

# Calculator Purpose, Assumptions, Methodology and Disclaimer

The purpose of this calculator is to help you make an estimate of some of the potential expenses that life, total and permanent disablement, trauma, and income protection insurance can help you to cover.

Please note the calculation is performed by reference to a fixed algorithm and only with respect to a limited number of inputs, which are explained further in this document. This calculator cannot take into consideration all of your personal circumstances and these inputs are not a full list of factors that you should consider when you decide on a cover amount.

The outputs are only estimates, based on the assumptions explained in this document. They are not intended to be relied on for the purposes of making a decision in relation to a financial product and are not a recommendation that the output is a suitable or sufficient amount of insurance for you. You should not make a decision solely in reliance on the results produced by the calculator. Before you make a decision about insurance you should consider obtaining advice from a qualified financial adviser that is tailored to your circumstances, and always read the applicable Product Disclosure Statement, which will help you to decide if the product is suitable for you.

If you purchase a life insurance product, you should also review your cover regularly and also when your life circumstances change – for example if your income changes, your family grows, you buy a new home, or you get married – to ensure that your cover remains adequate and appropriate to your circumstances.

## Methodology and assumptions

The calculator uses the following methods and assumptions in estimating some of the potential expenses that life, total and permanent disablement, trauma, and income protection insurance can help you to cover.

### 1. Income protection insurance

#### 1.1 What is income protection insurance?

Income protection insurance provides you with monthly payments if you're unable to work due to sickness or injury.

By maintaining household income, income protection allows you and your family to keep up with your expenses, even if you aren't working. This eases the financial pressure, so you can focus on getting back on your feet.

#### 1.2 Income protection calculation methodology

Estimate of income protection monthly benefit =  
 $\text{Annual Income} \times 70\% \div 12$ ,  
capped at \$20,000 per month

#### 1.3 Income replacement ratio

The calculator assumes you would like to cover the maximum amount of your income, which for most income protection products available in Australia is 70% of your income. This assumption is reasonable, as your income earned from working will be lost, but your regular ongoing expenses such as mortgage repayments, groceries, and bills are likely to remain the same.

However, you can adjust this assumption to calculate a lower proportion of your monthly income.

#### 1.4 Cap of \$20,000 per month

The calculator caps the maximum income protection monthly benefit at \$20,000 per month. In general, beyond this amount insurers may agree to cover a further proportion of your income, however this could be at a replacement ratio lower than 70%. Your insurer will be able to explain the maximum amount of your income that they will cover and how the replacement ratio is applied for large monthly benefits.

### 2. Life Cover and Total and Permanent Disability (TPD) Cover

#### 2.1 What is Life Cover?

Life Cover provides you or your family with a lump sum if you die or are terminally ill and unlikely to live for another 12–24 months, depending on the policy you choose. Life insurance can be used to help to pay off debts like mortgages and provide for the cost of raising children.

#### 2.2 What is Total and Permanent Disability (TPD) Cover?

TPD Cover provides you with a lump sum if you become ill or injured to the extent that you are unlikely to ever be able to work again. TPD can be used to help pay medical, care and home modification costs that may arise following severe disablement, supplement lost income and assist with living expenses, and pay off debts like mortgages.

## 2.3 Formula

When calculating Life and TPD cover amounts, the following method is used:

Estimate of Life & TPD cover =  
Outstanding mortgage  
+ other debts  
+ income x 50% x 3 years  
+ Cost of raising children  
+ \$15,000 for funeral and/or other immediate out-of-pocket costs

## 2.4 50% of your income for three years

**Your income:** 50% of your income for three years is used to increase the Life and TPD cover amounts.

50% has been used as the amount will be paid as a lump sum rather than an income stream so it may not be subject to income tax, and your family might have other sources of income such as from investments or a working spouse which could also contribute to living expenses.

Three years is considered to be a reasonable period of time, because after three years your family would have had time to adjust their living expenses. However, depending on your circumstances a different period may be appropriate. Living expenses may change from year to year, however this is not taken into account by the calculator.

You can change the percentage and duration assumptions.

## 2.5 Your mortgage

**Your mortgage:** The calculator assumes that you would like to unburden your family of your debt upon your passing or if you were unable to work again, which is reasonable as life insurance is commonly used to discharge debt. The calculator adds the outstanding loan amount you input to increase the Life and TPD cover amounts. You can change the amount used in the calculation by changing the amount input.

