Contact your BDM to find out more.

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Aviva Australia Limited
ABN 34 006 783 295, AFSL 241686,
509 St Kilda Road Melbourne VIC 3004
Telephone Client Services on 1800 626 110
Fax 03 9804 5239 or visit avivagroup.com.au

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Replacing debt repayments with Income Protection

Information for advisers

Aviva's Debt Replacement Benefit, available with the Aviva Protection – Income Gold contract, provides payment of a higher monthly income to claimants for up to 12 months of injury or illness. This provides greater peace of mind for high net worth individuals who have a high level of personal debt.

Why a Debt Replacement Benefit?

Often in the first 12 months of injury or illness, lifestyle adjustments have to be made to meet personal debt repayments. Many high income earners have a high level of personal debt and if they are unable to work due to illness or injury, they may experience a significant reduction in income if they are to rely on the maximum monthly benefit offered by most income protection policies.

The Debt Replacement Benefit provides an extra monthly payment for the first 12 months of injury or illness to cover personal debt repayments on top of the Income Protection benefit payable. These personal debt repayments may include home loan, personal investment loans, motor vehicle leases and private school fees.

Aviva Protection – Income Gold

Provides income replacement while you are Totally Disabled or Partially Disabled and unable to work as a result of either sickness or injury. Income Protection Gold also has several additional features and benefits that are not available with a basic Income Protection contract.

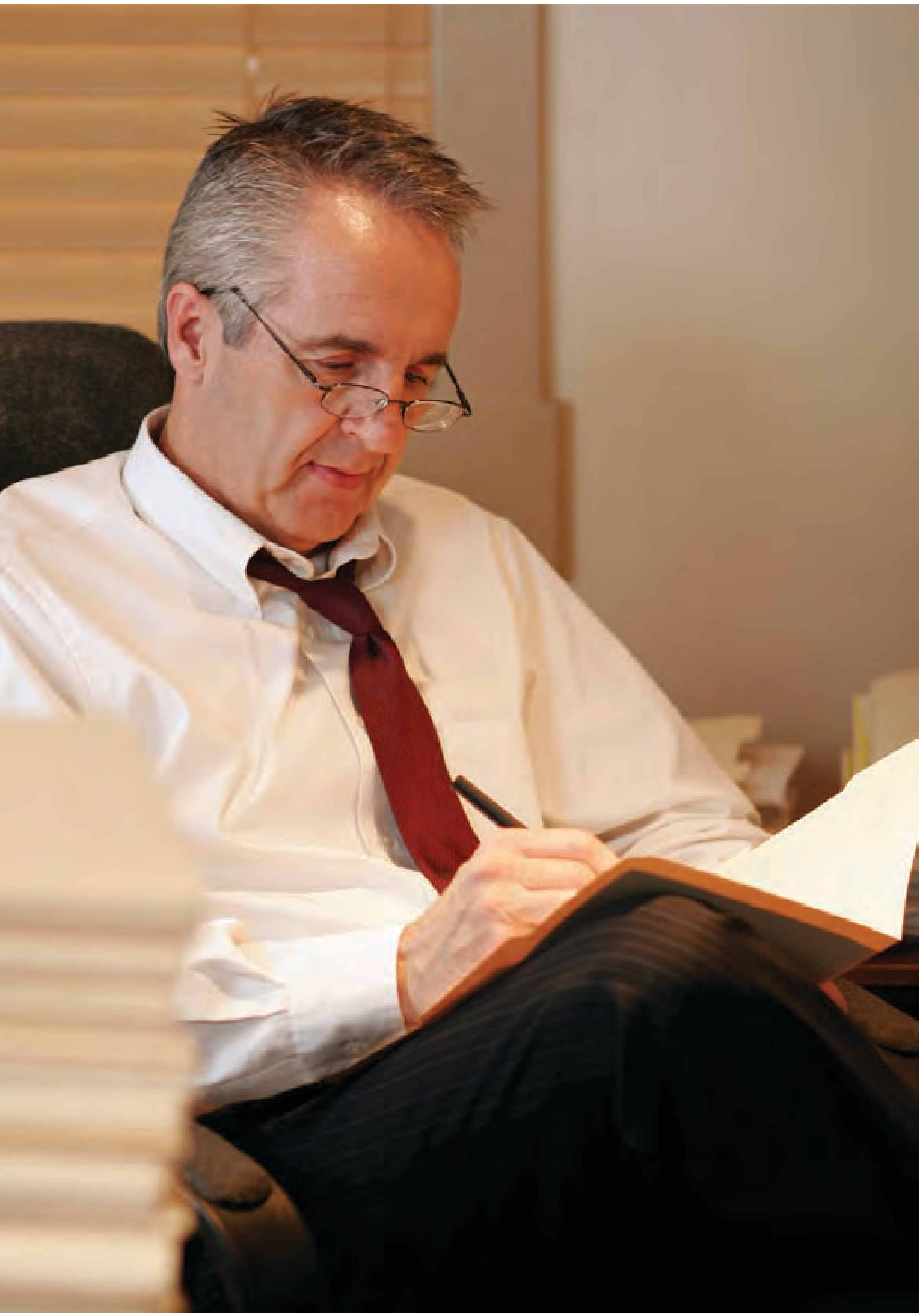
How does it work?

