

Insurance – Trauma (or Critical Illness) insurance

Trauma (or Critical Illness) insurance protects you by paying a lump sum benefit if you suffer a major illness or injury such as cancer, heart attack or stroke.

How it works

What conditions are covered?

The actual conditions covered vary between insurers but generally include:

- blood disorders including aplastic anaemia and medically acquired HIV
- cancer
- heart conditions including heart attack and coronary artery bypass surgery
- neurological conditions including multiple sclerosis and stroke
- permanent conditions such as blindness and loss of limbs
- organ disorders including chronic kidney and major organ transplant.

For a trauma claim to be successful the diagnosis must meet the policy definition of the condition as outlined in the insurance contract. For example, it is not sufficient to be diagnosed as having cancer. You must meet the definition in terms of type and severity.

Stand-alone Trauma Cover

You can buy Trauma insurance as a stand-alone policy that includes just trauma cover and no death or total and permanent disability (TPD) cover. These products have a 'survival period' (generally 14 days) where only a nominal benefit is payable if you do not survive this period.

Linked Trauma Cover

You can also purchase your cover so that it is 'linked' to your death or TPD insurance. With 'linked' covers, if you make a Trauma claim and the claim is paid, the other cover levels will reduce by this amount. Linking your cover in this way can reduce the cost of your trauma insurance. Most policies include 'buy-back' options to regain the reduced death cover amount after a period of time has elapsed.

Child Trauma Cover

When a child suffers a serious illness during their childhood, the effects can be devastating for the family's financial security. Child Trauma cover can be added to your policy to pay a lump sum to help with things such as your child's medical costs and gives some flexibility to help you afford time off work so you can be with your child.

Policy ownership

Trauma insurance is usually owned in your own name. The premium is not tax deductible and the proceeds from a successful claim are paid directly to you as a tax-free lump sum.

Trauma insurance is not available through superannuation.

Benefits

It is important to determine what you need to protect and how much cover you need based on your personal circumstances. The lump sum payment can be used to help towards meeting goals such as helping to:

- pay for your treatment and care
- gain access to the full range of rehabilitation services
- relieve financial pressure by reducing your debt
- allow your spouse to take time off work to be with you or look after the children
- employ a carer, nanny or home help
- fund the gap between what you earn and the 75% cover from income protection, and
- have the flexibility to amend your lifestyle or spend more time with family.

If you suffer a major illness or injury and do not have trauma insurance, you and your family or dependants may need to run down savings, sell assets, and/or rely on family or Centrelink for assistance. You may find it difficult to maintain your standard of living or pay for the care and medical assistance you need. This can place extra stress on your recovery.

Risks, consequences and other important things to consider

These include:

- You will not be able to claim a trauma benefit if you suffer certain conditions within a certain period (usually 3 months) from the date the policy commences or you do not fully disclose the required information.
- Before selecting an insurance policy, you should always carefully read the Product Disclosure Statement (PDS) and policy document, and once you have selected an insurance policy, you should keep these documents in a safe place.

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