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Income Protection

What is insurance?

Insurance is an agreement with an insurance company to pay you a sum of money for a specified loss, damage, illness or death. It is form of protection, a way to protect yourself, your family and the things you own if something goes wrong. Insurance allows you to replace or repair the assets that you have accumulated, whether those assets are your belongings or your capacity to earn income.

What is personal insurance?

The term 'personal insurance' refers to insurance policies you take out on yourself. It provides protection against events like sickness, injury and death that prevent you and your family from meeting your financial commitments and lifestyle requirements. This fact sheet outlines the most common forms of personal insurance:

Life insurance;

Total and permanent disability insurance;

Trauma insurance, and

Income protection.

It is important to understand that insurance does not remove the risk of something going wrong. It provides you and your family with protection, compensation and financial security if something does happen. Put simply, insurance helps you manage those unexpected events that may otherwise mean you have to:

use your savings or investments;

borrow money;

ask family or friends or others for financial assistance;

sell assets to pay outstanding debts and day-to-day living expenses; or

find other ways to make ends meet.

Everybody's circumstances are different – however, insurance is important for everybody. Your need for insurance will change as you move through different stages of your life. The amount of insurance you require will be influenced by your how much you earn, the change in cost of living, your assets, your liabilities, if you are married or in a de facto relationship, and the number of dependants you have - all of which may change depending on your life stage.

This document provides general information only. It is not intended to take the place of professional advice and you should not take action on specific issues in reliance on this information. This information does not take into account the investment objectives, financial situation or particular needs of any particular person. Before making an investment decision, you need to consider (with or without the assistance of an adviser) whether this information is appropriate to your needs, objectives and circumstances.

While having insurance can give you peace of mind, it's not like a savings account. Insurance involves the payment of a premium in exchange for cover. You will only receive a benefit if you have a legitimate claim against the policy you have bought.

There are many types of insurance. The purpose of this fact sheet is to outline the most common forms of personal insurance. Unlike car and home contents insurance, which allow you to insure your belongings; personal insurance policies enable you to insure yourself, and your ongoing well being.

Income protection

Income protection insurance (also known as salary continuance or income replacement) provides a monthly payment stream to replace lost income if you are unable to work due to injury or sickness. It is designed to help you maintain a reasonable standard of living, while you are unable to continue earning your regular income.

While income protection insurance is an important consideration for anyone who works and relies on an income, it is also important for self-employed people, small business owners or professionals whose business relies heavily on their ability to work.

Income protection insurance	
Level of cover	Generally, the maximum allowable cover is 75% of your gross wage. Some policies will provide cover greater than 75%, but any additional amount is generally a superannuation contribution.
Benefit period	This is the maximum length of time that you can receive payments while you are not working. You can select a benefit period from two years through to age 70. The longer the benefit period, the higher the premium.
Waiting period	This is the length of time between stopping work and when you can make a claim to start receiving payments. You can select a waiting period of between 14 days and two years. The shorter the waiting period, the higher the premium.
Inside or outside of super	Income protection can be offered through your super fund or can be purchased as a stand-alone policy outside of super.
Occupation rating	The cost and availability of cover is directly related to your specific occupation. Consideration will be given to any risks associated with your job and how much you work, whether you are part-time or casual. Income protection is not available to people who are unemployed and may be paused if you go on some forms of extended leave, such as unpaid leave and maternity leave.

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Income protection insurance	
	Your financial adviser can help you find an appropriate policy to cover your line of work.
Tax treatment	Income protection premiums are generally tax deductible, but the payments received are considered income and are subject to tax.

How much income protection cover should I have?

It is important to choose the right level of cover for you and your family's needs. You should think about:

Your financial commitments, what are they and how long will they last.

Whether your ongoing loan repayments to cover.

Whether you will need to fund childcare or housekeeping costs.

Whether your spouse will continue to work.

If you need the maximum level of cover, or if you have other financial resources to help cover expenses.