For most income protection policies, the income protection benefit payable is limited to:

- **i.** 75% of the first $250,000 of net annual income
- **ii.** 50% of the next $150,000 of net annual income
- **iii.** 25% of the balance of net annual income

By adding the Debt Replacement Benefit, the monthly benefit paid on a claim can be substantially increased in the first 12 months of injury or illness, providing a total benefit of up to $40,000 per month in the first 12 months.

Let's explore this further by looking at an example.



Example: Meet John

John Brown is a cardiologist with his own thriving practice. He has a gross annual salary of $540,400 and annual personal debt repayments of $120,000.

John develops arthritis and his condition gradually deteriorates to the extent it debilitates his ability to perform the important duties of his occupation and the future is unclear.

The table below illustrates how John's monthly benefit is calculated where he had selected Aviva's Income Protection Gold policy with debt replacement. Where debt replacement is added, the standard monthly benefit for the first 12 months is based on:

- 100% of the personal debt repayments, plus
- Revised standard monthly benefit based on an adjusted annual income. This is calculated by reducing the annual income by 50% of the personal debt repayments.

1) Aviva Protection – Income Gold		**2) Aviva Protection – Income Gold with Debt Replacement Benefit**	
Annual income	**$540,400**	Annual income	$540,400
		Less 50% annual personal debt repayments	$60,000
		Adjusted annual income	**$480,400**
Standard Benefit calculation:		**Standard Benefit calculation:**	
75% x $250K	$187,500	75% x $250K	$187,500
50% x $150K	$75,000	50% x $150K	$75,000
25% balance ($140,400)	$35,100	25% balance ($80,400)	$20,100
Total annual benefit	$297,600 / 12	Total annual benefit	$282,600 / 12
		Monthly benefit	**$23,550**
		Plus monthly personal debt	**$10,000**
Total monthly benefit	$24,800	**Total monthly benefit**	$33,550*

* A 35% increase in benefit in the first 12 months (including the Debt Replacement Benefit) results approximately to an 18% increase in premium. Assuming a male aged 45 next birthday.

John's adviser presented him with these different scenarios over a three year period.

	No Income Protection	Aviva Protection – Income Gold	Aviva Protection – Income Gold with Debt Replacement Benefit
Monthly Income Protection payments (ongoing)	NIL	$24,800	$23,550
Add monthly Debt Replacement Benefit (first 12 months)	NIL	NIL	$10,000
Total Benefits per month (first 12 months)	**NIL**	**$24,800**	**$33,550**
Unable to work for: 1 year	NIL	$297,600	$402,600
2 years	NIL	$595,200	$685,200
3 years	NIL	$892,800	$967,800

Whether an absence from work was 12 months or three years, it was in John's favour to have an income protection policy that enabled him to continue servicing his personal debt repayments, as well as unexpected medical and rehabilitation bills. The cost of not having the Debt Replacement Benefit would require a drastic lifestyle adjustment as it would mean a significant drop in monthly income. For example John may have to consider immediate refinancing arrangements, such as downscaling the family home, selling investments or other assets or transferring the children to different schools.

The Debt Replacement Benefit also gives John the opportunity to refinance or re-arrange debt over the first 12 months if a long term disability is feared.

Reviewing John's personal circumstances his adviser determined that having the Debt Replacement Benefit combined with his income protection policy was the best option for securing his future.

The Debt Replacement Benefit available on the Aviva Protection – Income Gold product is only available as a benefit if the Insured has applied or has at least $1 million of life cover with Aviva and earns a minimum of $295,000 per annum. Benefits payable under the Debt Replacement Benefit are based on actual level of allowable personal expenses in the 12 months prior to the disability. The maximum monthly debt replacement Sum Insured under this benefit is $16,000. If you include the Debt Replacement Benefit, the total of the Deb Replacement Benefit, monthly Sum Insured and the Superannuation Maintenance Benefit cannot exceed $40,000. The figures in this illustration assume a male non-smoker, aged 45 next birthday, with a 30 day waiting period, benefit period to age 65 and no additional benefits. The monthly premium payable is $628.30 with the Debt Replacement Benefit compared to $531.70 without the benefit as at 1 May 2008.