are incredibly important because insurers typically don't want to cover you. Check their definitions. If you are in a flood prone area, is it the rising of water? Is it water damage? Like what does it actually mean? And we're trying to clean up this industry as a whole, but just be mindful of that. If you turned your house upside down, Kate and all the stuff that fell out of it would be close to what's covered under contents insurance.

Kate Campbell:

Yeah. If you've got gold bars at home or lots of jewellery or a lot of technology or expensive equipment, you might want to cover that. And so you want to have really good details of all of the items, the serial numbers. If someone comes and steals all your stuff, you've got it insured up to a certain value and you can prove what the items were.

Owen Rask:

Basically. We've got building insurance, which is the insurance that you get for your home, so home insurance, and then we've got content insurance. Now you said gold bars. You said jewellery. If you do decide to have really expensive things like that in your house, what's important is that they're covered as specifically covered items. Probably there'll be allowances. There might be \$2,000 for jewellery, but you might say I've got \$10,000 and you'll need to note that in your application for contents insurance. Some other things, if your house is well secured with like deadlock doors and all these types of things and secure security blinds and all that sort of stuff, your insurance will come down. Keep that in mind, if you live in an apartment, you might not need home insurance because it might be covered by the strata or body corp. These are just the types of things, but you can speak to people about this head to life. I select and compare the market. All those different websites have information on these things.

Kate Campbell:

And there's particular companies now that you can just go and ensure one individual item.

Owen Rask:

Like an engagement ring.

Kate Campbell:

Yeah, you can just say, I just want to ensure this. I don't need the whole contents policy. I just want this one individual item. And you might do that if you've got a really expensive piece of technology or something like that.

Owen Rask:

Yeah, with our engagement ring, what we did was we got that insured separately because if we got it under the contents insurance, it would only cover us in Australia. If we travelled overseas, we needed an insurance that went with us. It's important to know the difference.

Kate Campbell:

Yeah.

Owen Rask:

Pet insurance, Kate, we covered pet insurance in a recent episode with the CEO of RSPCA Victoria. Pet insurance covers typically only cats and dogs. If you're like me, a rabbit owner, you won't get covered. If you own a goose or a camel, chances are you won't get insurance for that. Importantly, cats and dogs start early to be honest as well, get in early, as we spoke about in that episode, there are some deals with vets provide their own kind of cover where it's like a

capped amount, like a subscription for your pet. Keep that in mind, dogs are pretty much, most expensive when they're young and old. Anywhere in between, they're typically okay.

Kate Campbell:

Again, you can create some sort of self-insurance system by just putting a hundred dollars each month into an account to deal with that.

Owen Rask:

At the end of this episode, we're going to cover a type of insurance that doesn't cost you anything. In fact, it's probably the cheapest insurances you'll ever find, but we'll get to that in just a moment. Kate, funeral insurance.

Kate Campbell:

Okay, this is an interesting one. Moneysmart, actually, if you go to their website, look at the words, funeral insurance, they say, "They're pretty scathing upfront." They actually say that funeral insurance can cost you a lot more than the benefit your family is going to receive. And if you stop making repayments, you'd lose the value already paid. And if you keep going on throughout that page, they even list pros and cons and there's a lot more in the cons column. I think for many of our listeners, I'm not sure if people would even consider funeral insurance. Maybe if you're closer to that period of life, I would personally just plan for it separately and make sure I had assets to leave my family behind. That would cover those costs.

Owen Rask:

I would too. Yeah, I wouldn't get this. I would just have... With any of these things with insurance in particular, for these types of expenses, you can just set money aside. Keep that in mind before you go and get insurance, like for your pets, how much do I need to put aside? There does come a time where the cost outweighs the benefit.

Kate Campbell:

Yeah.

Owen Rask:

Travel insurance, Kate is actually really important, I think.

Kate Campbell:

Yep. If anyone's got to use that recently, congrats on getting out of the country. But if you're planning an overseas trip at some point, travel insurance is really important. That's going to cover you for all manner of things that are occur overseas. Of course, you can get all different levels. If you're planning to go snowboarding, overseas then you'll need probably an adventurous sports level of travel insurance because the cost to airlift you back and deal with that are a lot higher.

Owen Rask:

Yeah, so some of the things you might keep in mind, if you're going skiing in Japan is that you might not get covered under your travel insurance. If you get you off the groomed runs. If you go through the trees and you hurt yourself, you might not be covered by travel insurance. This is an example of where reading the terms and conditions is really important. Or for example, if there's any alcohol in your system and you're in Bali or Indonesia and you decide to get on a scooter, probably not a good idea. Yeah. In fact, any type of alcohol, you probably might not be able to claim anything. Just keep that

Kate Campbell:

In mind. Yeah and even if you're wanting to cover cancellation of flights and delays and things where you get stuck on a layover, double check, all that because a lot of those have changed the fine print post COVID. New policies might not include COVID cancelled flights and things like that. Just make sure you read the fine print there and read the fine print flight lost and stolen baggage and all those kind of things.

