

# • INCOME PROTECTION INSURANCE



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Income protection insurance protects you by paying an ongoing income if you are unable to work due to illness or injury.

## BENEFITS

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Income protection cover pays an ongoing monthly benefit to protect:

- your lifestyle by replacing your lost salary so you can continue to meet your living expenses and debt repayments, and
- your wealth by reducing or removing the need to sell assets to generate cash.

Without insurance, you may need to run down your savings, sell assets, and/or rely on family or Centrelink for assistance. You may find it difficult to maintain your standard of living or pay for the care and medical assistance you need. This can place extra stress on your recovery.

## HOW IT WORKS

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You can usually apply for cover of up to 75% of your earnings. For business owners this is income after business expenses but before tax. You may also be able to have an additional amount paid as contributions into your superannuation account and other ancillary benefits to help with your recovery.

The payments are taxable income but tax may not be deducted from each payment. So you should seek tax advice and make sure you set aside money to pay your tax liabilities. If paid through superannuation, tax is usually deducted from each payment to help you manage this obligation.

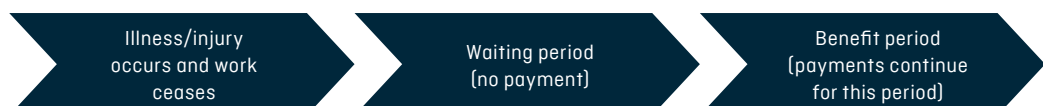
The amount you receive may also be reduced if you receive payments from sick leave, social security, workers compensation or other legislative sources.

## WAITING AND BENEFIT PERIODS

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In the event of a successful claim, benefit payments do not start immediately; a waiting period will apply during which no benefit is payable. The waiting period can be as short as 14 days or as long as two years. When choosing a waiting period, it's important to take into account any sick leave and related benefits provided by your employer. The shorter the waiting period, the higher the premium.

The maximum period of time that payments continue is called the benefit period. A range of benefit periods are available - some as short as one year, with the longest continuing through to your 65th or 70th birthday. In general, the longer the benefit period, the higher the premium.



## POLICY OWNERSHIP

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Income Protection Insurance can be owned either in your own name or within your superannuation fund.

### **Self-ownership**

Owning the policy in your own name may allow you to better tailor the cover to suit your individual requirements (e.g. to obtain more comprehensive benefits and ancillary benefits). With self-owned cover, you pay the premium from your cashflow. The premiums are tax deductible to you and benefits that you receive in the event of a successful claim are treated as taxable income and taxed at your marginal tax rate.

### **Superannuation ownership**

You may also be able to purchase your cover in your superannuation fund. This allows the premium to be paid by making contributions to superannuation or simply be deducted from your superannuation account balance so it does not affect your cashflow. The premium is a deductible expense to your superannuation fund and can reduce the tax payable on contributions and investment income. The benefit to you will depend on your superannuation fund.

If additional contributions are made into superannuation to cover premiums it is important to ensure you do not exceed the limits on how much can be contributed.

The proceeds in the event of a successful claim are paid from your superannuation fund as a temporary illness benefit and will be assessable income that is taxed at your marginal tax rate. You will first need to meet the release definition for superannuation which may be harder to meet than a self-owned policy.

## OPTIONAL BENEFITS

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Income Protection policies may offer important options including:

- an Increasing Claims option that ensures benefit payments are indexed in line with inflation
- a Superannuation Cover option that allows you to have contributions made to your superannuation fund (above the level of salary cover)
- other ancillary and rehabilitation benefits.

## WHAT YOU NEED TO CONSIDER

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- Funding the premiums from your superannuation balance will reduce the growth of your retirement savings unless you make additional contributions to offset the premiums. These contributions will count towards your contribution caps.
- Benefits are paid monthly in arrears so your first payment would be received one month after the end of your waiting period.
- Benefit payment is usually excluded if you suffer sickness or injury as a result of war (or an act of war), a self-inflicted act, or uncomplicated pregnancy.
- You should always carefully read the Product Disclosure Statement (PDS) and policy document for your selected insurance policy and keep these documents in a safe place.



## REFERENCES

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You may wish to refer to the following websites for further information about income protection insurance:

- [www.ato.gov.au](http://www.ato.gov.au)
- [www.moneysmart.gov.au](http://www.moneysmart.gov.au)
- [www.servicesaustralia.gov.au](http://www.servicesaustralia.gov.au)

The information in this document is of a general nature and does not take into account your own financial objectives, circumstances or needs. You should consider your own personal situation and requirements before making a decision.

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Affinia Financial Advisers Limited ABN 13 085 335 397 AFSL No. 237857  
Level 16, 363 George Street Sydney NSW 2000  
† 1300 AFFINIA (1300 233 4642)  
e [hello@affinia.com.au](mailto:hello@affinia.com.au)  
w [www.affinia.com.au](http://www.affinia.com.au)