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What is
Income Protection Insurance?

This insurance is designed to replace your income if you are unable to work due to sickness or injury. It provides a monthly payment of usually up to 75% of your pre-tax income. Its purpose is to provide you with a regular income to help you cover your living expenses so you can focus on your recovery. Some policies also include additional payments for things like rehabilitation and home care.

Not many people risk being uninsured when it comes to their car or home. But many choose to not insure their most valuable asset – that is, their ability to earn an income.

This is despite the fact that most people will earn a fortune between now and when they retire:

How much will you earn from now until retirement+?

Income p.a.	Age Now	
	30	40
$60,000	$3,365,096	$1,786,685
$80,000	$4,486,795	$2,382,246
$100,000	$5,608,494	$2,977,808
$150,000	$8,412,741	$4,466,712

+Assumes income increases each year by 4%. Retirement age of 60.

This means that most families are carrying significant financial risk should the unexpected happen. The big question you have to ask yourself is:

'Would your family be able to maintain their lifestyle if you suddenly couldn't earn an income due to a serious illness or accident?'

If your answer to this question is no, you need to consider transferring that financial risk to an insurance company.

Your financial adviser can help you do that, as well as answer any questions you have about income protection insurance, and then calculate how much you need to safeguard you and your family in the event something should happen to you or your spouse.

And, if you wish, your adviser will use our sophisticated computer program to 'broker' the major insurers to find you the right cover at a competitive price.*

*Insurance cover is subject to eligibility criteria.

What are the taxation implications?

The premiums for income protection insurance are tax deductible for most people. However, the payments paid to you by the insurance company are regarded as personal income and taxed accordingly.

Who can qualify for income protection insurance?

You must be employed or self-employed and earning an income to qualify.

What are the basic policy options?

You can generally choose the waiting period (this is how long you must be unable to work before the insurance begins to pay you) and the benefit period (how long the policy will pay you if you are unable to work).

The cost of this insurance decreases the longer the waiting period you choose, and the shorter the benefit period you choose.

What if you already have income protection through your employer?

Some people have basic income protection insurance through their employer.

But this insurance generally pays a benefit for a maximum period of only two years and is a basic type of cover.

This means if you are unable to return to work after two years you may not have a source of income.

In some instances it may be appropriate to take an additional policy with a benefit period up to age 60 or 65.

Types of policies

1. **'Agreed value' versus 'Indemnity' cover**

'Agreed value' cover will pay the predetermined sum insured, no matter what your income is at the time of the claim.

'Indemnity' cover will pay whatever is the lesser amount between your sum insured and your income at the time of claim.

2. **'Hours based' versus 'duties based' versus 'loss of income based'**

'Hours based' policies pay benefits if you are unable to perform your regular duties, but will allow you to work up to 10 hours a week without reducing the payment.

'Duties based' pay benefits if you are unable to perform one or more of the regular duties of your regular occupation.

'Loss of income based' 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.

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Choice of premium options

'Stepped' premiums increase each year in line with your age.

'Level' premiums generally remain constant until you're 65 or 70, depending on which 'Level' premium option you have selected, at which point they convert to 'Stepped'.

In other words, Stepped' premiums are more affordable in the early years, while 'Level' premiums tend to be more affordable in the later years (before they convert to 'Stepped').

How do the insurance companies view you as a risk?

Some insurance companies may charge you significantly less than other companies for the same cover, simply because they see you – or your occupation – as a lower risk. That's why you should use a financial adviser who has the ability to 'shop around' the reputable insurers to get the best solution for your particular situation.

Case study

Steve and Petra have two children at school. They both work and they have a mortgage. They have a comfortable lifestyle but would struggle financially if one of their incomes was lost. We would recommend that both Steve and Petra purchase income protection policies which pay 75% of their pre-tax salaries up to age 65. We would recommend different waiting periods as their work circumstances are different. If one of them were to suffer a serious injury or illness, that partner's salary would be almost replaced by the insurance benefit – and therefore they could concentrate on getting better rather than worrying about where to find the money to pay the bills.