

# Income Protection insurance



Backed by **TAL**

**If you are unable to work due to illness or injury, Income Protection insurance will pay you an ongoing income.**

## Benefits

You'll receive an ongoing monthly payment that will:

- help you cover your living expenses and debt repayments, and
- help to protect you from having to exhaust your savings, sell assets or rely on Centrelink for assistance.

## How it works

You can apply for cover up to a maximum payout of 75% of your earnings. For business owners, this equates to whatever your income is after business expenses, but before tax. Adding ancillary benefits to this will protect you if you suffer illness or injury as well as protecting your superannuation, by continuing to pay your super contributions.

You will not receive a payout if you suffer sickness or injury as a result of:

- war or an act of war
- a self-inflicted act, or
- uncomplicated pregnancy.

In many cases benefits will be adjusted if you receive payments from sick leave, social security, workers compensation or other legislative sources.

## Agreed Value or Indemnity

You can obtain your Income Protection insurance under an 'Agreed Value' or 'Indemnity' policy.

Under an Agreed Value policy, you will receive the agreed monthly benefit at the time of a successful claim, regardless of the amount you are earning at that time. You'll need to provide proof of income at the time you apply for cover. This is a good option if your income fluctuates over time as your payout

is only dependant on proof of an income, not the amount you are earning, at the time of claim.

Under an Indemnity policy, the amount you receive at the time of a successful claim will be assessed on your earnings in the 12 months prior to the disability. You will need to provide proof of income at time of claim. If your income is lower than normal in the period prior to claim then your monthly benefit may be less. This is a good option if you have a stable income and can easily substantiate your income at the time of claim, your occupation does not allow an Agreed Value policy, or you have only recently established your business and do not have two years of financial evidence available. The premium for an Indemnity policy is less expensive than an Agreed Value.

## Waiting and benefit periods

In the event of a successful claim, benefit payments do not start immediately.

A waiting period will apply during which no benefit is payable. You will need to choose a waiting period when you choose your cover. It's important to take into account any sick leave and related benefits that would be paid by your employer, as these may allow you to endure a longer waiting period; the longer the waiting period, the cheaper your premium.

A benefit period is the longest amount of time you will receive payments. You'll need to choose your benefit period when you choose your cover; the shorter the benefit period, the lower the premium.

## Policy ownership

Income Protection insurance can be owned either in your own name or within your super fund.

### Self ownership

Placing the policy in your own name allows you to tailor it specifically to your needs. With self owned cover, you need to pay the premium from your cash flow. The premiums are tax deductible. Any benefits you receive in the event of a successful claim are taxed at your marginal income tax rate.

### Super ownership

Super owned cover means your insurance premium is paid with your super contributions or deducted from the balance of your super fund. The premium is a deductible expense to your super fund. This can reduce the tax payable on your contributions and investment income. The payout from a successful claim will be directed into your superannuation fund from where you'll be paid a monthly income as your temporary illness benefit. This income is assessable and will be taxed at your marginal tax rate.

For business owners, it may be a good option for the business to hold the cover. This ensures a payout is made directly to the business where it can be distributed accordingly.

### Optional benefits

Income Protection offers:

- an Increasing Claims option that ensures benefit payments are indexed in line with inflation
- a Superannuation Cover option that allows you to receive more than the maximum of 75% of your earnings at the time of claim, and
- a Nursing Care benefit and Day 1 Accident option that allows for income protection payments during the waiting period.

### Implications

- If an income protection policy is held within super, the policy is owned by your super fund (not you). In the event of a claim the benefits are paid directly to the fund by the insurance company and not to you.
- In order to receive an Income Protection claim through super, you will need to satisfy the super fund's definitions of 'temporarily or permanently incapacitated'. These may be stricter than for a stand-alone policy held in your own name outside of super.

- If an Income Protection policy held within super includes benefits that don't meet a condition of release (e.g. childcare and specific injury benefits) or result in you receiving more than 100% of your pre-disability earnings, then the premium may not be fully deductible to the super fund and the 'excess' benefits would be retained by the super fund. For example, if you have an agreed value contract there is no guarantee that your insurance benefit will be based on this value at the time of claim as your pre-disability earnings may be less than the agreed value of the policy.
- Paying the premiums from your super balance will reduce the growth of your super, unless you make additional contributions to offset the premium payments. Premiums will count towards your contribution caps.

## Further Enquiries

If you have any further questions about Income Protection insurance, please contact your financial adviser.

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#### Disclaimer

The information and any advice in this document is general in nature and has been prepared without taking account of your objectives, financial situation or needs. Before acting upon any advice, you should consider whether it is appropriate for you in light of your own objectives, financial situation and needs. If you have any questions about this document, please contact your financial adviser.

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