

## income protection insurance

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### what is income protection insurance?

Income protection insurance is designed to pay a regular income if you suffer an injury or illness that prevents you from working and earning your regular income.

For the majority of people their ability to work and earn income is the most valuable long-term asset they possess. A long illness or serious injury that prevents you from working could have a serious impact upon your lifestyle and the long-term financial security of your family.

You may insure up to 75% of your monthly income and in some cases you may also be able to arrange for the insurance to fund your super contributions. If you are totally disabled and unable to work as a consequence of injury or illness you will be paid the sum that you have insured as a monthly total disability benefit for as long as you qualify under the policy.

If, after a period of total disability, you return to work but are unable to return to work full-time due to your injury or illness, the insurer may pay you a monthly partial disability benefit for as long as you qualify.

There are a wide range of other benefits that may be included with income protection insurance to help during your treatment and recovery. If available, these benefits will either be included as standard features or as added cost options, depending on which life insurer you choose.

### what should I consider when assessing income protection cover to meet my needs

- ~ the waiting period – The period of time before you receive benefits can vary between 2 weeks to 2 years; 2 weeks; 4 weeks; 2 months; 3 months; 6 months; 1 year; or 2 years, plus 30 days as benefits are paid in arrears;
- ~ benefits available following an incident and returning to work before the 30<sup>th</sup> day – 29 Day Rule;
- ~ the availability of 24 hour world wide cover with no restriction on benefits payable overseas;
- ~ how long benefits will be paid for - consider two year or to 65 year benefit period
- ~ any policy exclusions;
- ~ limits on the period of benefit payments; and
- ~ the availability of the policy to fund for superannuation contributions

### what types of policies are available?

#### Agreed Value Policy

An agreed (or face value) disability income policy is one where a reduction in the level of earnings received from when the policy starts to when a claim is made, will not affect the benefit paid. You may have to provide proof of earnings at the time of a claim.

#### Indemnity Policy

An indemnity disability income policy is one where a reduction in the level of earnings received from when the policy starts and a claim is made, will affect the disability benefit paid

## **what is a cancellable and non-cancellable policy?**

Non-cancelable policies are guaranteed by the insurer to be renewed each year regardless of your changed circumstances provided the premiums are paid within the prescribed timeframe.

Cancelable policies may be cancelled by the insurer and are not guaranteed to be renewed. The offer of renewal is often dependent on the insured's claims history.

Take the opportunity to discuss these conditions with your adviser. Your specific income needs will have to be taken into account during the advice process.

## **how are premiums calculated?**

In the main, premiums are calculated on the level of risk that the insurer is prepared to accept. Factors used in assessment, including those listed above, vary with the insurer offering a premium after taking into consideration smoker or non-smoker, sex, age, occupation, waiting period, medication being taken, financial situation, historical and current health.

## **what is the tax position of premium and benefit payments?**

Premiums are generally tax-deductible. However, benefits received would be assessed as part of your personal taxable income. You should confirm this with your tax adviser.

## **Is GST payable on premiums?**

Unlike general insurance premiums GST is not payable on income protection premiums.

## **when does cover start?**

Cover commences when you receive your policy documents.

## **when do my benefits and cover stop?**

The lapse of the policy; the death of the life insured; expiry date of the benefit; or cancellation of the benefit.

If at the time of claim there has been non-disclosure of a pre-existing condition you could put your benefit payment in jeopardy.

## **warning**

Do not cancel any existing income protection insurance until you have received written confirmation of your new in-force cover. Premature cancellation could leave you uninsured.

## **what should I do next?**

Call your financial adviser immediately to discuss your needs and ensure that you are adequately covered to fulfil your income needs.