Informing
YOU

How would your life be affected if you had no income?

The idea of insuring against loss of income is one that has clear value. But many neglect to insure their most valuable asset. Income protection could be the answer – so how does it work?

We happily insure our homes, our vehicles, even our smartphones. But have you considered how your family's lifestyle would be impacted if the main breadwinner was suddenly unable to earn an income due to injury or illness?

According to Lifewise, a body coordinated by the Financial Services Council, 83% of Australians insure their cars but only 31% insure their ability to earn an income.[1] One obvious solution is income protection insurance – here's how it works.

In a nutshell, income protection insurance can provide a percentage of your income for an agreed time if you have to stop work or you can only work in a reduced capacity due to injury or illness.

Income protection typically covers up to 75% of your salary earnings (or, if you're self-employed, generally up to 75% of the business profits you've generated) until you can work again.

Policies typically don't only offer cover for a specified list of conditions, as trauma insurance might. This means the cover is broader and can protect you against a wide range of health problems – from back injuries and serious illnesses to stress and other psychological issues.

If you make a successful claim, the income stream from your policy kicks in after an agreed waiting period. Typically, this is 30 to 90 days after the event. You may choose a longer waiting period – for instance, if you know that your first few months will be covered by annual leave and sick leave entitlements. A longer waiting period generally means you pay lower premiums. Shorter waiting periods are possible, but may attract higher premiums.

Similarly, the income stream lasts for an agreed maximum period – perhaps 12 months, two years, or until you turn 65. Shorter periods will generally attract lower premiums. This is one of the reasons why income protection policies are so useful, because they can be customised to your specific needs.

Also, your income protection premiums are usually tax deductible, unless you've taken out cover through your super fund (in which case they are generally tax-deductible to your fund). However, if you make a claim, your benefit payments will generally be taxed at your marginal tax rate.

So is income protection insurance right for you? That question is often answered by asking another one – how would your life be affected if you had no income? Imagine the result, six months from now, if today your income suddenly and unexpectedly dried up. Then imagine the difference if instead, after one month, an insurance provider started regularly paying 75% of your income into your bank account.

For many Australians, income protection insurance is one of the essential ingredients of a solid financial plan. Talk to your financial adviser if you'd like to know more.

Case study

Wendy is a single mother who works in an office. She relies on her fortnightly paycheque to pay her mortgage, support her young son and invest for the future. After a discussion with her financial adviser she decides to take out an income protection policy offering the highest level of cover available – 75% of her current income until the age of 65.

To help reduce her premium costs, Wendy's financial adviser recommends that she investigate how much leave she's accrued. This adds up to two weeks of annual leave plus another 10 days of sick leave. Wendy also has an emergency savings fund that could cover her living costs for up to two months.

By stretching her waiting period from 30 days to 90 days, Wendy's income protection premiums are reduced.

1 http://www.lifewise.org.au/facts-research

Speak to us for more information

If you would like to know more, talk to your Count financial adviser. They can give you more detailed information on the best approach for your situation.

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