MLC Income Protection

A super way to protect your income

When thinking about our most valuable assets, we often picture our home and contents, even our life. You may not hesitate to insure these assets, but what about your greatest asset – your income?

By taking out Income Protection insurance in a super fund, you can:

- protect your family's lifestyle if you're unable to work due to illness or injury, and
- take advantage of some benefits not available when insuring outside super.

How much will you earn by age 65?

If you're in any doubt about the importance of protecting your income, the table below shows how much you could earn by age 65. For example, if you're currently 35 and earn $60,000 pa, you could earn almost $4 million before you turn 65. Isn't that worth protecting?

Current income (pa)	Age now			
	25	35	45	55
$40,000	$4,830,000	$2,660,000	$1,320,000	$500,000
$60,000	$7,250,000	$3,990,000	$1,980,000	$750,000
$80,000	$9,660,000	$5,320,000	$2,650,000	$1,000,000
$100,000	$12,080,000	$6,640,000	$3,300,000	$1,250,000

Assumptions: Salary increases by 5% pa. No employment breaks. Figures rounded to nearest $10,000.

What is Income Protection insurance?

- If you suffer from an illness or injury and are unable to work, Income Protection insurance can pay you a monthly benefit (typically up to 75% of your pre-tax income) to replace lost earnings.
- You can choose from a range of waiting periods before you start receiving your insurance benefit, with options normally between 14 days and two years.*
- You can choose from a range of benefit payment periods, with maximum cover generally available up to age 65.
- While you can buy Income Protection insurance within or outside a super fund, insuring within super can offer some additional benefits.

Why hold Income Protection insurance in super?

Affordability: You can arrange to have the premiums deducted from your existing super balance. This can enable you to buy Income Protection insurance if you don't have sufficient cashflow to pay the premiums outside super (see Tips and Traps).

Convenience: If you already hold Life and Total and Permanent Disability insurance in super, taking out Income Protection insurance in the same fund can enable you to consolidate all your personal insurances in the one place. You may also save on fees when compared to holding your personal insurances in separate policies.

Is Income Protection insurance in super new?

No. Until recently, super funds generally offered Income Protection insurance with benefit payment periods up to a maximum of two years. However, due to recent changes, some super funds are now offering Income Protection insurance with benefits payable until you reach age 65. This additional feature, along with the benefits outlined above, has made Income Protection insurance in super a compelling option to consider.

* Total disability benefits may not be payable by the Trustee while you are on *paid* leave (including sick leave).

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Case study

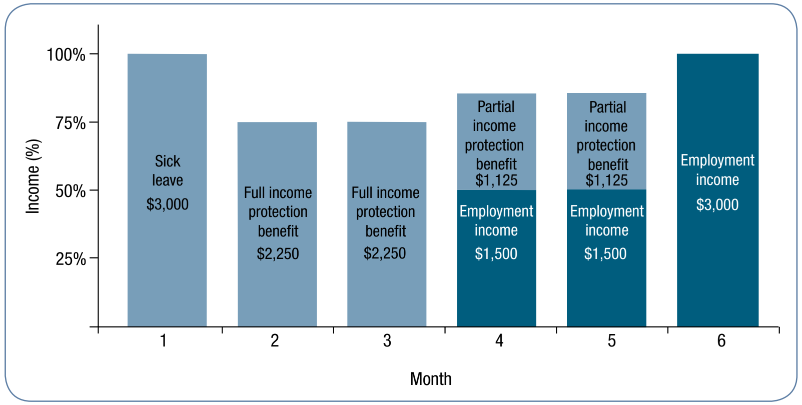
Leanne and her husband Rob have a young daughter, Madeline. Leanne earns $36,000 pa ($3,000 per month) and jointly pays her mortgage of $240,000 with Rob.

After a skiing accident, Leanne requires a knee reconstruction and is completely off her feet for three months. Also, when she returns to work, she'll be at 50% capacity for a further two months.

Fortunately, Leanne took out Income Protection insurance for 75% of her income ($2,250 per month). She took out the insurance through her super fund. With a fairly tight household budget, having the premiums deducted from her super fund account balance was an attractive option.

Because Leanne had the foresight to take out Income Protection insurance, she receives a benefit of $2,250 per month for two months after her initial one month waiting period (where she is covered by sick leave).*

Then, when she returns to work 2.5 days per week, she receives 50% of her monthly benefit ($1,125 per month) on top of her reduced salary of $1,500 per month.



By having insurance, Leanne received a total income of $12,750 during the five months she is disabled – consisting of a combination of sick leave*, salary and income protection benefits.

If she had not taken out Income Protection insurance, her total earnings would have only been $6,000. Without insurance Leanne and Rob would have struggled to meet their mortgage repayments and other living expenses.

Tips & Traps

- ➤ If you arrange to have the Income Protection insurance premiums deducted from your superannuation account balance without making additional contributions to cover the cost, you will use up some of the money that could otherwise meet your living expenses in retirement.
- ➤ The tax implications of purchasing Income Protection insurance are generally similar within and outside super. The main difference is you may qualify for a Government co-contribution of up to $1,500 if you choose to make personal after-tax super contributions to fund the insurance premiums. In this scenario, receiving a co-contribution could make it significantly cheaper to fund the Income Protection insurance premiums through super.
- ➤ In the case study, if Leanne made a personal after-tax contribution of at least $766 to her super fund, she could have qualified for a part co-contribution of up to $1,149. This would give her a total amount of $1,915 to fund the insurance premiums in super, with any net amount left over accruing towards her retirement savings.
- ➤ When choosing a waiting period for your Income Protection insurance, make sure you take into account any benefits (including sick leave) provided by your employer.
- ➤ As a general rule, the shorter the waiting period and the longer the benefit payment period, the more the insurance will cost. Where cashflow is limited, it is generally better to choose a longer waiting period rather than shortening the benefit payment period.
- ➤ Check you can insure for more than just your base salary. For employees, packaged items such as motor vehicles and superannuation contributions can be included, as well as commissions, fees, regular bonuses, regular overtime and other fringe benefits.
- ➤ If you have a working spouse, you should also consider whether they have adequate Income Protection insurance.

* Total disability benefits may not be payable by the Trustee while you are on *paid* leave (including sick leave).

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