
# Insurance

## Income Protection Insurance

Income protection (or salary continuance) insurance pays you a monthly amount when you are unable to work due to illness or injury.  Many policies will pay up to 75% of your salary.

The purpose of income protection insurance is to provide you with a regular income to use to meet your expenses, which will then allow you to focus on your recovery.  Income protection policies are very flexible and range from basic cover through to policies that provide home care benefits.  Your financial adviser can help determine the appropriate policy for your needs.

### How much will you receive?

Most income protection policies pay up to 75% of your salary.  Some policies allow you to cover your Superannuation Guarantee Contributions (SGC) as well.  The reason the policy covers 75% of your salary and not the full amount is to provide you with an incentive to return to work.

### How long before you get the money?

Most insurance polices offer a waiting period of between 14 days and 2 years before benefits become payable.  You need to be aware, however, that most income protection policies pay in arrears.  This means if you have a policy with a 30-day waiting period, you will not receive an income payment until day 60.

If you increase your waiting period from 30 days to 90 days, which will decrease the premium that is payable, you will have to fund living expenses for an additional 60 days.  If you have a large amount of sick or annual leave this can be used to fund your living needs during the waiting period, but if you don't have a large amount of leave or a cash reserve, you should think carefully before increasing your waiting period.

Some policies contain an accident option which reduces the waiting period for an accident, but not an illness.  This reduces the waiting period to 4 days and may back-pay the benefit from the time you first consult a doctor. In real time this can often mean you get your first payment in 30 days from the time you saw the doctor following the accident.

### How long will it keep paying you?

The amount of time for which you receive the income payments is known as the benefit period.  The most common benefit periods are 2 and 5 years, or you may make arrangements to have benefits payable to age 55, 60 or 65.

While it may be tempting to take the shortest benefit period, you need to consider what you would do if you were seriously injured and were unable to go back to work.  By using a combination of insurances you may be able to overcome this issue.

## Do you pay tax on the money?

Yes, the Australian Tax Office (ATO) sees this money as personal income, and therefore it will need to be declared in your tax return.  It will be taxed according to your marginal tax rate.

The good news is that your premium is tax-deductible.  It is therefore important that you inform your accountant of the premiums so they can be included in your income tax return.

## What about your superannuation?

Many people forget that if they were to lose their income stream they would also lose their employer's contributions to their superannuation.

Some policies allow you to insure your superannuation contributions as well to reduce the impact on your retirement savings.

## Basic versus Optional Extras

For an additional premium, insurance companies generally offer a range of additional extras on top of your basic cover. This allows you to choose the features and benefits that you consider to be of additional value. In many cases there are significant benefits to be gained in considering the more comprehensive cover. Optional extras will increase the cost of your personal insurance cover.

## Indemnity versus Agreed Value

You are able to apply for either an "agreed" value or an "indemnity" contract.

An agreed value contract usually means that the monthly amount stated in your policy will be the amount that you will receive if you make a claim.  If your income were to decrease then you would still receive the higher amount stated in your policy, but if your income were to increase, you will receive the agreed amount.  This option provides greater certainty at claim time.

An indemnity contract means the monthly payment will be determined at the time of the claim, and is usually based on your average income over the twelve months prior to the claim.

If your income were to decrease over time you are likely to receive the reduced amount, but if your income were to increase, it is likely you would receive a higher amount.

## Definition

There are three main types of income protection policies.

- "Hours based" policies.  These policies pay benefits if you are unable to perform your regular duties, but will still allow you to work up to 10 hours per week without reducing the income received.
- "Duties based" policies.  These policies pay benefits if you are unable to perform one or more of the regular duties of your own regular occupation.

- "Loss of income based" policies. These policies pay benefits if you suffer a loss of the majority of your income (usually 80%) as a direct result of your illness or injury.

It is important that you discuss the most suitable policy with your financial adviser. For example a self-employed business person may be better with an hours based policy as it allows them to monitor and take part in their business for up to 10 hours per week, if they are able to do so.

## Example – Benefit of Income Protection

Greg and Jan are both teachers, with 2 children at school. They have a mortgage they are in the process of paying off. They are living comfortably off both their incomes, but would struggle if this was reduced to just one income.

Jan is hit by a car while cycling and is unable to work for 9 months. Fortunately Greg and Jan had seen their financial adviser who had recommended income protection insurance for them both. This meant that Jan received 75% of her salary and this allowed the family to focus fully on her treatment and recovery and not on having to find money to pay the bills.