Income Protection Insurance

A factsheet from F3 Financial Services

What Is Income Protection Insurance?

Income Protection Insurance can provide a monthly payment of anywhere up to 75% of your salary when you're unable to work because of illness or injury.

Common Examples

The most common claims for income protection insurance are a result of:

- Muscular / skeletal conditions
- Back problems
- Cancer
- Mental illness

Can It Happen to Me?

Some recent statistics:

- 1 in 3 Australians will be off work for more than 3 months during their working life due to illness or injury
- 1 in 6 men and 1 in 4 women are expected to suffer a disability between the age of 35 and 65 that causes a loss of 6 months away from work.
- One in five Australians (4 million people) lives with some degree of disability (and more than half of these are under 65 years of age)
- Half of all serious accidents occur away from work, so workers are not covered by workers compensation.

Who Needs Income Protection Insurance?

Income Protection Insurance is appropriate if your earnings from employment or business are used for either day-to-day living expenses or saving for your future lifestyle.

Taxation

Premiums for income protection insurance are usually tax deductible. Similarly, benefits that are paid under a policy are typically treated as taxable income.

Agreed Value versus Indemnity

You can apply for Agreed Value or Indemnity insurance contracts.

An Agreed Value contract usually means that the monthly payment specified in your policy is the amount you receive if you make a claim.

An indemnity contract means that the monthly payment will be assessed when you make a claim.

Agreed Value contracts are often preferred by people who have fluctuating levels of income (such as self employed).

Waiting Period

This is the amount of time after you become ill or injured that you must wait before you will qualify for a benefit payment. Waiting periods can be nominated between two weeks and two years. Longer waiting periods will reduce premiums.

Benefit Period

This is the maximum period of time a benefit amount will be paid. When you take out a policy, you will normally be required to specify the benefit period – 1 year, 2 years, 5 years, to age 55, to age 65, and so on. Longer benefit periods will increase premiums.

Premiums

Premiums can vary significantly between different insurers. The premium amount will also depend upon individual factors with key drivers being age, gender, occupation, overall health, waiting period and benefit period.

Stepped versus Level Premiums

A stepped premium means that the premium is recalculated (increasing) each year. As you get older, the increases can be quite significant and potentially make the cost of retaining insurance cover prohibitive.

A level premium however is calculated each year based on your age when the cover commenced – there are no age related increases.

Whilst a level premium policy can be more expensive initially, the long term benefits can be significant if you hold insurance cover for a long period.

Insurance Reviews

You should review insurance situation at least every few years to ensure that the amount and type of cover is suitable to your situation and needs. The amount of income protection insurance you need may increase or decrease depending upon changes in your circumstances – assets, liabilities, income, dependents, and so on.

More information

- Call 1300 314 335
- Email info@f3fs.com.au
- Visit www.f3fs.com.au