

## ***Income protection insurance***

It's a common story when we meet with clients. The failure to recognise that they are the biggest asset in their financial well-being yet they are prepared to take the risk of not insuring their continued ability to work. What makes Income protection more attractive is that generally the premiums are tax deductible.

### **What is *income protection insurance*?**

Put simply, **income protection insurance** aims to protect your income in the event that you can't work due to illness or injury.

**End of Financial Year:** Arrange your income protection by June 30 and claim the cost of income protection insurance premiums for tax purposes this year!

### **How does *income protection* work?**

**Income protection insurance** provides an income stream for you should you become unable to work due to an injury or illness.

In the event of a claim, the insurer will pay an amount (normally up to 75% of your gross salary in Australia) until you have recovered sufficiently to work again, or up until the maximum benefit period as stated in the policy which is normally 2 year, 5 year or up to age 65.

### **Why do I need *income protection insurance*?**

Ask yourself what would happen if you woke up tomorrow and found you were incapable of working for an extended period of time. Do you survive without your income for an extended period of time (12 months or longer)?

*Income protection insurance* provides cover for individuals, 24 hours a day, anywhere in the world, regardless of impairment.

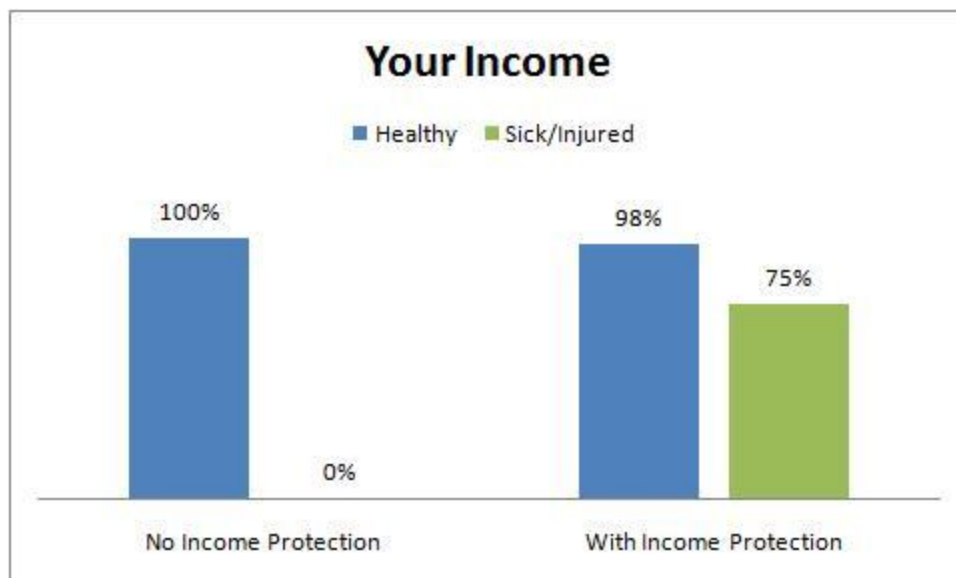
If you don't have savings how could you support your household, repay your mortgage or save for the future? You may think Workers Compensation will cover your costs in the case of an accident, but Workers Compensation protects you if your injury is connected with work.

How much *income protection* cover do I need?

The amount of **income protection** cover you need will be determined by your salary. In Australia the maximum amount of cover you can get is usually limited to:

- If you are employed: 75% of your current gross salary (including employer packaged fringe benefits and superannuation contributions).
- For self employed: 75% of the income generated by the business due to your personal endeavour less your share of expenses.
- A lower percentage of income may apply above certain income limits (\$250,000 for example) and overall maximum levels of monthly benefit sum insured will apply.

You need to consider what the costs are of meeting your debts (mortgage, etc.); providing sufficient funds for a spouse, children or other dependents; and maintaining your assets & investments. Remember, the point of income protection insurance is to provide an income stream if you can no longer work. Consider this:



## What should I pay for *income protection insurance*?

Income protection premiums vary greatly across the market place depending on the level of protection you are after. Prices vary depending on age, the salary you want to insure and other factors, but as a general rule, **income protection** in Australia can cost around one week's salary per year (approximately 2% of your annual salary). And for most taxpayers **premiums are tax deductible**.

Income Protection Insurance Premiums are set depending on:

- **Age** - The cost of obtaining cover generally increases over time
- **Gender**
- **Health and pre-existing conditions**
- **Whether or not you smoke** - If you are a smoker, or if you have smoked within the last 12 months you will pay more in premiums compared to a non-smoker. However should you already have a policy and premium based on smokers' rates and you have not smoked in the last 12 months you may be able to have your premiums reduced back to non-smokers rates.
- **Occupation** - If you are involved in a hazardous occupation or where there are more risks involved, you will pay a higher premium compared to a professional office worker.
- **Waiting period** - i.e. how long can you be off work before you require the income to commence. Generally the waiting periods range from 2 weeks to 2 years.
- **Benefit Period** - This is the maximum length of time following the waiting period that the policy will pay the benefit for. These can either be for a set period (2 year, 5 year) or until a certain age (to age 65). If you are able to return to work because you have recovered from your sickness or injury then the monthly benefit will cease at that time.
- **Additional policy features** - Whether you would like a 'comprehensive' or 'basic' policy or any additional features will also affect the cost of cover.