

INCOME PROTECTION INSURANCE



TruckSure

By Trevor Toohill

1. WHAT IS INCOME PROTECTION INSURANCE?

Income Protection Insurance allows you to continue to receive up to 75% of your pre-tax earnings if you're off work due to an illness or injury. Only income from 'personal exertion' is insurable; i.e.: rental and investment income is not insurable

For transport owner operators, Income Protection benefits are possibly the most important insurance of all as without an income everything you have worked for is at risk.

Income Protection is a very complex product and you really need the assistance of an expert insurance adviser to help you get the right mix of benefits and options – www.trucksure.co.nz

IMPORTANT FACTS:

37% of male claims are for INJURY – they probably got ACC

63% of male claims are for ILLNESS – definitely no ACC payable!

18% of female claims are for INJURY – they probably got ACC

82% of female claims are for ILLNESS – definitely no ACC payable!

Source: Tower Health & Life Dec 2009

2. AGREED VALUE vs INDEMNITY VALUE BENEFITS

Income Protection Insurance is offered in two versions;

Indemnity Value Income Protection: – under this version you can insure up to 75% of your pre-tax earnings; the premium will be tax deductible whilst any benefits received will be assessable for tax. With this version your income is not verified by the insurance company until you claim. Most companies allow you to use evidence of income from up to 5 years previously to prove your income.

For salary and wage earners it's easy to prove your income, just produce 2 pay slips.

For self-employed people; to prove your income requires 2 years business accounts to be submitted as evidence plus ongoing monthly evidence of business income. This could prove difficult if you're in hospital!!

Agreed Value Income Protection: – with this version you can insure up to 55% of your pre-tax earnings; the premium will not be tax deductible and any benefit received will not be assessable for tax.

With this version you must submit proof of your income when submitting your insurance application.

'Agreed Value' benefits generally cost 5% more than 'Indemnity' benefits.

TIP: Self-employed people are advised

to have Agreed Value Income Protection to avoid needing to prove income when they're unwell or in hospital and needing to claim.

3. INCOME OFFSETS

Income Protection Insurance is designed to replace any income that is lost during a period of disability. If you are receiving a sickness benefit, ACC, sick leave or ongoing business income this will normally be offset against your Income Protection benefit to ensure you don't receive more than 75% of the lost income. This shortfall ensures there is an incentive to return to work in the same way that ACC pays a maximum of 80%.

4. WAITING PERIODS

Just like your house and car insurance, Income Protection has an excess; these are called 'Waiting Periods' or 'Stand Down Periods'.

This is the number of weeks you must be off work before your benefit commences. The longer the Waiting Period, the lower the premium.

Normal waiting period options :(weeks)
4; 8; 13.

5. BENEFIT PAYMENT PERIODS

Most Income Protection Insurance policies will pay the benefit until you return to work or reach age 65, whichever occurs first.

However another way to control costs is to opt for a shorter benefit payment period.

Most common options are; 2 years; 5 years; to age 60; to age 65.

Some riskier occupations (e.g.: truck drivers) are only offered the shorter benefit periods.

People who are newly self-employed will be offered a shorter benefit period initially, until the business is more established, and will have their monthly benefit capped at \$2,500pm

6. STANDARD FEATURES

(Most policies include some or all of these as standard)

Partial Disability Benefit – if you have been totally off work for at least two weeks and return to work in a reduced capacity because of your disability, you will receive a partial benefit if your earnings are under 75% of your pre-disability income. This benefit is payable until your earnings exceed 75% of your pre-disability income or until the end of your chosen benefit period, or until you recover from your disability.

Hospitalisation/Nursing care Benefit – This benefit provides additional financial support during your Waiting Period if you are in hospital or under full time nursing care at home. After 3 days in full time care

you receive 1/30th of your monthly benefit per day, up to 90 days.

Family Member Support benefit – If you are unable to work and confined to bed, additional financial support of up to half the monthly benefit is paid to allow an immediate family member to provide care.

Rehabilitation benefit – If you need retraining to re-enter the workforce and undertake an approved rehabilitation program, then you will receive up to an additional 50% of your monthly benefit for a maximum period of 12 months.

Recovery Support Benefit – this is payable in addition to the monthly benefit, to assist in recovery and rehabilitation costs such as buying a wheelchair, prosthetic devices, and house and car modifications. The maximum amount is normally six times the monthly benefit.

Recurring Claim Benefit – the Waiting Period is waived on claims which result from a relapse or recurrence of the same or related illnesses within 12 months of returning to work.

7. WAIVER OF PREMIUM

Waiver of Premium benefit pays the premium on your policy during a period of disability

8. OPTIONAL EXTRAS


Business Expenses – Self Employed people can choose to insure their business' expenses as well as their own income to ensure there is a business to come back to after their health recovers.

9. HOW MUCH INCOME PROTECTION COVER DO I NEED?

If you have a young family, mortgage and you are the major income earner – then you probably need to insure your full income (either 75% Indemnity or 55% Agreed value).

If you are the joint equal income earner – you could probably get away with insuring only half your income.

If you have few debts or expenses – then you only need to insure an amount necessary to put food on the table and/or pay the bills. However, only insuring a small proportion of your income is a risky strategy, possibly endangering your future earnings potential and lifestyle.

NB: your income is your major asset, 'the goose that lays the golden eggs', without which, everything falls apart. It is recommended you insure your full income, but if you really can't afford to it's better to have some cover than no cover!! 



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