

Income Protection



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WHAT IS INCOME PROTECTION?

It's worth asking the question 'what would I do without my income?' In the event that you are unable to work due to injury or illness, Income Protection provides you with up to 75% of your income + super so you can continue to enjoy life at the standard you are used to until you are able return to work again given that it is within the benefit period outlined in your insurance policy. You can also get policies called accident only policies which are exactly what they sound like simply covering your income if you are hurt in an accident.

It is also worth noting the Income Protection premiums you pay ARE tax deductible.

TYPE OF COVER

There are two benefit options you can choose from when taking up an income protection policy.

- The first is the 'agreed value' option which will provide a payout based on your income at the time of the application.
- The second option is the 'indemnity' option which will provide a payout based on the amount of income you are receiving at the time your claim is made.

The agreed value option will pay a guaranteed amount and you will not need to provide copies of tax refunds and pay slips to your insurer which is required under the indemnity option to determine how much the payout will be which can often slow down the process of receiving your benefit.

Worldwide protection is also offered by

insurers which will cover you anytime, anywhere in the world.

Your age

WHY DO YOU NEED INCOME PROTECTION?

Most of us rely on our income to meet all life's needs such as paying our bills, making repayments and simply enjoying the lifestyle we are used to. Income protection ensures that you are able to continue to keep paying your bills and maintaining your lifestyle, in the event that you are stricken with an injury or illness and can no longer work and receive income from your employer or if you can no longer create income if you are self-employed as a direct result of the injury or illness.

HOW MUCH DOES IT COST?

The cost of IP will depend on a number of factors including;

- Your age
- Your occupation
- Your health
- Your gender
- Your smoking status
- The amount of cover you choose (Max 75% of your income derived from employment/ derived from business if self-employed).

HOW MANY INSURERS ARE OUT THERE?

There are over 50 Insurers within Australia for which we have access to all of them in order to find you the best policy to meet your needs.

WHO ARE THE BETTER PROVIDERS?

The better providers to take out policies with are the providers who complete medical underwriting at the time of the application. This ensures that there are no

surprises when the time comes to claim on a policy.

SOME COMMON MISCONCEPTIONS

Alot of people are under the impression that they have adequate cover or that they will be fine financially in the event of an injury or illness.

Some information addressing these assumptions:

- Sick leave – Usually covers employees on a salary for 12 days a year as a result of an injury or illness.
- Workers Compensation – This cover is for injuries that are obtained in their workplace, this DOES NOT cover you for any illnesses or injuries obtained outside your workplace. Workers compensation will also offer a maximum monthly benefit (\$7,996.80) much LESS than the income protection maximum benefit (\$60,000), usually more benefits will be offered for income protection as well.
- Private Health – According to APRA, as at December 2017, 45.6% of Australians have private health insurance cover in terms of a policy covering hospital treatment; unfortunately, this only cover's medical expenses arising from a result of your injury or illness. The costs to maintain your lifestyle and/or pay bills etc are not covered and can be an issue for many.
- Social Security- Centrelink will pay a maximum disability support pension of \$782.20 per fortnight for singles and \$589.60 (each) for couples, this payment is asset and means testing so the full amount – or any amount- is not guaranteed and should not be relied upon.

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- TAC – More than 50,000 people were hospitalised due to transport accidents in 2005-06 with over 5 days in hospital. The TAC covers you if you are a client and you are injured in a transport accident, once again this only covers medical expenses alongside some other associated costs such as rehabilitation, surgery, forms of support like nursing, support at home.

BENEFIT INFORMATION

- Total disablement** – Will pay a total disablement monthly benefit if you meet the definition after the waiting period of your policy and will last the length of the benefit period if your condition lasts the length of that benefit period.
- Partial disablement** – Will pay a monthly benefit if you continuously meet the definition of a total disablement for at least 7 consecutive days from the beginning of the waiting period; payments will begin at the beginning of the waiting period and continue as long as you remain partially disabled within your benefit period.
- Benefit Indexation** – Your insured monthly benefit will automatically increase each policy year by the higher of the CPI and 5%.
- Specified injury benefit** – If you suffer a listed event as a result of an injury, the Insured Monthly Benefit will be paid out in advance for a specified period of time, even if you are working. An example of this is if you have suffered a broken wrist and are unable to work as a result, you will be paid out your monthly benefit period.
- Crisis/Trauma recovery benefit** – Subject to a qualifying period, if you

are diagnosed with a trauma event listed under your insurers list of trauma/crisis conditions and survive for 14 days after that diagnosis you will receive a lump sum payment usually equivalent to 6 times the amount of your monthly benefit. An example of this if you are diagnosed with a cancer and live 2 weeks after being diagnosed then you will be paid out the equivalent of your monthly benefit amount.

- Crisis/Trauma recovery benefit** – Claim escalation benefit – Is where the benefit payment will increase by the higher of either the CPI and 5% if your benefit has been paid out for over a 12-month period.

PREMIUM STRUCTURE

Premiums are usually paid in 1 of the 3 following ways – either a stepped premium which increases each year. A level premium which consists of a consistent payment each year typically to the age of 65 to counteract the perceived risk which increases alongside your age. The third option is a hybrid premium which is only available through a small number of insurers and combines

both the level and stepped premiums.

