Protecting your income

Income Protection or Salary Continuance Insurance

provides you with a monthly financial payment if you are unable to to work either temporarily or permanently due to an illness, injury or accident.

Losing the ability to earn an income and support your loved ones can be devastating. This can be particularly important if you have dependents or debt such as a mortgage.

Without insurance, you may need to run down your savings, sell assets or rely on family and Centrelink for assistance. You may find it difficult to maintain your standard of living or pay for the care and medical assistance you need. In times when you are unwell the burden of finances can create more stress than necessary

How it works

You can usually apply for cover of up to 75% of your income. You may also be able to have an additional amount paid as contributions into your super account and other ancillary benefits to help with your recovery.

You can choose to have Income Protection insurance outside of your super or Salary Continuance insurance inside of super.

Premiums are generally tax deductible under both structures.

Salary Continuance Insurance (Inside Super)

Most super funds offer salary continuance insurance for their members as part of super accounts.

Advantages

- In many cases insurance is provided automatically without the need for medical underwriting. This means you may be covered for pre-existing conditions or avoid loadings and exclusions which may be applied if you had to complete an application for cover.
- Premiums can be funded from employer or personal contributions or by using your existing super fund balance, which may assist in managing cash flow and affordability of premiums.
- You may benefit from income tax savings by claiming a tax deduction for personal contributions or by contributing via a salary sacrifice arrangement using pre-tax salary which may provide cost savings on premiums.
- Premiums may be cheaper in super than outside super. An assessment of cost versus benefits, terms and conditions under the policy should be undertaken.
- The trustee of the super fund will generally withhold PAYG tax on benefit payments before the monthly benefit is paid.

Disadvantages

- Premiums can erode retirement savings if you don't make extra contributions to negate premium cost.
- Contributions made to fund premiums count towards your contribution caps.
- Ancillary benefits such as critical illness or trauma benefits cannot be provided as benefits through super are limited to a non-commutable income stream in substitution for the income you were receiving before incapacity.
- Payments may be delayed as the benefit needs to be transferred from the insurer to your super fund to you.

Income Protection (Outside super)

Owning income protection outside of super can provide you with more product features and flexibility when compared with a policy inside super.

Advantages

- Premiums are generally tax deductible at your marginal tax rate.
- Can provide protection even if the life insured is not employed at the time of incapacity.
- Policies are customisable and available under different ownership structures (e.g. may be used for business purposes, such as covering business expenses in the event of illness or injury).
- Policies can provide more comprehensive coverage, including ancillary benefits such trauma, rehabilitation expenses, relocation benefits and carer costs.
- Can elect for cover to increase in line with inflation to ensure cover keeps up with the rising cost of living.
- May be able to exchange ongoing payments for a lump sum benefit.
- You can choose your premium structure: Stepped or Level. Stepped premiums are recalculated every year, usually increasing with age. Level premiums charge a higher premium at the start of the policy but generally stay the same as you get older.

Disadvantages

- Pre-existing medical conditions and lifestyle factors such as smoking may impact the cost of premiums.
- As premiums are generally paid personally from after-tax income, a waiting period that meets your needs may not be affordable, particularly if no sick pay is availab
- le.
- As PAYG tax is generally not withheld from benefit payments, you must remember to declare the whole amount received on your annual tax return.
- If the income protection policy provides for benefits of an income and capital nature, the ATO's view is that only that part of the premium attributable to the income benefit is deductible.

Decisions to make

In both structures you have to choose a waiting period and benefit period. Choosing your structure can be a balancing act between having the correct coverage and affordability.

Waiting Period

A waiting period is the number of days you must be off work before an income payment is made.

Generally, you can choose 30, 60 or 90 days wait. In this instance you need to decide how long you could survive without any income.

Income protection policies can offer 14 days up to two years waiting periods. The shorter the waiting period, the more expensive the premium.

Benefit Period

The benefit period is how long the payments will last. Most policies offer two or five years, or up to a specific age (such as 65 or 70).

The benefit of a longer waiting period is the security that is something serious occurs you can take the time you need with recovery and not have to worry about returning to work prematurely.

The longer the benefit period, the more expensive the premium.

Deductibility of premiums

Inside Superannuation: Generally tax deductible to the super fund. You may be eligible to claim a tax deduction for personal contributions or salary sacrifice contributions made to their super fund. Take note of contribution caps.

Outside Super: Generally, tax deductible for the portion of the premium attributed to benefits that replace income at your marginal tax rate.

Things to look out for:

1. Each policy will have its own definitions of partial or total disablement that must be met before a claim can be approved. Be sure to check the insurer's website or PDS for these definitions.
2. Both policies generally do not cover you for loss of income because you have been stood down or become unemployed.
3. If you have a pre-existing condition or health issue when applying for cover you may be given an exclusion, which means that particular condition is not covered or loading, which means the condition is covered but you have to pay a higher premium for the risk.
4. Ensure you understand the total cost, features, benefits and pitfalls or any policy to ensure that if the time comes to make a claim you understand your coverage.

Summary

Making the right choice when purchasing insurance will depend on the different requirements of each individual. You may have sufficient cash flow and be better suited to having income protection outside super which may provide ancillary benefits or additional covers e.g. trauma whereas those with uncertain cash flows, such as small business owners or young families with tight finances, might be better.

off insuring their incomes inside super.

It’s important to remember that everyone is different and your needs and objectives as well as your income will change over time

For more information, please get in touch with us

Call: 1300 349 188

Email: investments@priorityag.com.au

Visit: priorityag.com.au

Lifestyle Financial Services PO BOX 1117 Chatswood NSW 2067

Lifestyle

a division of

Priority Advisory Group