## 2.6 Your debts

**Your other debts:** The calculator assumes that you would like to unburden your family of your debt upon your passing or if you were unable to work again, which is reasonable as life insurance is commonly used to discharge debt. The calculator adds the outstanding other debt amount you input to increase the Life and TPD cover amounts. You can change the amount used in the calculation by changing the amount input.

## 2.7 The costs of raising your children

**Costs of raising children:** The information used to calculate the costs of raising a child is outlined below. The resulting value is added to increase the Life and TPD cover amounts. This is done to help cover the ongoing costs of raising a child to the age of 19 years, as it is reasonable to assume you will be financially responsible for your children until they reach adulthood.

- **Step 1:** Select the number of children you have.
- **Step 2:** Enter the ages for each of your children.
- The amount in the table below per age of child for each child is added to the Life and TPD cover amounts.

Please see Table 1.0 for the values that correspond to each age. See reference 1 to view the source used to establish these costs of raising a child. You can adjust the assumed cost of raising a child.

**Table 1.0**

Age of Child	Cost of raising child up to age 19 (\$)
0	476,380
1	455,304
2	434,227
3	413,151
4	392,075
5	370,999
6	349,923
7	323,608
8	297,293
9	270,978
10	244,663
11	218,349
12	192,034
13	167,375
14	142,716
15	118,057
16	93,398
17	68,739
18	44,080
19	19,421
20+	

These are based on the 2021 values of the estimates of costs indexed to 2024 values (reference 5) and they are likely to naturally increase further over time with inflation. However, most insurance policies offer inflation protection which will index your cover amount to the inflation rate (sometimes subject to a certain minimum or maximum rate of inflation), which may help your cover keep approximate pace with such changes.

## 2.8 Funeral or other immediate out of pocket costs

**Funeral or other immediate costs:** To help cover the costs associated with out of pocket expenses you or your family may incur following your death or permanent disablement, \$15,000 has been added to increase the Life and TPD cover amounts.

This amount has been chosen as funerals in Australia may cost anywhere between \$4,000 and \$15,000 according to MoneySmart (reference 2). \$15,000 could also help you or your family pay for other immediate out of pocket costs that might arise following your death or disablement, such as medical treatment or devices or legal fees.

You can choose a different amount by adjusting this assumption.

### 3. Trauma

#### 3.1 What is trauma cover?

Trauma cover – also known as Critical Illness insurance – pays a lump sum if you are diagnosed with a critical illness or injury listed and defined in the policy.

To receive a payment your illness or injury needs to be diagnosed to the required degree of severity, and you may need to survive for a minimum period such as two weeks. Trauma cover can be used to help pay for out of pocket medical and care expenses, and also provide you financial peace of mind so you can focus on recovering from your illness or injury.

#### 3.2 Formula

$\$115,000 + \text{outstanding debt}$

#### 3.3 Out of pocket costs of your medical care

When you suffer a critical illness or injury, you may have out of pocket costs, such as for medical treatment, hospital stays, surgical procedures, specialist appointments, medicines, and care. The calculator takes this into account and helps you to estimate a potential amount you may require to meet these out of pocket costs.

The amount used in the calculator is \$115,000.

This has been calculated based on research in the 2018 Zurich Health Research Whitepaper “The cost of care” (reference 3) where the lifetime costs for the 3 most likely trauma events are cancer (head, neck and thyroid cancers being the most expensive at \$95,460), heart attack (\$25,000) and stroke (\$32,411). The worst case amount of \$95,460 has been used and indexed (reference 5) from the 2018 year figures to date to take account of inflation to get to \$115,000 (rounded to the nearest \$5,000).

#### 3.4 Paying back your debt

When you suffer a critical illness or injury, you may need to take time off work for an extended duration to attend medical appointments and to recover. Your partner might also stop working to care for you. Your household income could be affected if sick leave, carer's leave, and income protection insurance is insufficient or runs out. One of the biggest financial commitments that might be causing additional stress is meeting your debt repayment obligations (reference 4). The calculator takes this into account and adds an amount to allow your debts to be paid off to remove this financial burden.