Owen Rask:

Yep. And there's plenty of information on choice the consumer website and also on money smart. The final piece of paid insurance that we're going to cover here is WorkCover, WorkCover should be paid for you by your employer. If you're working on a job site, or if you're working an office, for example, it will be paid for you. This provides compensation for you if you hurt yourself at work, keep in mind, this is different to income protection. If you walk outside the building and you're no longer on work hours, you probably won't be covered by WorkCover. Keep that in mind. But this can occasionally cover for things that like are like planned trips for work or if you are at a work event, that's not actually at work. These can sometimes be in place for that too. There's a lot of info here, head to fairwork.gov.au.

Owen Rask:

If you want to learn more about work cover. And also I would say just with WorkCover in particular, some people kind of frown upon it. It's not actually a bad thing to make a claim. If you need to make a claim, make a claim. And with all of these insurances, there's no point paying them if you're not going to claim on them. Make sure you claim them if you're eligible, it's not a bad thing to use insurance that's available too. Kate, there's one final thing here, which is an emergency fund. We covered this in a separate episode, correct?

Kate Campbell:

Yeah, absolutely. I think this is the best way you can ensure yourself against all sorts of life circumstances. Whether that's, you need to take a last minute flight to see a sick family member, you need to leave a bad situation, you need to quit a bad job, whatever it is. You've got that three to six months of living expenses set aside in its own bank account to cover you when those unexpected things happen. And especially if you're going to have to pay excess. I mean, one of my friends recently had to pay a \$2,000 excess because there was a scratch on another vehicle. That was something they had to pull out of their emergency fund. If you're stuck overseas. And for some reason, your travel insurance doesn't kick in straight away, or you can't access it. You need to have money put aside to help you. I think it's really important to have

emergency fund for all sort of reasons. But if you want to self cover for something like pet insurance and just put money aside, then thinking, well, maybe I should increase my emergency fund by a thousand or \$2,000 a year.

Owen Rask:

Yep, this is super important, we say six months is ideal, probably if you're a bit older, if you're nearing retirement, maybe push it out to two years, you are living expenses set aside in cash, put in an account where you can't touch it. Imagine like broken glass. It's on the other side of the glass. You only break into that if you really need to, but this can cover you for excess. It can cover you for medical emergencies and all the things you don't have insurance for immediately. This can be your life, I guess, what is it? Life raft. This is why I call it the cheapest form of insurance you'll ever get, because it actually is free. And it pays you interest. If you put it in a high interest savings account, or if you have it in your mortgage offset account, if you're a homeowner, which is where I would put it. It saves you on paying interest on a mortgage.

Kate Campbell:

And if you're someone that struggles having that cash put aside in the bank account, because you're like, "Oh, I should invest it or do something." If you start to think of it as your insurance fund, maybe that might help you the little bit with leaving that money aside.

Owen Rask:

For sure. Okay. Just as a quick recap of this episode, we've talked about life, death, TBD and income protection. Those are three types of insurance that you can get inside your Superfund. You can also get them outside your Superfund. Income protection outside your Superfund can actually be tax deductible as well. Health insurance, if you are under 30, you can consider getting insurance. If you're over 30 is going to cost you a little bit more for every year go past that. But under \$90,000, you're not going to pay the medical every surcharge as a single, \$180,000 for a couple, it can help with all different things. We've got ambulance cover. Look it up for what's required in your state. We've got extra cover, which is not actually the core health insurance, but it actually is important for dental, optical, et cetera. And we've got health insurance in there which covers you for a hospital.

Owen Rask:

Car insurance we've got three levels. We've got third party, which is bomb insurance. We've got third party fire and theft, which covers you for the bomb and for fire and theft, if your bomb gets stolen. And the third one, which is the top level cover is comprehensive car insurance. Home and contents, home is your building. Contents is everything that tips out. Make sure you read the Ts and Cs. Pet insurance is for cats and dogs and not camels. Funeral insurance is probably not advisable unless you really think it's worth it, do the numbers.

Kate Campbell:

Yeah.

Owen Rask:

Travel insurance. Kate's probably going to take off overseas in the next 12 months judgement by look on her face right now, because we're talking about insurance and travel insurance covers you for a lot, but make sure you read the Ts and Cs. If you're on a tuktuk in Indonesia and you have a few beers in you, you're probably not going to be covered. WorkCover covers you at work. Emergency funds is your get out of jail free card.

Kate Campbell:
Yes.

Owen Rask:
If something goes wrong, Kate, that is insurance.

Kate Campbell:
What an episode and we'll have links to learn a little bit more about all of these different types of insurances in the show notes. That's your action point for today? If any of these intrigued you or made you go, "Oh, maybe I should have this kind of insurance." Have a look at the show notes and we'll have details. Whether it's the government website or whatever's most appropriate a comparison site may in the show notes, you can learn more.

Owen Rask:
Yep fantastic. Kate, that's insurance as always thanks for joining me.

Kate Campbell:
What an episode. Thanks for listening everyone.