INCOME PROTECTION

If you insure your home and car, it makes sense to also insure the thing that enabled you to buy those things in the first place, your income.

If you became sick or injured and need extended time off work, how would you make ends meet?

Income protection can replace a large proportion of your regular income for a specified period if you suffer a serious illness or injury and are temporarily unable to work.

It can help protect you and your family's:

- Lifestyle — by helping you continue to meet your regular living expenses and debt repayments without having to rely on other relatives and/or the government for assistance.
- Wealth — by reducing or removing the need to run down your savings or sell assets to generate cash.

Without income protection you and your family may find it difficult to maintain your standard of living or cover your bills.

This could place extra stress on your recovery, not to mention the emotional strain on your loved ones.

How much will I be paid?

Typicaly, You can insure up to 70% of your before-tax income, up to the insurer's capped dollar amount (Before 1 October 2021, the limit was 75%).

You may have the option of boosting this limit to 90% in the first six months of a claim.

These benefit payments may include your employer's compulsory contributions into your super fund (also known as the 'Super Guarantee').

(If you took out income protection insurance before 1 October 2021, your policy is 'grandfathered'. Policies placed before this date may have more favourable terms and conditions. It's important to review terms and conditions with this in mind.)

How is the benefit calculated?

Since 31 March 2020 (when agreed value policies were phased out), insurers have offered only indemnity value policies.

This means the amount you're insured for is a percentage of your earnings at the time of your claim.

If you happen to be earning less than you were when you first took out the cover, you'll get a smaller monthly benefit payment.

Policies purchased before 31 March 2020, can continue to be held under their previous terms.

How long will I be paid for?

You can choose the length of time you would receive a benefit (also known as the 'benefit period'). This could be a specific timeframe (e.g. one, two or five years) or up to a certain age (e.g. 65). In general, the longer the benefit period the higher the premium.

The benefit payments continue until you recover and resume work or your benefit period ends.

When will my payments begin?

If your claim is successful, your benefit payments will not start immediately — you first have to serve a waiting period.

You can select the length of the waiting period when you take out the cover; they typically range from 14 days to two years, during which time you receive no benefit payments.

While you wait, you may be able to rely on sick leave, annual leave and/or long-service leave to tide you over.

If after the waiting period your doctor confirms you're still too unwell to return to work, your insurer will start paying you your monthly benefit in arrears.

The shorter the waiting period, the higher the premium is likely to be.

Tax deductions and payable

Your income protection premiums are tax deductible (unless you've arranged the cover through your superannuation fund).

Any benefits you successfully claim will be treated as assessable income and taxed at your marginal tax rate.

Note that your insurer may not withhold PAYG tax on the benefit payments before they're paid to you.

If that's the case, you should seek tax advice and set aside money to pay your tax liabilities.

If you've arranged the income protection through your super fund, the trustee of the fund will generally withhold PAYG tax (i.e. you might not have to worry about it).

Salary-continuance insurance

Salary-continuance insurance is similar to income protection, the main difference being that the former is available only through superannuation funds.

Salary continuance is most commonly offered to employees in a group super plan.

Because it's purchased in bulk, salary continuance maybe cheaper than standalone income protection.

However, unlike income protection premiums, salary-continuance premiums are not tax deductible.

Salary-continuance insurance is also less customisable than income protection and the maximum benefit period is typically two years (compared to, for example, five years or up to age 65).

If you're getting your salary continuance through your employer, your cover may cease if you change jobs.

What else should you consider?

- Income protection usually does not cover, among other things, redundancy (also known as involuntary unemployment), mental illness, normal pregnancy (e.g. morning sickness and back pain).
- Deducting the premiums from your superannuation balance will reduce your retirement savings, unless you make additional superannuation contributions to offset the premiums. Any additional contributions you make will count towards your contribution caps.
- Before selecting an insurance policy, you should always carefully read the product disclosure statement (PDS). It explains the terms, conditions, limits and exclusions of your cover.

Get expert advice

Trying to choose an income protection provider can be confusing. There are many options to weigh up, including the level of cover, the benefit period, and more.

We recommend you speak with one of our planners to help you find the most suitable income protection for your unique situation.

Contact us for a complimentary consultation at info@modoras.com or 1300 888 803.

Complete financial care is a phone call away.

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