What type of policy should I have, indemnity or agreed?

There are two types of income protection policies, indemnity and agreed value. The difference lies in how the insurance company works out how much to pay you when you claim.

Your adviser is the best person to help you work out which type of policy best suits your situation. Your occupation and personal circumstances, such as being newly self-employed, can sometimes affect which type of policy you can apply for. The table below explains the differences between the two.

Indemnity or Agreed insurance	
Indemnity contract	When you claim, you must prove to the insurance company your earnings from employment or self-employment. Your level of income prior to suffering the illness/injury will determine how much you are paid. If your income reduces after the policy is put in place, you can only claim on the lower amount. Alternatively, if your income increases, the maximum you can be paid is the sum insured. Cheaper than an agreed value contract. Generally, salary continuance policies through superannuation are indemnity contracts. May be an attractive way for salary earners in stable jobs to obtain cheaper income protection.

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Indemnity or Agreed insurance	
Agreed value contract	When you apply for the insurance, you provide evidence of how much you are earning to the insurance company. At claim time, you do not have to prove your income. When you claim, the sum insured determines how much you are paid. If your income reduces in the future, you will still receive the higher amount. If your income increases in the future, the maximum you can be paid is the sum insured. More expensive than an indemnity contract but provides more certainty around the benefits.

What waiting period should I have?

To work out an appropriate waiting period, you will need to consider:

How much leave you have available (e.g. sick leave, long service leave);

Whether you have savings that can be used to fund your expenses during the waiting period.

You need to weigh up how long you can go without income, against the cost of the premium - the shorter the waiting period, the more expensive the insurance.

What benefit period should I have?

To work out an appropriate benefit period, you will need to consider:

Your financial commitments, what are they and how long will they last.

Whether you have ongoing loan repayments to cover and how long they will last.

What age you intend to retire.

Whether your spouse continue to work.

Other savings, such as superannuation, you have available to fund your future expenses.

We can help you determine appropriate income protection cover to meet your current situation and your ongoing needs.

Cost of insurance

The cost of insurance is called the premium. The premium is based on a number of factors relating to the potential risks to the insurer, such as your age, occupation and existing medical history. The premium covers other costs including administration fees, taxes and government charges.

You can choose either a stepped premium or a level premium.

Stepped premiums increase exponentially each year as you get older.

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Level premiums generally remain consistent over the life of the policy, with potential increases in premium costs occurring if changes are made to the level of cover, either by your request or by you exercising an CPI indexation option. In some instances, premiums may be re-rated higher by the insurance provider when they review the risks of providing insurance and perceive these to have increased. This could be due to increased claims within products or increased risks within certain occupations.

Level premiums can be more expensive initially, but if you keep the policy for a long time, they can offer a saving on the total cumulative amount paid for the insurance.

Special conditions

If the insurer determines that you pose a higher risk to them than the average client, they may offer you an adjusted policy. A policy can be adjusted in four ways:

Special conditions	
Exclusions	"Exclusion" is when the insurer leaves specific events out of your policy. For example, if you have had back problems in the past, your policy may state that you will not be paid out for any injury to your back.
Loading	A loading is an increase in your premium, compared to the standard premium. A 150% loading means that your premium is 150% of the standard premium. Loadings usually apply where you pose a greater risk to the insurer; such as if you are overweight or have a history of heart conditions in your family.
Adjusted term	Rather than choosing to refuse you insurance, the insurer may decide to limit the terms of your policy. For instance, you may be offered a two-year maximum benefit period on income protection insurance. Or you may only be offered an 'any occupation' TPD policy.
Decline of cover	Where the insurer believes that you pose too great a risk to them, they can choose not to insure you. It is important we investigate and explain other options available to you when this happens.

If this sounds like something you need to explore, or review what you already have, please feel free to fill in the form here: https://www.fasttrackwealth.com.au/contact-us/

Or contact Adam on 07 3263 4123.

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