

Everything you wanted to know about **Income Protection Insurance** (but never dared ask)

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If motor vehicle insurance is an integral part of life to protect against bingles, why don't we have the same view towards Income Protection?

While most of us readily consider protecting our possessions, most of us pause before we protect our ability to earn an income. This suggests that we are either suspicious of the product or sceptical of the utility of this type of insurance.

The seeds of this doubt were sown during the 1980s and 1990s due to a high rate of non-payment on claims and this tarnished the reputation of the Income Protection industry. This was largely due to the way in which the insurance companies completed their diligence at the time of claim. Insurance applications were processed quickly, with limited checks completed as to medical history however all pre-existing conditions were excluded. When it came to

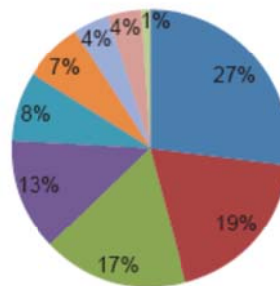
paying out a claim, insurance companies would then investigate the medical history of the client and would refuse payment of benefits if these were linked to pre-existing conditions.

Today the application process is much more complex yet efficient. You are

told about your duty of disclosure and you will need to itemise your medical and financial history. This has resulted in insurance companies paying out more claims and therefore receiving a better reputation. Recent payout statistics in the table below demonstrate above 90% payout of claims by all the insurers.

What do most Doctors claim for?

Income Protection Claims for Medical Professionals



- External Causes (accidents and injuries)
- Cancers
- Diseases of the musculoskeletal system and connective tissue
- Mental illness (e.g. depression)
- Diseases of the circulatory system (inc. heart disease)
- Diseases of the nervous system
- Genitourinary disorders
- Diseases of the digestive system
- Other

Sourced from Asteron 2009 claim data.

Income Protection claims statistics 2009

	AMP	ASTERON	AXA	ING	MACQUARIE	MLC	TOWER	ZURICH
% Income Protection claims paid	93%	90%	93%	90 – 93%	100%	95%	93%	95%
Total \$ of claims paid for 2009	\$46.3M	\$81M	\$116.6M	\$50M	\$470,000	\$69M	\$54.6M	\$11.8M

Sourced direct from the insurers February 2010.

## How much is paid out on an Income Protection Policy if you make a claim?

Australian Income Protection policies commonly use one of three distinct definitions to assess degrees of disability:

POLICY DEFINITION	WHAT IT MEANS....
Duties Based where you are unable to perform important duties of your occupation. This is the most common (especially for older policies).	You will be paid a full benefit if you are unable to perform income producing duties of your occupation and due to this you are not working. A reduced benefit will be payable if you continue to be in paid work.
Hours based where your working hours are reduced in your occupation	You will be paid a full benefit in the event that you can not work in your own occupation for more than 10 hours per week. You will be paid a reduced benefit if you work in your own or any occupation for more than 10 hours
Income based where you suffer a loss of income due to disability	You will be judged as disabled if, due to illness or injury, you suffer a reduction in earned income of 20% or greater. If you continue to work and earn income, the income protection benefit that you receive will be reduced.

So what does this mean in dollars and cents? Let's illustrate with an example:

Joseph is a General Surgeon who primarily works in private practice (40 hours per week) however also performs a VMO consulting session at the local hospital (on average 10 hours per week). Last financial year his income was as follows:

Surgery : \$340,000 (net profit)  
 Consulting : \$100,000 (income)  
 Total income : \$440,000

His Income Protection insurance policy has the maximum benefit allowable by most insurers of \$25,000 per month (75% of first \$320,000 + 50% of next \$120,000).

Joseph has an accident whilst skiing on holiday with his family and due this he has minor loss of feeling in his left hand and can no longer operate in his practice. He is able to continue with his consulting work in the mean time whilst he undergoes rehabilitation for his hand injury.

Pre-disability income : \$440,000 (\$36,667 per month)  
 Post disability income : \$100,000 (\$8,333 per month)  
 Insured monthly benefit : \$25,000 per month

Joseph makes an Income Protection claim. How much will he receive? Well, it depends on which definition applies to his Income Protection policy.

<b>Duties Based (the most common)</b>	Joseph qualifies for a claim as he is unable to perform surgery which is one of his income producing duties. He is however continuing to work in some capacity so his monthly benefit will be reduced as follows: $\text{Monthly benefit} = \frac{\text{pre-disability income} - \text{post-disability income}}{\text{pre-disability income}} \times \text{insured monthly benefit}$ $= \$19,050 \text{ per month}$
<b>Hours based</b>	Joseph qualifies for a claim as he is unable to work in his usual occupation for more than 10 hours per week. Joseph would receive the total benefit: $\text{Monthly benefit} = \$25,000 \text{ per month}$
<b>Income based</b>	Joseph qualifies for a benefit as his earning capacity in his own occupation has reduced by more than 20%. His monthly benefit to be received will be calculated as per the above example for the duties based definition: $\text{Monthly benefit} = \$19,050 \text{ per month}$

### Who is Income Protection Insurance really helpful for?

- Anyone who is likely to have ongoing debts or repayments that need servicing after they lose the ability to produce income – these may be related to business expenses from their rooms or personal borrowings

such as home loans, credit card debt and personal loans.

- Anyone who is likely to have the need for regular income to pay ongoing family expenses such as food, household bills, rates, school fees etc if the household's chief (or only) breadwinner is no longer earning.

*83% of Australians insure their car though only 31% of Australians insure their ability to earn an income with Income Protection insurance.*

*AAMI Fact Sheet, Shopping for Car Insurance, September 2008 and TNS/IFSA Investigating Income Protection Insurance in Australia July 2006*