

# Did you know?



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## Agreed Value vs. Indemnity Income Protection Insurance

We've all heard of Agreed Value and Indemnity style Income Protection insurance but do we understand which definition is best suited to which occupations? Do the savings on Indemnity make it more appealing? This weeks Did You Know article highlights how important the definition is to your client's occupation.

One of the first decisions you make when taking out an income protection policy for a client is whether to choose an Indemnity or Agreed Value style policy. A number of factors need to be considered, such as, how much can the client afford, will their salary increase or decrease in the future, and can they prove their income when requested.

### Agreed Value

If your client decides to take out an agreed value policy, they will need to prove their income at time of application (depending on the amount of the monthly benefit), which has the advantage of showing what they will receive if a claim is submitted, regardless of any fluctuations. Unfortunately, an agreed value policy attracts a higher premium. This type of cover could be seen as more suitable for self-employed or occupations that see their income fluctuate.

### Indemnity

If deciding on an Indemnity style policy for your client, their income at the time of application will determine their monthly benefit and the premium they pay. However, when you submit a claim on their behalf, the client will need to provide their pre-disability income. Your client's payable benefit is dependent on their highest average monthly income over a defined period of time prior to their disability. This type of cover could be seen as more suitable for regular salary earners i.e. office workers.

### Savings

Generally, an Indemnity policy's premium start on average 20 per cent cheaper than Agreed Value, and your client will get all of the same benefits.

Below highlights the savings that can be made when taking an Indemnity policy.

The following scenario is based on a monthly premium, Male, Income Care, \$10k Monthly Benefit, Non Smoker, 30 day Wait Period, age 65 benefit period, NSW with an occupation as a manager.

|              | Age Next Birthday 24 | ANB 30   | ANB 36   | ANB 42   | ANB 48   | ANB 54   | ANB 60   | Cumulative premium |
|--------------|----------------------|----------|----------|----------|----------|----------|----------|--------------------|
| Agreed Value | \$99.15              | \$108.11 | \$132.06 | \$181.87 | \$285.87 | \$497.65 | \$673.14 | \$119,149.20       |
| Indemnity    | \$78.41              | \$85.40  | \$103.94 | \$142.59 | \$223.34 | \$387.68 | \$523.81 | \$93,120.12        |

Over the life of the policy being 37 years in this scenario, the client would save \$26,029.08 if they chose to take out an Indemnity policy.

## Summary

The workforce here in Australia is often quite diverse. Full time, part time, self-employed, contract work, and industries that are booming that create higher incomes that perhaps aren't sustainable. So when considering which income protection definition to adopt for your client, it's always worth considering the options and the savings that can be made to ensure that you receive the best possible outcome for them.

### Important information

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