Insuring Against Loss of Income

Protecting income from unexpected illness and injury is particularly important to anyone with a mortgage to service, small business owners and self-employed people with no sick leave available.

With income protection insurance, you can be paid some 70 per cent of your income for a specified period to help when you cannot work.[i]

The most common claims are for illnesses such as cancer, heart attack, anxiety and depression.[ii] Payments generally last from two to five years although you can take a policy up to a certain age, such as 65, and the amount is generally based on 70 per cent of your income in the 12 months prior to the injury or illness.[iii]

For some, income protection insurance may be part and parcel of your superannuation although more commonly this is limited to life insurance, and total and permanent disability cover. But, if you do have income protection insurance in your super, check the extent of the automatic cover as it can be modest.

Alternatively, you could take out a policy outside super where you will enjoy tax deductibility on the premiums. Income protection insurance is the only insurance that is tax deductible. Other life insurance products outside super such as trauma insurance are not tax deductible.[iv]

Work out a budget

There are many considerations when looking at income protection insurance and the best place to start is to work out your budget, thinking about how much would you need to maintain your family's lifestyle if you are unable to work. Then you are able to decide on the appropriate level of income protection insurance as well as other factors that affect premiums such as how quickly you might need the payments to start and how long these payments will last.

Many people think income protection insurance is expensive, but you can fine tune policies to suit your budget by changing the percentage payment amount, the length of time for which you would receive the payment and how soon you start getting a payment once you cannot work. Reducing these parameters can reduce your premiums.

Check the policy details

It is important to be mindful of a number of factors that might affect the success of any claim you might make. So, make sure you read the product disclosure statement.

Every insurer has a different definition as to what will trigger a payment, so you need to understand the difference between "own occupation" and "any occupation" for cover. For example, if you are a surgeon and lose capacity in one of your hands, you will receive a payout from your insurer if you have specified "own" occupation because you can no longer work as a surgeon. But if you opt for "any" occupation, then the insurer could argue that you could still work as a doctor just not as a surgeon and the claim may not be paid.

It is also wise to understand that if your policy does not seek your medical history, it is likely there could be limitations to what illnesses are covered.

Another consideration is whether you have stepped or level premiums. Stepped premiums start low and usually increase as you age. Level premiums begin at a higher rate but typically don't increase until you reach 65. In the long run, level may work out cheaper for some.[v] You must work at least 20 hours a week to take out income protection insurance and you can usually only buy a policy up to the age of 60. Also, if you receive a payout, you need to declare that income on your tax return.

If you want to check that you have sufficient cover to protect you and your family should you lose your income, then give us a call to discuss.

i https://moneysmart.gov.au/how-life-insurance-works/income-protection-insurance

ii https://aussieinjurylawyers.com.au/legal-news/the-most-common-tpd-claims-in-australia/

iii https://moneysmart.gov.au/how-life-insurance-works/income-protection-insurance

iv https://community.ato.gov.au/s/question/a0J9s00000019yD/p00014632

v https://moneysmart.gov.au/how-life-insurance-works/income-protection-insurancedownsizer-super-contributions