

Not underestimating the value of the homemaker

Despite the advances of modern technology such as washing machines, irons and dishwashers, there are still plenty of things that need doing around the house. For many families, there is someone who is predominantly the homemaker and child carer - without them the family is often lost. They may not be the primary income earner but their support ensures that the family is fed, clothed and at school or work on time.

Think about how much it would cost to hire someone to take their place, if something should happen to them. Their financial worth is a lot more than most people expect with costs of child care and home help. Yet surprisingly the homemaker is, at times, neglected when it comes to insurance. Their loss or serious illness also often serves a significant emotional and financial blow to the family.

How does the strategy work?

Generally, a breadwinner will often only have two choices upon the death or disablement of a homemaker. They can choose to take leave from their own job to look after the household, or employ someone else to do it. Either way, both options will have a negative impact on the household income and this is even before they start to account for the spiralling medical costs if the homemaker is critically ill or totally disabled.

Life, total and permanent disability, and critical illness insurances can provide a lump sum payment upon the occurrence of one of these events to help meet the household budget. The combination of these covers can provide you and your family with a financial lifeline to get the additional help needed.

The Benefits

A lump sum payment may be used to:

- cover the cost of medical expenses associated with disablement, serious illness or death of a spouse,
- support the family in their time of need by paying additional expenses such as child care, nursing care or housekeeping.

Case Study

Nicholas and Rebecca had been married for seven years with two young children Michelle (4) and Jake (2). Rebecca had taken some time out from the workforce as a theatre nurse to care for the children.

Nicholas, a consulting engineer, earns \$95,000 per annum and has a comprehensive package of insurance cover provided by his employer which includes life, critical illness, and income protection insurances.

Twelve months ago Rebecca visited her general practitioner to investigate a lump in her breast. Although Rebecca was in the medical field herself and regularly conducted her own self examinations, the results confirmed her worst fears, a diagnosis of breast cancer. Sadly, Rebecca's cancer was particularly aggressive and, despite intensive treatment, she died within 6 months of diagnosis.

While both Nicholas and Rebecca recognised the importance of insuring the breadwinner, what they didn't plan for was to protect the vital role of the homemaker. Even without the additional medical expenses for Rebecca's treatment and funeral, Nicholas's financial worries have only just begun. Nicholas has worked out just how expensive it is to run the household and look after the children without Rebecca.

Commitments	Amount (p.a)	No. of years	Total Amount
Full time childcare for Michelle	\$17,500 (\$70 per day for 50 weeks)	1 (includes time when Rebecca receiving treatment)	\$17,500
Full time childcare for Jake	\$17,500 (\$70 per day for 50 weeks)	3 (includes time when Rebecca receiving treatment)	\$52,500
Home help (part time cooking and cleaning)	\$5,000 (50 weeks @ \$100 per week)	11	\$55,000
After school care for Michelle and Jake	\$3,200 (4 hours @ \$20/hour for 40 weeks)	10	\$32,000
School holiday care	\$4,800 (8 weeks @ \$300 per week per child)	9 (10 years for Michelle, 8 years for Jake)	\$43,200
Total			\$200,200

The total amount accounts for almost 30% of Nicholas's after-tax salary for the period until Michelle turns 15 (11 years) and does not take into consideration any future increases in the cost of living.

A combination of life and critical illness insurances could have provided Rebecca's family with a lump sum which could be invested to pay for these additional costs over the upcoming years.

Tips and Traps

- The selection of life and total and permanent disability insurances for a non-working spouse may have tax advantages for the breadwinner. By taking this insurance through a superannuation fund, premiums (contributions) made on behalf of a non-working or low income spouse, may attract a tax offset of up to \$540 p.a.
- Don't forget to also take into account both outstanding loans and ongoing living expenses, and to ensure these can also be covered through adequate insurance.
- Consider whether using a level premium structure as opposed to a yearly premium that increases each year with age is suitable for you. While level premiums are generally not guaranteed and the premium rates may change in the future, they can be more cost-effective over time and allow you to budget for a consistent premium.
- The insurance could be owned by the working partner, thus ensuring complete control over the financial situation during a period of emotional stress. In addition, packaging insurances together may save money on policy fees.

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