

Three Cheques

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When I am trying to ascertain with a client how much risk insurance they need, I say “I would like to deliver 3 cheques to your family if you were no longer with us”.

CHEQUE 1 - FINAL COSTS

This cheque needs to be enough to pay FINAL COSTS, eg Funeral, and any unpaid taxes.

I normally suggest \$15,000 here would give them a nice send off.

CHEQUE 2 - DEBT CLEARANCE

This cheque is for all the people you owe money to today.

Normally it is a bank, for mortgages, credit cards and/or business debt. We then calculate the total they currently owe.

CHEQUE 3 - LIFESTYLE

I now say, “This is the most important cheque you will leave your family, because you have now been buried, your family has been to the bank and cleared all debts and NOW they have to have enough income to sustain the same lifestyle they would have had if you had lived a full life”.

“This cheque needs to allow for Retirement Funding which you would have accumulated, it needs to allow for Income you would have generated if you had lived a full life and it needs to be enough to give your surviving spouse some choices re the lifestyle they want”.

I then say, “How much income would your family need per week if they didn’t have any debt?”

If they say \$1,000 per week I ask “Is that Clear?”.

If the answer is Yes, I then say “To give \$52,000 pa clear, we would need to generate approx \$75,000 gross.

To generate \$75,000 gross I would need to invest \$750,000 at 10%, BUT I can’t get you 10% on a regular basis, however we could probably always get close to 5%. Therefore we need \$1.5 Million invested at 5% to give \$75,000 gross to get your family \$52,000 clear.”

“Do you agree with that?”

Normally they agree or ask a few questions and then we agree.

From here I take a piece of paper and write down the 3 cheque totals and then deduct any existing insurance. This leaves us with a net shortfall that needs to be covered.

I also then do the same work for the other spouse to ensure the insurance goes both ways.

I then say, "I will now go away and work on the best way to package this Lifestyle protection for your family and come back to you with my written recommendations".

My written recommendations will then include Life, TPD, Critical Illness Cover and Disability Income Insurance. Quite often due to the costs involved we will Implement the various covers over time, in stages.