Income Protection

Protect your greatest asset – your income

If you're employed or self-employed, you should consider Income Protection insurance.

What are the benefits?

By using this strategy, you could:

- receive up to 75% of your pre-tax income if you are unable to work due to illness or injury, and
- meet your living expenses while you recover.

How does the strategy work?

Many people insure their home and contents, even their life. Yet, all too often, they don't adequately protect what is potentially their greatest asset – their ability to earn an income.

Think about it this way. If you are unable to work for an extended period due to illness or injury, how will you meet your mortgage repayments and other bills and expenses? Without an income, 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 replace your lost earnings while you recover.

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 up to age 65.

Your PDY financial adviser can help you determine whether you need Income Protection insurance. They can also review your insurance needs over time to make sure you remain suitably covered.

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?

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.

Case study

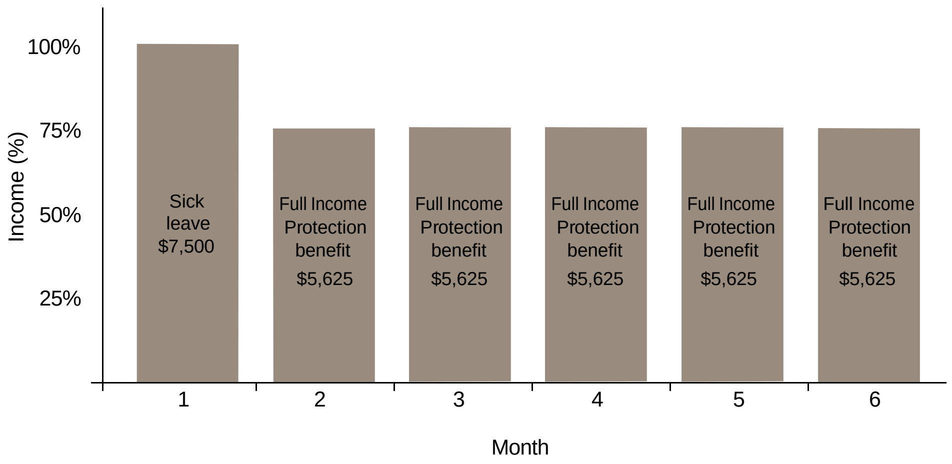
Leanne works full-time and earns a salary of $90,000 pa. She owns a home worth $500,000 and has a mortgage of $350,000. If she's unable to work due to illness or injury, she wants to be able to meet her living expenses and mortgage repayments without having to eat into her limited savings.

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 bad 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.

Note: This case study highlights the importance of speaking to a financial adviser about protecting your income in the event of illness or injury. Your PDY financial adviser can also address a range of potential issues and identify other suitable protection strategies.



- When choosing a waiting period for your 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.
- It may be more cost-effective over the longer term if you pay level premiums, rather than stepped premiums that increase each year with age. (see Strategy 8).
- If you take out Income Protection insurance in a super fund, you can arrange to have the premiums deducted from your investment balance without making additional contributions to cover the cost. This can help you afford insurance if you don't have sufficient cashflow to pay for it outside super.
- If you are the primary income earner, you should also consider insurances that can provide a payment to clear your debts in a range of circumstances and enable your family to meet their ongoing living expenses if you pass away.
- If your partner is not working, you should consider insurances that can provide a payment to cover medical, childcare and housekeeping expenses, if they become critically ill or die.