

Did you know?



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Personal sickness and accident insurance

Advisers often encounter clients who have existing personal sickness and accidents (PA & S) policies, and want to know the differences between this type of cover and traditional income protection policies.

Personal sickness and accident policies are usually issued by general insurance companies. They are often marketed as disability cover for specific industries or occupations. Industry bodies note: "This type of insurance should not be considered as an alternative to private health or income protection insurance."¹ PA & S policies are cancellable products, which means they may be either cancelled by the insurer or the insurer may decline to offer renewal of the policy, if there are changes in the life insured's health or occupation². On the other hand, income protection policies issued by life insurance companies, are generally guaranteed renewable. CommInsure's Income Care policy documents state:

Guaranteed renewable –

We cannot cancel this policy, increase the premium rates for the policy or place any further restrictions on the cover presently provided by the policy as a result of:

- *the number of claims made under this policy or*
- *any change in your state of health, occupation or pastimes.*

Consider Brian, who is currently a barrister, and has an ongoing personal sickness and accident policy. Brian recently decides he has had enough of the law and wants to pursue his lifelong dream of being a stunt man. Under a sickness and accident contract, Brian would generally need to inform the insurer that he has changed occupation and it will then be up to the insurer to decide if the policy would continue and under what terms. It is unlikely a general insurer would continue cover for Brian. Also, some of these policies will actually stop paying benefits if the insured commences a new occupation whilst on claim. With CommInsure's Income Care policies, the cover would continue as if Brian were still a barrister, and a disability claim would be measured against the duties of his new, more hazardous occupation. If Brian injured his hand, it is likely he would be totally disabled from his new occupation.

In addition, PA & S policies are usually indemnity style products, whereby the monthly benefit upon claim would be based on the insured's actual income in the 12 months prior to disability. CommInsure's agreed value policy – guaranteed option, guarantees that the insurer will not review or reassess the monthly benefit shown on the policy schedule in the event of total disability, regardless of a decrease in income.

Both types of products typically provide world-wide cover, 24 hours per day. PA & S policies can cover up to 100 per cent of the insured's income, but only up to a five year benefit period. Some policies can be taken with a zero day waiting period but have a maximum benefit **per total disability claim** of \$30,000. Income protection covers around 75 per cent of insurable income (CommInsure will cover up to 78.26 per cent of the insured's annual income for total disability and up to 100 per cent for partial disability), with a minimum waiting period of 14 days, but with a benefit period up to the age of 65.

PA & S policies can be taken as sickness only, accident only or a combination of both, with different waiting and benefit periods. Income protection providers no longer offer different benefit periods for sickness and accident, so a person who takes a benefit until age 65 will be covered for both illness and injury until that time.

Exclusions: PA & S policies have a far broader range of exclusions than income protection policies. For instance, they often include the following – terrorism; participation in organised football; driving or riding in any kind of race,

¹ Australian Bankers' Association (ABA), Investment and Financial Services Association (IFSA) and the Insurance Council, *Smarter Insurance. Protect your assets and secure your future*, October 2006, p 15.

² Most sickness and accident policies are annually renewable, but some are issued for two years.

flying unless as a fare paying passenger on commercial airlines; driving while under the influence of alcohol; mental illness; HIV/AIDS; and even exposure to radioactivity – which are not generally excluded in income protection policies.³

PA & S policies also have riders or additional policies covering ‘capital benefits’ (accidental death, permanent total disablement, permanent unsound mind, loss of limbs and sight, etc) and critical illnesses. These policies are also cancellable.

Frequently asked questions	Personal sickness and accident – PA & S (general insurance policy)	Income protection (life insurance policy)
What is the sum insured?	Generally 100 per cent of insurable income.	Typically around 75 per cent of insurance income, with certain add backs.
Is it an agreed value policy?	Not usually. The benefit is the lesser of the sum insured and insurable income 12 months before disability.	Yes, it can be agreed value, with financial evidence to be provided either at policy commencement or claim time.
Can the insurer cancel the policy?	Policies generally renewable yearly, and may be cancelled at insurer’s discretion.	No, with few exceptions. CommInsure’s policies are guaranteed renewable.
How long is the benefit period?	Generally two years, but no more than five years.	Can be for two years, five years or until age 60 or 65.
What are the exclusions?	HIV/AIDS; pregnancy, childbirth or miscarriage; radioactive contamination; terrorism; flying unless a fare paying passenger on a commercial airline; practicing or playing organised football; driving under the influence (DUI) or drugs; mental disorders; criminal activity; and others. ⁴	The only exclusions for CommInsure’s Income Care range policies are: <ul style="list-style-type: none"> • war or act of war (whether declared or not) • intentionally self-inflicted injury or attempt at suicide • post-natal depression.
What are the key differences?	This is a cancellable, non guaranteed renewable product, with shorter waiting periods and short to medium-term benefit periods. Generally inferior to income protection.	A guaranteed renewable product, with longer-term benefit periods and a wider range of benefits. Generally superior to personal sickness and accident cover.

Summary

Personal sickness and accident policies are generally suitable for short to medium-term disability cover, but may be cancelled at the insurer’s discretion. They are no substitute for income protection cover.

Income protection provides longer term cover and benefits, as well as security for clients, who can rest assured that only they can cancel the policy throughout the life of the policy.

Important information

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³ This list of exclusions does not apply to each policy, but is a compilation of common exclusions found in most personal sickness and accident policies.