

# What you need to know about income protection

**When an illness or injury sidelines your career, it doesn't have to compromise your lifestyle**

By Danny Chan



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Income is one of our most critical assets, contributing enormously towards our financial health, as well as personal and social lifestyle. Yet when it comes to insurance planning, we often prize our possessions above what helps pay for them. How else do we explain that while the majority of working Australians have taken out insurance policies on their homes and vehicles, very few have invested in income protection.

For the uninitiated, income protection is an insurance cover that kicks in when sickness or injury renders the insured party unable to work. During this time the person can claim monthly payments of up to 75 per cent (offered by most insurance companies) of his/her gross earned income.

"Quite simply, it will help put food on the table, petrol in the tank, stop the bank from foreclosing on your mortgage, keep school fees paid and generally give you the means to maintain a reasonable standard of living if you are not able to earn your income," says Wen Wang, Managing Director of Professional & Reliable Financial Services (PRFS). Wen's licensed insurance broker firm offers specialized financial services for personal and corporate insurance.

Rationalizing the majority's indifference towards income protection, Wen says that many people feel insulated from being overwhelmed by a sudden loss of income due to insufficient knowledge about work-related entitlements such as sick leave and workers' compensation.

"Most people think that they can rely on their employer or even social security. What they do not realize is that these benefits only

amount to a small fraction of their income. Not only will their lifestyles be severely curtailed, they may find themselves defaulting on bank loans and mortgages."

It pays to be aware that Worker's Compensation does not cover non-work related sicknesses and injuries. According to statistics, over half of all serious injuries happen outside of work, where Work Cover doesn't apply.

"Even if you are able to claim Worker's Compensation, the restrictions are such that you may never be able to retain your current standard of living," Wen reiterates.

## Create your own contingency plan

Through a personal income protection policy, you are able to create your own independent contingency plan that isn't bound by such clausal restrictions.

"Income protection is perhaps the most important personal insurance available. Unlike other policies, income protection insures income against any kind of injury or illness, be it physical or mental. As long as we can't work because of a health problem, income protection has to pay."

Many of us resist talking to our insurance agents about Income Protection, because we simply assume that the premiums "must be high", when in fact, they can be quite affordable.

For example: Michael, dentist, 35-year-old, non-smoker, healthy, currently draws an annual income of \$200,000. Michael takes up an Income Protection policy with waiting period 30 days, benefit period of up to age 65, and a monthly benefit of \$12,500.

With this policy, if Michael is unable to generate income due to any illness or injury, the insurance company has to pay him \$12,500 every month until he is able to work again. If he is unable to work permanently, the insurance company will pay the same amount (increased with CPI every year) until he is 65 years old.

Michael's premium is just \$35.84 per week, which is also tax-deductible. That means around 46 per cent of the premium can be claimed through tax deductions.

Table 1:

Do you know how much your total income may amount to, over the next 10, 20 and 30 years?

Your income today	Over 10 years	Over 20 years	Over 30 years
\$100,000	\$1,257,789	\$3,306,595	\$6,643,885
\$200,000	\$2,515,578	\$6,613,190	\$13,287,770
\$300,000	\$3,773,367	\$9,919,785	\$19,931,655

\* Assumes an income increases 5% p.a. including inflation.