## References

1. Suncorp Bank Cost of Kids Report 2021 (excludes: savings, holidays, utilities and housing). Available at: <https://www.finder.com.au/life-insurance-and-the-cost-of-raising-children> [Accessed on 8 March 2024]
2. MoneySmart, 'Paying for your funeral'. Available at: [Paying for your funeral - Moneysmart.gov.au](https://www.moneysmart.gov.au/financial-planning/retirement/paying-for-your-funeral) [Accessed 8 March 2024]
3. Data has been sourced from Zurich Health Research Whitepaper “The cost of care”. Available at: <https://www.zurich.com.au/advisers/tools-and-resources/cost-of-care.html> [Accessed on 8 March 2024]
4. MoneySmart, “Trauma insurance”. Available at: [Trauma insurance - Moneysmart.gov.au](https://www.moneysmart.gov.au/financial-planning/retirement/trauma-insurance) [Accessed on 8 March 2024]
5. Figures have been indexed by the percentage change in the Consumer Price Index (Weighted Average All Capital Cities) as last published by the Australian Bureau of Statistics in respect of the 12-month period finishing on 30 September. Available at: <https://www.abs.gov.au/ausstats/abs@.nsf/mf/6401.0> [Accessed 8 March 2024].

## Limitations

- The calculator does not consider whether the estimated amounts would be available to you as insurance cover. The insurance options available may be limited by the product design, your age, your occupation and other factors, including the overall affordability of a policy. For example, an insurer might generally offer a monthly benefit of up to 70% of income, but if you are a high-income earner or your occupation involves especially hazardous risks, your monthly benefit amount might be capped or calculated at a lower replacement rate.
- The maximum number of children used in this calculation is limited to five.
- The calculator computes an output by reference to a fixed algorithm based on a limited number of factors, which are set out above, and aims to help you estimate potential expenses that life, TPD, trauma or income protection insurance can help you to cover. It is not a recommendation that the output is a suitable amount of insurance for you, and nor is it intended to be solely relied on for the purposes of making a decision in relation to a financial product. There are other factors that may be relevant to determining a suitable amount of cover, such as your savings, superannuation, partner's income, other insurance, assets and equity, and other expenses, which are not taken into account by the calculator but which you should consider when deciding on an appropriate amount of insurance. These other factors could significantly change the amount of insurance that is suitable for you. We recommend you consider obtaining advice from a licensed financial adviser who can provide you with personal advice, before you make a decision.
- The estimate produced by the calculator is reflective of your answers at the time you use the calculator. However, your circumstances and insurance needs may change over time. It is important to review your cover regularly to ensure that you and your family are adequately insured.
- The calculator does not take into account the effect of any taxes or levies that may be payable with respect to the amounts insured. These may have an effect on the final benefit receivable. For example, income tax is generally payable on monthly income protection benefits.
- The calculator does not take into account any increase in expenses due to inflation over time, which means the outputs are displayed in today's dollars. In reality, the cost of living is likely to increase over time. However, most insurance policies include a feature which allows you to index your cover to inflation each year (up to specified limits), which may help keep the value of your cover more constant.

## Disclaimer

- This calculator was created by TAL Direct Pty Limited ABN 39 084 666 017, AFSL 243260 (TAL Direct) which is part of the TAL Dai-ichi Life Australia Pty Limited ABN 97 150 070 483 group of companies (TAL Group).
- Outputs provided by this calculator are estimates of potential financial expenses only and are based on the limited information that you input into the calculator, and the assumptions and methodology set out in the link above. The calculation is subject to several limitations, and the estimates generated do not take into account all of the circumstances that may be relevant to determining a suitable amount of cover for the insurance types described. The calculations are not intended to be relied on for the purposes of making a decision in relation to a financial product and they are not a recommendation that the output is a suitable or sufficient amount of insurance for you.
- Any advice provided in connection with life, TPD, trauma or income insurance is general advice only and does not take into account your individual needs, objectives or financial situation. Before you make a decision, consider whether the advice is appropriate for you, having regard to those matters, and always read the relevant Product Disclosure Statement. Decisions should not be made solely in reliance on the results produced by the calculator. We recommend that you obtain professional advice from a qualified financial adviser that is tailored to your circumstances before making any decision with respect to selecting a cover amount, and that you continue to re-assess your cover needs as your circumstances change in the future.
- TAL Direct have used reasonable endeavours to ensure that the assumptions applied by the calculator are reasonable and clearly explained, but do not guarantee that the assumptions and data used by the calculator are or will remain current. To the extent permissible by law, the TAL Group disclaims any liability and responsibility to any person who relies upon anything done or not done by the calculator, or for any loss arising from reliance on this calculator. However, nothing in this limitation of liability should be read as derogating from any of your rights under law which cannot be excluded.
- Information that you enter into this calculator is anonymous and is not recorded against your customer profile.

This is current as of 1 April 2024.