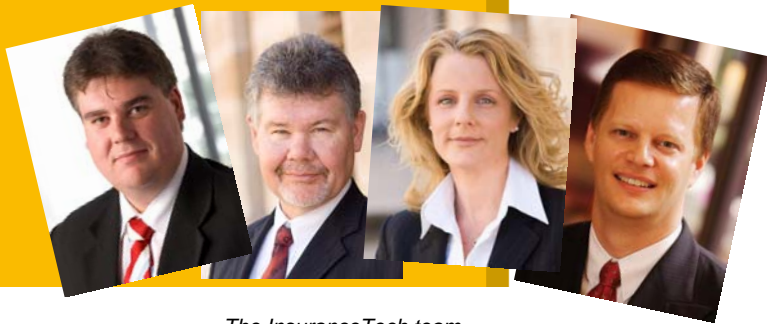


Did you know?



The InsuranceTech team

23 December 2011

The year in review

For the final issue of Did you know? for the year we bring you a bumper Christmas special with key take outs from our articles for 2011. Have a happy and safe festive break and look out for the first DYK of the new year out 20 January 2012.

Insurable income made simple (January)

When implementing income protection for clients, advisers are often asked to explain how insurable income, investment income, and trail commissions work at claim time. As a simple rule of thumb, an offset, benefit reduction or income re-calculation at time of claim will not come into play if at time of application the correct amounts are declared as insurable income and the correct proportioning applies. The concept of insurable income is simply the amount of income that a client earns through personal exertion and before tax. This is true for all amounts of non personal exertion income, called uninsurable income, which does not exceed 25 per cent of the insurable income.

What's in a waiting period? (February)

Income protection waiting periods are generally the time a person has to be disabled before qualifying for a disability benefit. If the disability (illness or injury) continues beyond the waiting period, the client receives a payment, usually in arrears. The reality is that in most cases your client will not receive any payments from an income protection policy unless the waiting period has been satisfied. There are exceptions e.g. crisis benefits under CommInsure's Income Care Plus. Waiting periods across the industry usually comprise a choice of 14 day, and one, two, three, six, 12 and 24 month duration. In meeting the definition of a waiting period clients may need to be totally disabled due to a sickness or injury for a period of time before being eligible to receive benefits. The key variations across insurance providers are: how long the client must be totally disabled during the waiting period; if the client can be partially disabled during this time; the ability to return to work and not restart the waiting period, and claims initiatives to assist clients.

Accidental death – cover for more clients (March)

Accidental death cover provides low-cost, simple death cover. It is available under the CommInsure Protection Total Care Plan (stand alone or with Life Care) or Total Care Plan Super (in conjunction with at least \$10,000 of Life Care)¹. Although not designed to replace the need for comprehensive life cover, accidental death cover may be the only option for those clients who are unable to obtain life cover, as top-up cover due to the insured's medical history, or if affordability of premium is an issue for your client. This type of cover will pay a lump sum in the event of the insured's death as a result of accident, provided death occurs within 90 days of the accident and prior to policy expiry. If the insured also holds life care, the accidental death benefit will be paid in addition to the life care sum insured. The maximum amount of accidental death cover available is \$1 million and is available to people between the ages of 17 and 69 next birthday (depending on their occupation).

Annuities are back! (April)

Short term annuities are investments that provide guaranteed income with fixed rate of return for one to five years. Individuals can invest with personal savings or superannuation money. The annuity can be held in the name of individuals, companies, funds or trusts. Benefits of Lifestream short term annuities: security - payments are guaranteed at the rate specified at inception, regardless of market movement; certainty - known income payments over the agreed term help your client with budgeting; tax advantages - tax free for retirees aged 60 and over investing with super monies and benefits for under 60s; no ongoing fees - no management or account keeping

¹ So as to comply with the Sole Purpose Test.

fees. All costs, including upfront and ongoing adviser service fees are included in the rate of return agreed at inception; flexibility - clients can choose to receive (part or all of) the initial lump sum back at the end of the term. This is called Residual Capital Value (RCV).

Power of attorney and enduring guardianship – the living wills (May)

If your client loses the capacity to make decisions without an enduring power of attorney or guardianship appointment in place, control of decisions over a client's property, medical treatment and lifestyle may be handled by an unsuitable or unsatisfactory person. Alternatively, such control may have to be determined by a state or territory tribunal. A power of attorney is an important, practical and useful legal solution that not only provides peace of mind, it can also avoid costly and complex legal problems. It is a legal document that allows a person, company or body corporate to appoint an agent to act on their behalf. The person delegating the power is known as the principal (or sometimes donor or grantor) and the person receiving the power is known as the attorney (or donee, grantee or even agent). The relationship between the principal and attorney is that of principal and agent. Powers of attorney are an important part of your client's estate planning. It is paramount to carefully consider the various rules and potential outcomes to meet your clients' needs and objectives.

CommInsure pays first serious medical condition lump sum (June)

In an industry first, CommInsure has just paid out a lump sum of nearly \$2 million to a claimant under its unique Permanent Disablement Cover (PDC) Option. Last year CommInsure upgraded its Total and Permanent Disablement (TPD) Cover Option, now renamed the Permanent Disablement Cover (PDC) Option. Following this change CommInsure is the only insurer to offer a guaranteed tax-free lump sum benefit (as an income protection policy option), based on an own occupation TPD definition that is boosted by one-third in the event a Serious Medical Condition is met. The availability of the PDC option (including the Serious Medical Condition booster) was also extended to the new Income Care Super product under Total Care Plan Super (TCPS)².

