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Understanding life insurance: A clear and simple overview

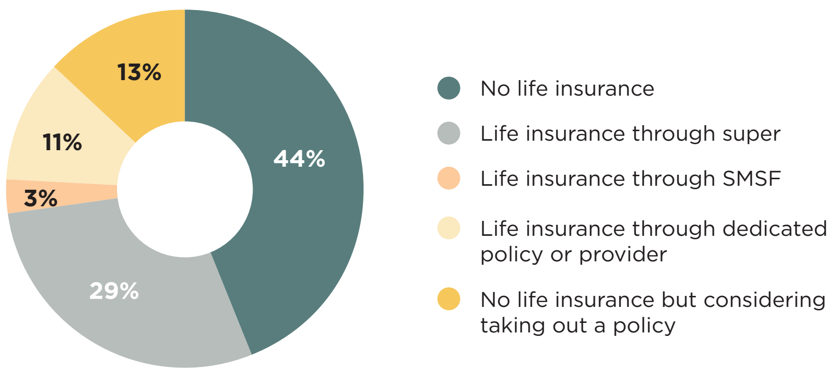
Life insurance helps protect you and your family from the financial impact of illness, injury or death. Yet for many Australians, it doesn't always feel straightforward. The terminology, the options and the way cover is structured can make it seem unfamiliar or hard to compare, leaving many people unsure about what they need or where to start. If you've ever wondered whether life insurance is right for you or felt uncertain about how it works - you're not alone, many people feel the same way.

This article outlines why life insurance can feel confusing and breaks down the main parts that shape how cover works including the core types of cover and the key features that influence cost and benefits explained in clear, everyday language to help you feel more informed and confident.

It is important to note, this article is a general guide to help explain life insurance in clear, everyday terms. It isn't personal financial advice. When considering life insurance, make sure you read the Product Disclosure Statement (PDS) for full details, benefits, exclusions and conditions, and seek financial advice to understand what may be appropriate for your circumstances.

How Australians hold life insurance

44% of Australians have no life insurance with no intention to get it, 29% rely on cover through super such as group life insurance, and just 11% hold standalone policies, including custom retail insurance, while a further 13% don't have life insurance but are considering taking out a policy, and 3% hold their life insurance through their SMSF cover.[1]



Source: Savvy, 2025

Understanding the types of life insurance in the graph above

Group life insurance (through super): This cover is automatically provided inside your superannuation fund. It's usually basic, bundled for large groups of members, and doesn't require medical checks.

Retail life insurance (standalone policies): This is cover you buy directly from an insurer or through an adviser. It's tailored to your needs, often with more flexible options and personalised features.

SMSF life insurance: This is life insurance held inside a self managed super fund. It's chosen and managed by the trustees and can be structured differently depending on the fund's set-up.

Other customer situations: People who don't fit into the above groups, including those reviewing their cover or considering a new policy.

Why life insurance feels complicated

"27% of Australians either do not know if they have insurance through their super fund (19%) or are unsure about the details of the coverage they are paying for (9%)."[2]

"Only 30% of Australians are confident they understand key life insurance concepts such as fully underwritten cover, highlighting a significant insurance literacy gap."[3]

Life insurance is made up of core components that are worth understanding at a high level. Life insurance isn't a single product – it's a group of different types of cover, such as life cover, TPD, trauma cover and income protection. Each one protects you in different ways. On top of this, there can be questions about:

- "How much am I covered for?"
- "How long will my payments last if I can't work?"
- "When will my payments start?"
- "How will my premiums behave over time?"

When choices are complex or unclear - especially when time is limited – it becomes easier to delay decisions or disengage altogether.

Why complexity can make decisions harder

Understanding the detail means stepping through the key information that shapes each part of the policy.

When information lacks clarity or hard to compare, it becomes harder to feel confident deciding. For life insurance, this can show up as:

- "There are too many options."
- "I'm worried I'll choose the wrong thing."
- "I don't know what I'm paying for."
- "It feels too complicated."

These reactions are common. They're not a sign that life insurance is the wrong fit – they are often a sign that the options, costs or benefits haven't been explained clearly enough. However, once the moving parts are explained in simple language - most people feel more informed and in control.

Breaking down the confusing parts in plain English

Here are the main choices you make with life insurance, explained simply.

1. How much you're covered for (your 'sum insured')

This is the amount paid if a claim is made.

For **Life Cover**, the payment goes to the people you've chosen to receive it.

For **Trauma, TPD and Income Protection**, the benefit is usually paid to you as the policy owner or life insured. Higher cover generally means a higher premium, and you can adjust this to suit your budget.

2. When payments start (your 'waiting period')

For **Income Protection**, payments don't start straight away. A longer waiting period usually costs less, and if you have sick leave or savings, a longer wait might work for you.

