Basics of Income Protection Insurance

Basics of Income Protection Insurance

Information brought to you by Shartru Wealth

Income Protection (IP)

An "average" individual age 25 years earning $51,235 p.a. will earn more than $3,863,184 in his or her working life, assuming 3% inflation. To protect this amount it will cost them as little as $40 per month, which would be tax deductible.

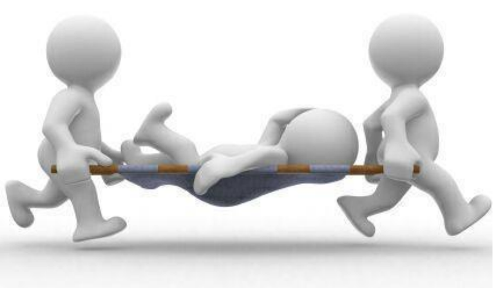
This insurance cover is probably the most important for the majority of working people. Income Protection is designed to allow your income to continue should you be unable to work as a result of sickness or injury. The simplest way to see the benefit of this insurance is to consider how your lifestyle would be affected if your long term ability to earn an income was to cease tomorrow.

The basics of Income Protection are as follows:

1. Income Protection Insurance premiums are tax deductible
2. The insurance will pay you 75% of your insured income per month, for example:

- Tom's current wage is $40,000 p.a.,

If Tom was injured, his insurance would provide him with an income equal to 75% of $40,000 i.e $2,500 per month or $30,000 p.a.



There are two types of Income Protection Policies to consider, they are;

1. Indemnity Policy – this policy will pay you 75% of your last 12 months earnings, up to a maximum of the insured amount.

- Due to the possibility of you earning less in a 12 month period than the amount you are insured for, an Indemnity Policy is a cheaper option than an Agreed Value Policy.

2. Agreed Value Policy – this policy will pay you 75% of the amount that is agreed upon when putting the policy in place.

- Waiting Period – This relates to the length of time you feel, that in the event of a claim, you can live without any employer support. During the waiting period you would be required to live off accumulated savings, support from family etc, the main waiting periods are 30, 90, 360 and 720 days.

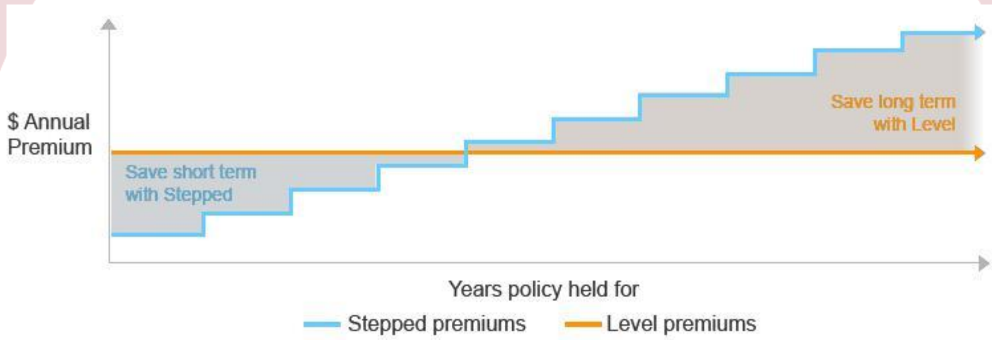
- The length of the benefit – We recommend that you put in place a benefit payable until at least age 65. Many people may have in place a benefit payable for 2 years, often in their superannuation fund. What you need to consider with these types of policies is, is 2 years long enough? If you have not been able to return to work in that 2 year period, what are the chances of you returning to work after 2 years and 1 day?

The types of premiums structure:

- *Stepped Premium* – As you age, the risk of something happening to you increases, stepped premiums increase each year to reflect this.

- *Level Premium* – Start out more expensive in most cases, but have already had your future risks factored in to them. In the long run they are often a less expensive option. We often recommend a level premium, due to the fact that the later years of your life are the times that you will need the insurance the most. At this stage of your life, you may also be questioning the cost of a stepped premium, and wondering whether it is worth holding the insurance.

One third of Australian workers will be disabled from working for at least 3 months before the age of 65.



The most important thing is getting the insurance policy in place.

You may choose to change aspects of your policy at a later stage.

Are You Adequately Covered?

Think about even the simple things involved in you and your families current way of life – your shopping habits, your leisure activities, your children's education and sporting activities, your car and car loan, your home and home loan, your wealth creation plan, your holiday plans, your credit card debt, your buy now pay later debts. Given Australia has the fourth highest level of debt in the OECD, these debts can be substantial.

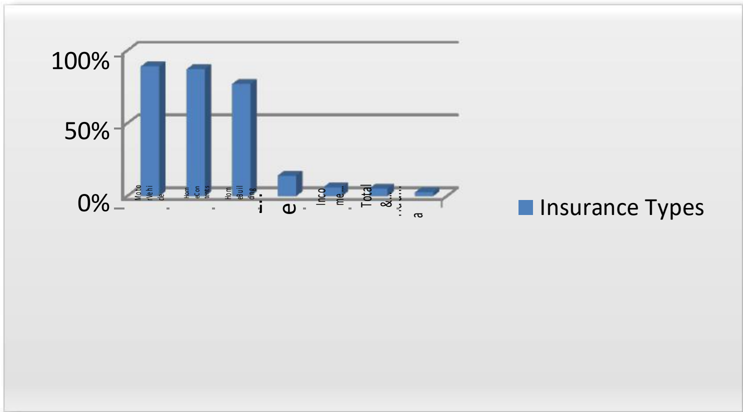
Now imagine what would happen to these things if you suffered a disability and lost your ability to earn an income.

Where would the money come from to enable you to carry on doing the things you currently enjoy?

If when thinking about the above you feel that you are not adequately covered,

should something happen to you, you are not alone.

- 89% of consumers have motor vehicle insurance
- 87% of consumers have home contents insurance
- 77% of consumers have home building insurance
- 14% of consumers have life insurance
- 6% of consumers have income protection insurance
- 5% of consumers have TPD protection
- 2.5% of consumers have trauma



* Comminsure research

Every insurance policy is different, to determine exactly what is covered you should check your current insurance schedule or the Product Disclosure Statement of the proposed insurance. We would urge you to contact this office to undertake a full review of your current insurance arrangements to make sure they are suitable for what you want to protect against.