

Protecting your most important asset

It's easy to assume challenging times tend to affect other people. But the reality is any one of us can suffer an accident or illness that stops us from doing our job – even at a relatively young age. Which is why income protection insurance is such an important investment at every stage of our lives.

As a young person, it's easy to think few things have the potential to affect your income. But every day, people who are really just at the start of their lives experience events that mean they are temporarily unable to perform their role and earn the salary they need to support themselves and their family. As a result, income protection insurance is an essential cover for most of us.

Accidents and illness can happen to anyone, whether it's an injury from playing your favourite sport on the weekend, an accident whilst skiing on holidays or an unexpected illness striking you down unexpectedly.

We are all at risk of suffering an accident or serious illness. In fact, when it comes to cancer alone, according to the Australian Institute of Health and Welfare's 2012 report *Cancer in Australia: An overview* men have a one in three risk of being diagnosed with cancer by the age of 75, whereas for women this figure is one in four¹.

Income protection provides financial support for people suffering a range of illnesses including cancer, heart attack and stroke. This type of cover is one of the main ways to protect your finances should you suffer a serious accident or illness. Let's take a look at how it works.

Taking out cover

Income protection insurance provides a financial benefit when someone experiences an event that prevents them from going to work for an extended period. These generally include cancer diagnoses, heart attacks or strokes, as well as serious accidents.

These policies provide cover after a designated waiting period – usually between four to six weeks. Policies usually provide cover for up to 75 per cent of a person's income, for up to five years. The cover ensures that if you suffer a serious accident or illness, you can still meet your obligations such as mortgage repayments and day to day household expenses. It means your family won't be seriously adversely affected if you do have to make a claim on your policy.

One of the benefits of income protection insurance is that it is usually tax deductible, which can make it an attractive adjunct to other forms of insurance such as life insurance.

The important thing to understand about income protection cover is that the earlier in life you take it out, the lower the premiums will be. Which is why it makes sense to consider this type of insurance as soon as you start working.

¹ www.aihw.gov.au

What are your options?

While policies will differ from insurer to insurer, generally there are two options when it comes to receiving a pay out on an income protection policy. You select the option that's right for you when you take out the policy. The first option is to be insured for a sum that's an agreed value. For instance, someone who earns \$100,000 a year might choose to be covered for 75 per cent of their income. This can be a good option if you expect your income to fall because it locks in your salary at a higher level.

The other choice is to receive a pay-out based on an indemnified value. Under this option the pay-out will be determined by the income you earn at the time the claim is made.

How does it work?

Let's look at a hypothetical example to bring this type of insurance to life. Mary and Paul have two children and are paying off their home. Paul is a pilot and Mary works as a beauty therapist.

When Mary fell down some stairs and broke her leg she was unable to work for three months. But because she had income protection insurance that covered 75 per cent of her salary, the family was able to continue to meet its mortgage repayments. Importantly, Mary was able to fully recuperate at home while the money from the policy helped to cover her and her family's cost of living.

Income protection insurance is a must-have form of cover for most Australians. If you'd like to find out more about your policy options and how this type of insurance works, please contact your adviser today.

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