3. How long payments last (your 'benefit period')

For **Income Protection**, this is how long the payments would continue if you couldn't work.

Shorter benefit periods usually cost less, and some people choose a shorter option to keep premiums manageable.

4. How your premiums behave over time (different premium types)

If rising premiums are a concern, it may be worth reviewing the available options and trade-offs.

Premiums can behave differently depending on the premium structure you choose.

Variable aged-stepped premiums are premiums that generally increase due to age and can also increase due to changes in your benefit amount insured (e.g., under the Indexation Benefit), the length of time you have held your policy or a premium rate review.

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If rising premiums are a concern, it may be worth reviewing the available options and the trade offs.

5. The types of cover you choose (your 'product mix')

Different types of cover serve different purposes. The right mix depends on your needs, circumstances and budget. When the key features are explained clearly, life insurance can be easier to understand and compare.

Why life insurance is often seen as expensive

Understanding the perceptions behind cost and what actually drives premiums.

Cost is a common concern for many people when thinking about life insurance. ASIC's review of the direct life insurance market found that affordability pressures and premium increases can influence decisions to cancel or reduce cover.[4] This highlights that cost perceptions often stem from not fully understanding what life insurance protects or how cover is structured

Life insurance can help protect your:

- Income
- Family's financial stability
- Mortgage and bills
- Retirement savings
- Lifestyle
- Long-term independence

For some people, the value of life insurance becomes clearer when considered alongside the financial impact of illness, injury or time away from work.

Why Medicare, health insurance and super don't replace life insurance

Many Australians assume Medicare, health insurance or superannuation will provide enough support if illness, injury or death affects their household. While these systems may help with some costs, they are designed for different purposes and may not cover the broader financial impact that life insurance is designed to help with.[5]

- **Medicare covers medical treatment, not income loss**

  Medicare can help with medical treatment, but it does not cover the everyday costs[6] that can continue while someone is recovering or unable to work, such as:

  - your mortgage
  - your bills
  - your childcare
  - your groceries
  - your long-term financial needs

  It is worth noting too, that Medicare and private health insurance don't always cover the full cost of treatment. Some people will still face out-of-pocket expenses or have to delay or skip certain care because of cost.[7]

- **Superannuation is for retirement, not emergencies**

  Superannuation is primarily designed to support your retirement. Early access is restricted, and withdrawing money early can significantly reduce your retirement savings. It also generally provides a one-off withdrawal rather than ongoing income support.[8]

  Life insurance exists because medical recovery and financial recovery are two very different things.

How to make confident decisions about life insurance

Life insurance is designed to be flexible because people's lives and budgets change. The level of cover that feels right at one stage of life may feel too expensive or unnecessary at another. That's why you can adjust things like your sum insured, waiting period or benefit period over time.[9]

It's not about choosing "less than you need" – it's about keeping meaningful protection in place in a way that feels manageable for you. Flexibility helps you stay covered without feeling financially stretched.

If life insurance feels overwhelming, it can help to step back and focus on the decisions that matter most. The following prompts can make it easier to review your options, ask the right questions and choose the cover that feels clearer and more manageable.

1. Ask for simple explanations

You deserve to understand your cover. If something doesn't make sense, ask for it in plain language.

2. Focus on what matters most to you

Your cover should generally reflect:

- Your family
- Your income
- Your debts
- Your lifestyle
- Your long-term plans.

3. Adjust your cover to fit your budget

Life insurance is flexible, not fixed. You may be able to adjust key features over time to help keep your cover manageable.

- How much cover do you have?
- How long would payments last?
- When would payments start?
- What types of cover do you hold?[10]

Seeking financial advice

Speak with a qualified adviser if you want clarity or confidence

Life insurance doesn't have to feel complicated. A qualified adviser can help you:

- understand your options
- tailor your cover to your needs
- adjust your premiums
- make confident, informed decisions

An adviser can help you understand your options, tailor your cover, and make decisions that feel right for your situation.

Guidance to help you choose with clarity

Life insurance can feel complicated when the details aren't explained simply. But once you understand the key parts – what it protects, how the features work and how cover can be adjusted – it becomes much easier to make decisions that feel right for you.

If you'd like help understanding your options or tailoring your cover, a qualified adviser can guide you through the choices and help you make decisions that feel clear, manageable and right for your situation.

Before choosing any life insurance product – refer to the relevant Product Disclosure Statement (**PDS**) for complete information about features, benefits, exclusions and conditions.

For more information

If you'd like to explore these concepts in more detail, you can visit Moneysmart (**ASIC**) - **moneysmart.gov.au/insurance** - for general guidance on insurance basics. It's a trusted, government run resource designed to help Australians understand financial products in clear, everyday language.

References

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