

Personal insurance concepts

Help protect your income

If you're employed or self-employed, income protection insurance can replace up to 75% of your pre-tax income if you are unable to work due to illness or injury.

Why protect your income?

If you are unable to work for an extended period due to illness or injury, you could run down your savings very quickly and face financial difficulty.

Rather than putting your family's lifestyle at risk, by taking out income protection insurance, you could receive a monthly benefit of up to 75% of your income to help replace your lost earnings while you recover.

The premiums for income protection insurance are generally tax-deductible and benefits received will generally be assessable as income.¹

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).

You can also choose from a range of benefit payment periods, with maximum cover generally available to age 65.

What is your future earning capacity?

If you're in any doubt about the importance of protecting your income, the table below shows how much you could earn by the time you reach age 65.

For example, if you are currently 35 and earn \$80,000 pa, you could earn around \$3.8 million before you turn 65. Isn't that worth protecting in the event that you are unable to work due to illness or injury?

How much will you earn by age 65?

Current income (pa)	Age now			
	25	35	45	55
\$40,000	\$3,020,000	\$1,900,000	\$1,070,000	\$460,000
\$60,000	\$4,520,000	\$2,850,000	\$1,610,000	\$690,000
\$80,000	\$6,030,000	\$3,810,000	\$2,150,000	\$920,000
\$100,000	\$7,540,000	\$4,760,000	\$2,690,000	\$1,150,000

Assumptions: Income increases by 3% pa. No employment breaks. Figures rounded to nearest \$10,000.

1. You should seek advice from a registered tax agent regarding your own tax position.

Protect your income

Case study

Leanne works full-time and earns a salary of \$90,000 pa. She owns a home worth \$500,000 and has a mortgage of \$350,000. If she's unable to work due to illness or injury, she wants to be able to meet her living expenses and mortgage repayments without having to eat into her limited savings.

After assessing her goals and financial situation, her financial adviser recommends she take out income protection insurance to cover 75% of her monthly income.

Shortly after taking out the insurance, Leanne is involved in a serious car accident and is unable to work for six months.

Because Leanne had income protection insurance, she receives the full benefit of \$5,625 per month for five months after her initial one month waiting period (where she's covered by sick leave from her employer).

As a result, Leanne receives a total income of \$35,625 during the six months she's off work – consisting of a combination of sick leave and income protection benefits.

If Leanne had not taken out income protection insurance, she would only have received a sick leave payment of \$7,500 and would have struggled to meet her living expenses, mortgage repayments and out-of-pocket medical costs.

Other key considerations

- When choosing a waiting period for income protection insurance, it's important to take into account any sick leave and related benefits provided by your employer.
- Income protection insurance premiums will generally be lower if you choose a longer waiting period and a shorter benefit payment period.
- If you have a family, you should ensure you have enough insurance to replace your income if you die, become totally and permanently disabled or suffer a critical illness.

Seek advice

A financial adviser can help you determine whether income protection insurance suits your needs and circumstances.

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