- The stepped premium continues to increase each policy anniversary date due to becoming a year older and ultimately closer to your date of death and more likely to suffer an injury or illness.
- The level premium is initially dearer although remains the same year in year out (minus CPI increases that you can decline if desired)
- The level premium is a hedge against inflation.
- Considering the level premium remains constant this of benefit for cash flow purposes.
- By opting for the level premium, you will lock in the premium rate until age 65.
- Generally, the level premium option will work in your favour from a cost analysis if you intend on owning the cover for an extended period of time.



The table above from life insurance direct shows the difference in premiums paid over time between the 3.

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BENEFIT PERIODS

The benefit period is the time in which you will potentially receive your benefits for, this will be outlined in the construction of the policy and will usually be two years, 5 years, or up until your retirement age or a specified age (55, 60, 65, 70). It is worth noting that this benefit period chosen will usually affect the premium you have to pay on your selected policy.

WAITING PERIODS

The waiting period is the time you must wait between the time you become unable to work until the time you begin to start receiving benefits. This period will often depend on the type and category of policy you choose to have and can vary between 14 days and 2 years. It is worth noting that the waiting period you choose will usually affect the premium you have to pay on your selected policy.



RECENT CLAIMS PAID

The following table shows recent Income Protection Insurance claims paid.

Sex	Age	Occupation	Years in-force	Monthly benefit	Total paid	Cause of claim
Male	45 years	Sign Manufacturer	6 years	\$4,728	\$20,640	Shoulder injury
Male	39 years	IT Consultant	6 years	\$17,471	\$104,826	Cancer
Female	33 years	Bank Clerk	7 years	\$6,100	\$29,374	Total knee replacement
Male	45 years	Regional Manager	2 years	\$6,053	\$395,577	Depression
Male	33 years	Cabinet Maker	3.5 years	\$4,517	\$37,513	Post Traumatic Stress Disorder

The table below shows the amount and kind of Insurance paid out by insurers in 2016.

Totals Paid by Product:

Product:	Term	TPD	Trauma	IP/BEX	Total
\$ Paid	4,050,608,290	1,720,887,618	784,112,922	2,649,308,406	9,204,917,236
Number of Claims	24,079	16,073	4,309	63,580	108,041

Average Lump Sum Paid Per Working Day

	Term	TPD	Trauma	IP/BEX	Total Per Day
Average \$ per working day	16,202,433	6,883,550	3,136,452	N/A	26,222,435
Average number per working day	96	64	17	N/A	177

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What does being financially secure mean?

IT MEANS ASSESSING YOUR PERSONAL AND BUSINESS GOALS AND DEVELOPING A PLAN TO ACHIEVE THESE.

We have identified 10 key areas to help you become financially secure:

1. Goals & objectives
2. Estate plan
3. Risk plan
4. Asset protection plan
5. Taxation plan
6. Debt plan
7. Retirement and succession plan
8. Business plan
9. Superannuation plan
10. Investment plan

Setting goals and objectives and having strategies to achieve these is an essential element of becoming financially secure. Once you know what you are aiming to achieve and how you are going to get there, we then need to make sure you have a strong foundation in place to protect you, your family and other investments. A strong foundation needs an estate plan, risk, plan, asset protection plan, taxation plan and debt plan.

With the foundations in place we can then work on the strategies to achieve your goals and objectives. It may seem out of order that we have the retirement and succession plan at number 7 rather than 10. It is important that this is considered early and a plan is put in place. This assists to plan for this financially as well as keeping the communication lines open on the topic.

10 Steps to becoming Financially Secure

1. GOALS AND OBJECTIVES

Picture yourself in 10 years time... Where do you want to be? How are you going to get there? Being clear on your goals & objectives ensures you can develop a strategy to achieve them.

2. ESTATE PLAN

“What will happen when I’m gone?” Only assets owned in your name are covered by your will. Your Estate Plan protects your family from the potential threats that your Will does not.

3. RISK PLAN

Your Risk Plan addresses whether you need to save or insure to protect your family’s financial security in the event of an injury, accident or death.

4. ASSET PROTECTION PLAN

An Asset Protection Plan makes sure your assets are owned in the right names or entities so you limit the risk of them being exposed to creditors.

5. TAXATION PLAN

A Taxation Plan structures your affairs so that you legally pay the least amount of tax and retain more of your income.

6. DEBT PLAN

A Debt Plan ensures your assets aren’t over exposed to debt and structures your debt to maximise tax deductibility of the interest.



7. RETIREMENT PLAN

Retirement is setting the date when you can choose to stop work. Your Retirement Plan details the income and assets you need (in addition to superannuation) to retire and outlines the steps to get there.

8. BUSINESS PLAN

Your Business Plan may be the main source of your wealth. The 5 Drivers to Business Success are the key to developing a business which will help you achieve your goals.

9. SUPERANNUATION PLAN

Many people miss out on the enormous tax benefits of superannuation. A Superannuation Plan will ensure you have a strategy to produce greater wealth at retirement.

10. INVESTMENT PLAN

An Investment Plan will increase your asset base, while focusing on preserving your capital and managing your risks, to meet your personal and financial goals.

We offer a free no obligation meeting to review your situation. Call us today on 03 5330 7200 and take advantage of this valuable offer.

