Did you know?

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Serious medical conditions boost income protection (IP) benefits

CommInsure's boosted IP benefits may provide clients with additional income or capital to reflect the severity of their condition if they suffer from one of 19 serious medical conditions.

Traditionally, IP policies have covered around 75 per cent of an individual's personal exertion pre-disability income, excluding any super continuance (SC) or similar options. The main reason for this was to encourage insureds to return to work as soon as possible following recovery. However, if a client suffers a serious medical condition and is unlikely to return to work, this "incentive" becomes irrelevant. CommInsure has a number of inbuilt, no-cost benefits and features in its income care range to provide for serious medical conditions.

What is a serious medical condition?

For life insureds other than those engaged in full time domestic duties, serious medical condition means the life insured:

- has been absent from active employment as a result of a *day one condition* and
- continues to be incapacitated to such an extent that they will be unlikely to ever again engage in the full-time gainful occupation they were engaged in immediately before their disability or permanent disablement, as applicable, and
- is under the regular treatment, and following the advice, of a medical practitioner.[1]

Day one condition is a condition which is *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*.

Permanent Disablement Cover (PDC) option (formerly known as TPD Cover Option)

In 2005, CommInsure introduced the first tax-free lump sum option inside an IP policy[1] payable if the insured became totally and permanently disabled (TPD) under an own occupation definition[2]. In 2010 CommInsure upgraded this option by boosting the lump sum benefit, upon exercise of this option, by one-third in the event of a serious medical condition, as defined above. This inbuilt, no-cost option must be selected at the time of application for either an Income Care or Income Care Plus policy (the option is no longer available inside super in view of the Stronger Super changes effective July 2014).

Selecting this option means that 90 per cent of the income protection premium is tax deductible and this option is only available if the benefit period is to the policy anniversary date before age 65. Under this option, the client can ask CommInsure to pay the Permanent Disablement benefit if the life insured:

- becomes permanently disabled* before the cover expiry date and
- in our opinion is likely to survive for at least 12 months.

* Permanently disabled means the life insured has suffered:

- a work ending condition (equivalent to TPD own occupation or inability to perform domestic duties/TPD any occupation if engaged in domestic duties at time of event) or
- a serious medical condition or
- loss of limbs or sight or
- loss of independent existence.

For calculation of the tax-free PDC lump sum benefit, please refer to "Actual claim scenario with PDC benefit".

[1] For further definitions, please see CommInsure Protection Product Disclosure Statement and Policy (issue date: 18 May 2014).
[2] See ATO website under CR 2005/15 for the relevant tax ruling.

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Boosted Total Disability benefit

This benefit, introduced in November 2011, applies if a total disability claim is payable and CommInsure is satisfied that the life insured has a serious medical condition. The benefit (but not any associated super continuance benefit) is boosted by one-third, such that a $6,000 total disability monthly benefit would be boosted to $8,000. For a super policy, the Boosted Total Disability benefit cannot be greater than the amount of the life insured's pre-disability income, unless the benefit is greater because of the Increasing Claim option.

Waiver of waiting period for specific conditions

CommInsure, on request, will waive the waiting period for a claim for a Total or Partial Disability benefit (but not a Business Overheads Cover benefit) if the life insured's waiting period is 3 months or less and the sickness or injury which causes the life insured's disability is loss of limbs or sight, loss of independent existence or a serious medical condition. The waiting period can only be waived once under the policy. For the waiver to apply to a claim for a Partial Disability benefit under a super policy, the life insured's disability must have caused the life insured to cease gainful employment.

Actual claim scenario with PDC benefit

So how does this all work in practice? In May 2008 a financial adviser in Victoria, whom we'll call Ken, took an agreed-value Income Care Policy with a 3-month waiting period and at a level premium rate. His monthly benefit was $8,010 and his super continuance monthly benefit was $960, a total of $8,970. In early November 2010 Ken ceased work due to primary pulmonary hypertension. Here is a timeline of claim events and payments:

25 November 2010	CommInsure was notified of the claim, and on 14 December claim forms were received by CommInsure.
15 December 2010	Claim was assessed by the case manager and further medical information was requested from the insured's treating doctors.
15 February 2011	Medical information was received indicating the insured was unlikely to return to work given the severity of his condition. Case manager applied the waiver of waiting period for serious medical condition and the insured received $32,040 (4 x $8,010) in total disability benefits. $3,840 (4 x $960) was paid to his super fund. Further medical information was requested to assess his entitlement to a PDC benefit.
30 March 2011	PDC benefit assessment still pending. Further monthly benefit of $8,010 and SC benefit of $960 paid.
8 April 2011	Insured's specialist returned from overseas and CMO made contact to discuss.
21 April 2011	Tax-free PDC lump sum benefit paid totalling $1,865,760.

The Permanent Disablement Cover Option lump sum was calculated as follows:

Total monthly benefits = $8,970 x 12 = $107,640 (which is the annualised monthly benefit). This is then multiplied by the age factor. The age factor ("relevant factor") for Ken, who was 43 at the time of exercising the option, is 13. So $107,640 x 13 = $1,399,320. This is then divided by 1 (i.e. no change) if the PDC event is not a serious medical condition. If the PDC event is a serious medical condition, as was the case here, the amount is divided by 0.75.[3]

$1,399,320 ÷ 0.75 = **$1,865,760**. This is the tax-free lump sum paid to the insured.

Prior to the lump sum payment, Ken received 5 months of total disability payments of $8,010, a total of $40,050. If the Boosted Total Disability benefit had been available at the time, he would have received $53,400, or an additional $13,350.

Summary

CommInsure's inbuilt income protection benefits provide clients who suffer from a serious medical condition and who cannot return to work additional income payments to reflect the severity of their condition. Alternatively, clients have the option to choose a tax-free lump sum in lieu of ongoing monthly benefits. This could be desirable if they suffer a condition that is likely to decrease their life expectancy.

[3] For further information, See CommInsure Protection Product Disclosure Statement and Policy (issue date: 18 May 2014).

Important information

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