

Income protection

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Who will look after your finances if you can't work due to sickness or injury? Health insurance may cover a proportion of your medical bills, but it won't cover your rent or mortgage and living costs.

It doesn't make sense

The majority of Australians have no trouble insuring their home and contents from fire, theft and weather damage. It makes a lot of sense to take out insurance on your home.

It's your biggest asset, right?

Wrong...

The average Australian could earn around two and a half million dollars¹ in their lifetime, much more than the value of the average home. And yet the majority of income earners don't insure their largest asset – their income earning capacity.

Your home, car, food, clothing, children's education – all depend on your income. That's why for many the loss of income resulting from the inability to work due to sickness or injury can cause serious financial hardship.

When you think of how your lifestyle could be affected, it simply doesn't make sense to overlook this important cover.

What is income protection?

Income protection insurance (also known as salary continuance) is designed to provide a regular income in the event that you are unable to work due to sickness or injury. Generally, income protection insurance provides a regular income during a period of disablement for up to a pre-determined and agreed benefit period. The benefit amount payable is up to 75 per cent of your income.

Factors to consider:

- The shorter the waiting period and the longer the benefit payment period, the more the insurance will cost.
- Income protection insurance is important when borrowing to invest (gearing), as it can help meet interest payments if you are unable to work due to illness or injury.
- Your insurance cover should be adequate for your needs. Under-insurance can present a serious problem.

What about worker's compensation?

Workers' compensation will only cover you for accidents or injuries that occur during working hours or for an illness

that is a direct result of your employment. And, if your illness or injury is covered by workers' compensation, be aware that the benefit is capped under the different state regulations.

It's not just the bills

When it comes to protecting your income, it's easy to forget that you're protecting more than your ability to meet mortgage repayments and put food on the table. Your income isn't just about the bills – it's about your future – and how much you enjoy it.

While your medical expenses might be covered by other insurance policies, income protection insurance can be used towards expenses like your mortgage or car payments. Income protection insurance makes sure you and your family don't have to lose your belongings or your home while you recover and try to get back to work.

Also, if your disability will permanently stop you from engaging in your line of work, some income protection insurance policies will continue to pay out until retirement age. (Note: How long an insurance company will pay out depends on your individual policy. Some only pay for a year or so after the medical condition arises, so carefully compare income protection insurance policies before applying.)

Even though income protection insurance might not pay the equivalent of your salary, it might pay enough that it will save your partner from having to take on another job to make ends meet. Either that or it might be enough to enable them to stay home to help you through your recovery to get things back to normal as quickly as possible.

Valuable features of income protection insurance

- Your premiums are generally tax deductible – making income protection insurance cheaper.
- You can choose the waiting period that suits your needs. If you have money in the bank and manageable expenses you can reduce your premiums by choosing a long waiting period before benefit payments commence. However if you have large debts and couldn't easily cope with loss of income you can choose a shorter waiting period.
- You can choose a benefit period that suits your needs. You can cover your income right up until retirement age. Or only as long as you need to get past the years where you may accumulate the biggest debt.
- You can choose from a whole range of other benefit options, including the ability to increase your cover in line with inflation.

How much is enough?

To understand your needs, a financial adviser will ask you to consider the following questions about your future:

- What does the future look like for you and your family?
- What plans are you making together that you don't want to have to break due to finances?
- Do you have plans to put your children through university, take holidays or buy an investment property?
- How much does your family's lifestyle cost you each month – bills, mortgage payments, kids activities?
- Do you have savings that you could easily access if you needed them?

Once you've started painting the picture of your family's future and the costs involved in raising a family and reaching your goals, you'll start to get an idea of how important insurance is to cover those needs!

¹ Based on full-time adult average weekly ordinary times earnings multiplied by 40 years of continuous employment [Earnings Source: Average Weekly Earnings, Australia, February 2009, ABS, Category number 6302]

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