Extended cover income protection (July)

Under CommInsure's Income Care range options we include Extended Cover. This ensures that your clients' income protection can continue beyond the usual expiry date of age 65. If the cover is extended past policy anniversary it will remain in force until the policy anniversary date prior to your client's 70th birthday. There are a few conditions and limitations that the cover will be based on. These include: only available to occupation groups: C, G, P, J, K, and S; cover will only be extended if your client's expiry date is to age 65 and they are not entitled to receive a benefit for the month before the cover expiry date i.e. not on claim; and the waiting period will be the greater of one month and the waiting period applying as at the cover expiry date. Contact your CommInsure BDM for full terms and conditions.

Home duties TPD definition (August)

The loss of a homemaker would have a substantial impact. Fortunately, there are life insurance options that cater for the loss of homemakers. Apart from the standard own and any occupation TPD definitions, CommInsure has a TPD definition for those engaged in full-time domestic duties or child rearing at the time of the sickness or injury that causes total and permanent disablement. This definition applies if the insured has been accepted for an own or any occupation TPD cover, and has subsequently left employment to perform full-time domestic duties or child rearing, OR has applied for TPD cover at the time (or just before) he or she is performing these duties. In both cases, Day 1 TPD conditions (18 serious medical conditions), with the insured likely to be disabled for life according to an any occupation TPD definition, Loss of Limbs or Sight or Loss of Independent Existence may also apply to satisfy a TPD definition³.

Reduce your clients' waiting period with no underwriting (September)

Whilst the ability to hold income protection policies via superannuation through to retirement age (age 65) has been available for some years, many existing salary continuance policies have not increased the benefit period beyond

² The 18 serious medical conditions are: cardiomyopathy, primary pulmonary hypertension, major head trauma, motor neurone disease, multiple sclerosis, muscular dystrophy, paraplegia, quadriplegia, hemiplegia, diplegia, tetraplegia, dementia and Alzheimer's disease, Parkinson's disease, blindness, loss of speech, loss of hearing, chronic lung disease or severe rheumatoid arthritis (as defined in policy document).

³ See our current Total Care Plan policy document – prepared 20 November 2011 – for the full definitions of own occupation, any occupation and 'home duties' TPD.

two years. A strategy adopted by many advisers and clients is to take out an additional income protection policy with a two year waiting period and a benefit period to age 65 (or beyond) to provide clients a greater period of coverage. Unfortunately, not all income protection policies have a continuation of cover feature, and if a client was to leave their employer and no continuation of cover was offered the client may be left with an income protection policy with a two year waiting period and age 65 benefit period (or beyond).

To address this, where no continuation option is available, CommInsure's built in 'Flexibility to Reduce the Waiting Period' feature will allow clients who hold a policy with a two year waiting period to reduce this to either one year, six months or three months, within 30 days of the group insurance plan, either inside or outside super, ceasing⁴.

This feature applies to Income Care Super, Income Care and Income Care Plus policyholders and importantly, no medical underwriting is required for this feature.

Insurance in super – what is about to change? (October)

On 21 September 2011, Assistant Treasurer and Minister for Financial Services and Superannuation, Bill Shorten, issued the Stronger Super Information Pack⁵.

The pack informed us that MySuper products will be required to offer life and TPD insurance to all members on an opt-out basis. Members of MySuper products will be able to increase or decrease their insurance cover (if offered by the trustee) without having to leave the MySuper product.

There may be particular factors at a workplace level that influence the appropriate level and structure of insurance for employees at that workplace. Therefore, within a MySuper product, it will be possible for the insurance cover to be tailored for a particular employer. Given the standardisation of most other aspects of MySuper products, insurance will become a key differentiator.

Monthly income protection benefits up 33 per cent for serious medical conditions (November)

Effective 20 November, if a client meets one of the Serious Medical Conditions they may be eligible to receive an additional 33 per cent, or one third, of their insured monthly benefit. If a client had a monthly sum insured of \$6,000 and became eligible for the boosted benefit, CommInsure would pay \$8,000 per month. This new feature is built-in and has no extra cost. It is available to all clients regardless of the selected benefit period, selected waiting period or other options chosen. It is also paid in addition to any increasing claims option as applicable.

If a client had selected the Permanent Disablement Cover Option and met the Serious Medical Conditions, they could now choose between an additional 33 per cent tax free lump sum benefit or a taxable monthly benefit which is 33 per cent higher or effectively replacing up to 100 per cent of pre-disability income.

CommInsure boosts its TPD offering (December)

As part of our latest product upgrade, CommInsure has made several changes to its TPD offer. We have added a built-in, no extra cost partial TPD benefit; extended own occupation TPD to selected blue collar workers; improved the own occupation definition by removing 'active employment' from the qualifying period, and reduced eligibility hours from 30 to 20 for TPD.

Under the partial TPD benefit, available outside of superannuation only, CommInsure will now offer a payment of 25 per cent up to \$500,000 of the TPD sum insured, if the life insured suffers any of the following as a direct result of injury or sickness: the complete and irrecoverable loss of use of one hand; the complete and irrecoverable loss of use of one foot or partial blindness.⁶

In other changes, selected blue collar workers are now eligible for own occupation TPD.

Please refer to the original articles on the CommInsure Adviser Site for full details.

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⁴ Please refer to CommInsure Protection PDS, RD and SPDS for full details

⁵ http://strongersuper.treasury.gov.au/content/publications/information_pack/downloads/information_pack.pdf. Licensed from the Commonwealth of Australia under a Creative Commons Attribution 3.0 Australia Licence.

⁶ Defined as - The permanent loss of sight in one eye due to Sickness or Injury to the extent that: • visual acuity is 6/60 or less in one eye or • the visual field is reduced to 20 degrees or less of arc whether aided or unaided, and all as certified by an ophthalmologist.