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Is trauma insurance just an upsell?

Of all the insurances available within a financial planning scenario, I have sometimes wondered whether trauma insurance is merely a security blanket for the ultra-nervous… and perhaps, the metaphoric 'fries with that?' upsell.

The bottom line is that all insurance is pointless, unless you need to make a claim. For 90% of us, insurance is expenditure with no return. The big 'however', is what insurance can provide for a claimant.

My friends of many years (whom I will refer to as Andrew and Anne*) have also been clients since 2007. Based on their different employment arrangements, and as part of establishing a plan for their future, income protection insurance was successfully arranged for Andrew, with trauma insurance cover established for Anne.

In January 2018 and in her early-50s, Anne was diagnosed with Primary Progressive Multiple Sclerosis. Under her trauma insurance policy (for which Andrew and Anne were paying around ($215 per month) she received a benefit of $202,112. The claim was settled comparatively quickly, within a month.

Andrew reports a flood of emotions and discussions about future disability, moving to a more accessible home, buying electric wheelchairs, etc. To deal with the shock, they decided they needed time to calibrate the 'new normal'.

A rail holiday to Darwin via the Ghan was considered, but Anne was still active and mobile, and they had some extra cash from the insurance payout. They decided to tick the trans-Siberian railway adventure off the bucket list. Then they added in some European extravaganzas, even a trip to Chernobyl, because they could. The rationale was that while they were able to move around freely, they would. Perfectly understandable.

On their return, Anne and Andrew paid down $150,000 on their home mortgage and got on with the business of life with MS. They made some decisions around downsizing to an apartment and topping up their already robust super accounts – as well as travelling (post COVID-19) to the most remote places possible until they can no longer travel. As Andrew said, it's no longer about wealth creation, but 'memory creation'.

To focus on her health, Anne retired from full time employment at the end of 2019, applying her new-found time to swimming three kilometres per day and (under the care of an exercise physiologist) going to the gym three times a week.

With the loss of Anne's income, this change in focus immediately put a $70,000 pa hole in the family budget. Fortunately, their son and daughter are of an age where they no longer need their parents' full financial support.

Then the financial shock dawned. Despite being on the top rung of their health insurance cover, and (as Australian citizens) being entitled to Medicare, Andrew and Anne discovered that the associated costs with being as 'MS healthy as possible' are significant.

They had not factored in the one-on-one private exercise physiology sessions three times per week at a specialist gym clinic at around $13,000+, annual pool membership at $600, and a prescription from a compounding pharmacist (recommended by Anne's neurologist) for a vitamin known as 'Biotin' – at a cost of $800 per year. Add to that, out-of-pocket costs for pain management, MRI scans and private neurology consultations at a present outlay of approximately $750 pa, and the costs begin to mount.

Anne has recently developed spasticity in her left hand which is very painful, and nerve pain in her face. In the mission to slow her progression towards disability, she has sought the help of a range of health professionals, including a neuro-physiotherapist, and a specialist surgeon. She has undergone nerve conduction tests, and MRIs on her limbs – all supervised by very regular GP appointments and all with out-of-pocket cost elements.

Andrew and Anne estimate that the total out of pocket cost is approximately $1,700 per month. The amount of just over $200,000 provided by Anne's trauma insurance (or $150,000 after their understandably exotic trip) will last the family around 10 years – by which time they will be in their late 60s. Fortunately, they took my advice to get serious about their super early, and they will be able to afford this added cost regime in their later years.

Whilst the loss of Anne's income is significant, it is not a fatal blow, as the family had been conservative with its finances. Andrew, a former financial services executive, has now 'downsized his income and extended his life' by becoming a full time academic.

After making a claim on her trauma insurance, Anne still has life insurance of around $1.2m in place, as well as Total and Permanent Disability (TPD) insurance, set up as part of her financial protection framework. Should she need to make a TPD claim this side of age 65 (and I sincerely hope she doesn't) there will be around $500,000 available to help provide home and transport needs, as well as helping to fund professional care.

Over the course of the last decade, Andrew and Anne's lifestyle and expectations have changed significantly – and unexpectedly. Anne's trauma insurance has softened a sizeable financial blow for the family. It hasn't 'put them right' because it does not replace her income, however due to the casual nature of her previous employment, Anne was not eligible for income protection insurance.

On balance, having trauma insurance was a wise idea.

**Anne and Andrew are actual clients; we have used their second Christian names to protect their privacy. They are relieved to have received the additional financial support provided by Anne's trauma insurance cover, and have given their enthusiastic approval to this article.*

+This cost has been subsequently picked up by the NDIS.

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