Income Protection

Income protection insurance (also known as salary continuance) is designed to provide a regular income in the event you are temporarily unable to work due to sickness or injury. Generally, income protection insurance provides a regular income during a period of disablement after the chosen waiting period has been served and continues to be made until the earlier of when you return to work, or until the pre-determined benefit period expires. The waiting period and the benefit period are selected at the time of application. Generally, the benefit amount payable is up to 75% of your income.

Statistics show 50% of employed Australians will, over their working lives, be disabled for three months or more[1].

The fact it's more likely for you to be away from your work for an extended period than to die before retirement means insuring your income-earning ability is a must.

[1] Australian Institute of Health and Welfare - derived from the Australian Bureau of Statistics 1989-90 National Health Survey.

Be aware

- Most income protection policies offer a range of waiting periods before you start receiving your insurance benefit (with options normally between 14 days and two years). The shorter the waiting period, the more the insurance will cost.
- Income protection benefits are paid in arrears after the waiting period has been served. You can choose from a range of benefit payment periods, with maximum cover generally available up to age 65. The longer the benefit period and shorter the waiting period, the more the insurance will cost.
- Income protection insurance is increasingly important when borrowing as it can help meet loan repayments if you are unable to work due to illness or injury.
- Prior health issues may incur premium loading or exclusions.

You should ensure your insurance cover is adequate for your needs. Under-insurance could result in serious financial difficulty.

Stepped vs level insurance premiums

When taking out insurance, there are generally two ways you can pay your premium.

- stepped premium - your premium increases every year with your age.
- Level premium - your premium generally does not change and is based on your age when the policy commences.

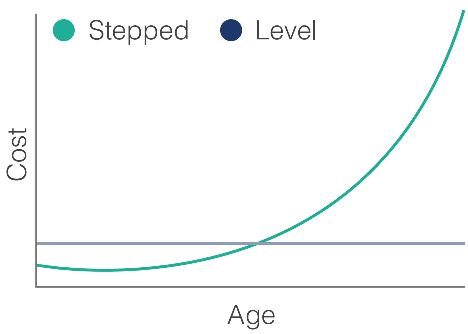
continued

Stepped Premiums

While stepped premiums are usually lower in the early years, level premiums can be a more cost-effective option if you retain the insurance over a longer period. If insurance cover is only required for a short timeframe, a stepped premium may be more appropriate and cost-effective.

Level Premiums

Level premiums are higher than stepped premiums at the start (see graph below). However, as stepped premiums increase, level premiums can end up cheaper - often at the stage in life when you need cover the most. The premium savings in later years can make up for the additional payments in earlier years - saving you money over the life of the policy.



Tax deductibility of insurance premiums

The premiums payable on Income Protection policies are generally tax deductible however, the income payments received are considered assessable income and are taxed at your marginal tax rate.

RJS Wealth Management

RJS Wealth Management are dedicated to making a difference to every life we touch. We have a commitment to research and education and achieving the highest professional standards of financial intelligence.

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