



ASSOCIATION OF FINANCIAL ADVISERS LTD

## **MEDIA RELEASE**

### **HIGHER LEVELS OF DEBT PUT AUSSIE FAMILIES AT GREATER RISK**

**Sydney: 1 July 2010** – With average household debt in Australia now equal to one and a half times after-tax income, Australian families are at greater risk than ever before, prompting a call from the Association of Financial Advisers (AFA) for the Government to seriously engage with consumers on the issue of managing personal risk and protecting their families before banning commissions on life insurance.

AFA National President, Dr Jim Taggart, OAM said that recently-released statistics around the level of household debt in Australia highlight the fact that without adequate life insurance, most families would be unable to continue to enjoy their present lifestyle if a main income earner were to die, fall ill or become incapacitated.

“We now have the world’s highest ratio of household debt to household income,” Dr Taggart said. “The average mortgage is around \$283,000 and the average credit card debt is about \$3,240 – that’s a lot of debt to service if you are only earning the national average of just under \$65,000 per annum, even if your partner is also working.”

However, Dr Taggart said the high level of household debt is not necessarily a problem if families keep earning enough income to service it.

“Unfortunately, what often happens when disaster strikes a main income earner is that the family can’t service that debt, because they either don’t have insurance or their level of insurance is woefully inadequate.”

An analysis by IFSA and KPMG of life insurance lump sum claims paid, released in December 2009 and covering the years 2004-06, revealed that the average claim was only \$132,537 – not enough to cover the average level of household debt.

Dr Taggart said families who can't service their own debt not only risk losing their homes, but ultimately place a burden on the public purse.

"An un-insured or under-insured population has the potential to put a greater strain on our social security system," Dr Taggart said, "a system which is already in serious danger of buckling as our population ages."

A 2005 study by Rice Warner Actuaries estimated that the additional social security payments arising from deaths of parents with limited insurance was in the order of \$250 million per year, not including other costs to government revenue such as housing and the loss of income tax revenue.

"One of the lessons we learned from the global financial crisis was the importance of managing, mitigating and transferring risk," Dr Taggart said. "What that means for everyday Australians is having appropriate levels of protection in place so that the lifestyles their families currently enjoy are not at risk in the event death, illness or injury."

Dr Taggart said banning commissions on life insurance presents a serious risk the Australian Government cannot afford to take without proper consultation.

"We urge Canberra to take a long hard look at the statistics around life insurance and seriously consider the impact of introducing any measures that are likely to discourage Australians from taking out insurance that protects them against the financial impact of death and disaster," he said.

## **AFA INSURANCE FACT SHEET**

### **Household debt**

National average mortgage in Australia - \$283,000<sup>i</sup>

Monthly repayments on average mortgage - \$2,062<sup>ii</sup>

Average credit card debt - \$3,244<sup>iii</sup>

Full-time earnings (seasonally adjusted wages) - \$64,594<sup>iv</sup>

### **Life insurance claims made to Australian families and businesses<sup>v</sup>**

Total claims - \$3.045 billion

Term life insurance – \$1.6 billion

Income protection insurance - \$697 million

Trauma insurance - \$334 million

Total and permanent disability insurance - \$370 million

### **Likelihood of serious illness<sup>vi</sup>**

- 50,000 Australians have heart attacks every year.
- One third of women and a quarter of men will suffer cancer at some stage in their lifetime
- More than 42,000 people were expected to die from cancer in 2009.
- Half of all men and a third of women will be diagnosed with cancer before the age of 85

### **The under-insurance gap<sup>vii</sup>**

- Life insurance cover within super is on average only 20% of what is required according Rice Warner Actuaries
- Only 4% of Australian families with dependent children have adequate levels of insurance cover, meaning Australian families are critically underinsured by \$1.37 trillion, according to research commissioned by IFSA in 2005

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<sup>i</sup> Australian Bureau of Statistics – owner-occupied at December 2009 (released February 2010)

<sup>ii</sup> Owner-occupied \$283,000 mortgage @ 7.34% over 25 years

<sup>iii</sup> Reserve Bank of Australia - \$3,243.92 at March 2010

<sup>iv</sup> Australian Bureau of Statistics – first quarter 2010

<sup>v</sup> The risk store – industry stats 2008

<sup>vi</sup> Lifewise – [www.lifewise.org.au](http://www.lifewise.org.au)

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