

QUESTIONS AND ANSWERS

I have trauma and death cover, isn't that enough?

Income protection is complementary to other protection you may have, as it provides a broader spectrum of benefit payment situations when compared to other forms of personal insurance.

While term, trauma and total and permanent disability insurance pay lump sum benefits on defined events, income protection pays a monthly benefit on less specific criteria. In this way it forms the basis of lifestyle protection, upon which other lump sum cover can be added.

DEATH COVER TRAUMA COVER TPD COVER
INCOME PROTECTION

Quality check

Check to see if you can package your income protection along with your other personal insurances under one policy - it could save you money in lower policy fees.

How do I arrange the right plan?

Applying for income protection insurance is simple if you get the right advice. The first step is to talk to a financial adviser about how to assess your needs and what type of cover will suit you best.

From there they can provide assistance in comparing the relative merits of various policies. Finally, they will help you implement your plan by guiding you through the application and assessment process and ensuring all relevant disclosures and evidence are supplied to your insurer.

1 Australian Institute of Health and Welfare, "Cancer in Australia" 1995 and "Heart, Stroke and Vascular Disease" 1999

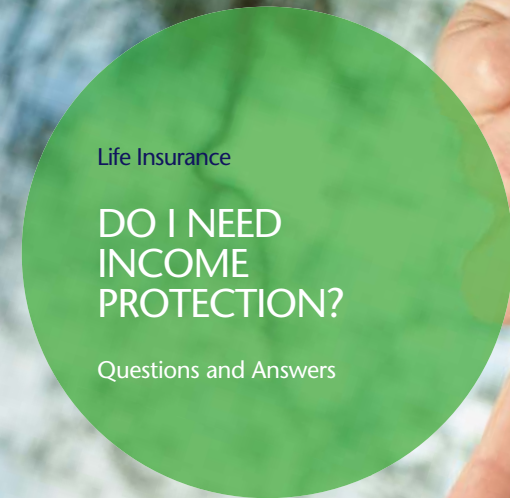
2 Australian Disability Table IAD89-93 Class 2

3 Australian Bureau of Statistics National Health Survey, 95

4 Institute of Actuaries - Report to the Disability Committee, May 95

TOWER Australia Limited
ABN 70 050 109 450 AFSL Number 237848
80 Alfred Street, Milsons Point NSW 2061
Call 02 9448 9000 Fax 02 9448 9100
www.toweraustralia.com.au

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Life Insurance

DO I NEED
INCOME
PROTECTION?

Questions and Answers

PROTECTION
+ ASSURANCE



TOWER has developed this guide to provide you with some information to help determine whether you should obtain income protection.

We have attempted to make this analysis simple and to the point, so that you can make an informed choice. It covers some important issues and answers questions such as:

- why do I need income protection insurance?
- doesn't Worker's Compensation cover me?
- will I ever be able to claim?
- how much cover is enough?
- what if I am overseas or have to leave work?

What is income protection?

Most people have heard about it, many don't understand exactly how it works and few have adequate cover in place, if any at all!

So what is it? It is a highly effective way of helping safeguard a person from the single greatest threat they may ever face – sickness or injury. If sickness or injury renders you unable to work, (and you satisfy the terms and conditions of your policy), then your income protection will go to work for you to pay a monthly income.

Quite simply, it will help put food on the table, petrol in the tank, stop the bank from foreclosing on your mortgage, keep school fees paid and generally give you the means to maintain a reasonable standard of living if you are not able to earn your income.

Why do I need it?

When you consider how vulnerable a person's lifestyle is to a loss of income, it may be quite a risk not having your income protected.

Consider how much you earn, multiply that by how many years you have until retirement, and then add a factor for inflation and pay increases. It doesn't take a mathematician to work out that some people may be risking literally hundreds of thousands, if not millions of dollars if they were to suffer a long term medical condition without some form of protection.

To put it in perspective, try this quick quiz:

Which is your greatest asset?

Car Home Income

Which do you have insured?

Car Home Income

What if I just continue taking my chances?

Recent statistics show that on an average day in Australia:

- 214 people are diagnosed with cancer¹
- 41 people undergo coronary artery by-pass surgery¹
- 35 people between the age of 35 and 69 will survive a heart attack¹
- Further, more than 60% of Australians will be disabled for more than one month during their working life²
- more than 25% will be disabled for more than three months during their working life²

But won't my sick leave cover it?

Many people feel that income protection is only for the self employed and that their sick leave will protect them if they are off work. The truth is that even the most generous employer may be unable to maintain a salary for someone who is not able to work for an extended period.

Once sick leave expires, there is no obligation for your employer to support you. You may have personal savings, but for long term conditions how long will that last? You may choose to rely on the Social Security system, but these benefits may amount to a fraction of your current income.

A reliable and practical answer is to create your own independent contingency plan through a personal income protection policy.

What about Worker's Compensation?

Many people believe that a lump sum will be provided through Worker's Compensation if they are substantially incapacitated.

However, the truth is that 57% of disability claims are for sickness, and WorkCover does not cover non-work related sickness.³ Add to that the fact that over half of all serious injuries happen outside of work where WorkCover doesn't apply.⁴

Even if you are able to claim Worker's Compensation, the restrictions on benefit payments are such that you may never be able to retain your current standard of living.

How much cover do I need?

It would be ideal if you could insure your entire income and suffer no loss if you were off work indefinitely, but this would make the cost of cover prohibitive.

Most income protection plans will allow you to cover 75% of gross earned income. This is to maintain a standard of living comparable to that which you would have while working.

Quality check

A good policy will allow you to add extra cover to protect against the financial loss and increased costs caused by severe disablement, and will also allow you to add cover to replace superannuation contributions.

This enables you to continue building a comfortable lifestyle into retirement during your time off work.

How do benefits work?

Benefit commencement and the duration of benefits are set out by a 'waiting period' and 'benefit period', which are decided when you take out a policy.

The waiting period acts like an excess on your car insurance in that the greater the waiting period, the lower the premium. During this period you self-insure the first instance of sickness or accident through your sick leave or your own means.

After that, if you satisfy qualification conditions, your benefit payments begin.

Benefits will continue for as long as you continue to satisfy claim conditions, up to a maximum of your benefit period. This should ideally be for the remainder of your working life - usually to age 65, although other alternatives are available.

How do I qualify for a claim?

To be eligible to claim a benefit is a vital aspect of any income protection policy. The major criteria will relate either to:

- loss of income
- performance of duties
- number of hours worked.

This loss will be based on the assessment of medical practitioners, specialists and accountants.

Quality check

Be aware of what your policy offers. Is it an 'income based' style of claim criteria, a 'duties based' criteria, or an 'hours based' criteria? This is the critical factor in determining your ability to qualify for a benefit. Look for a policy that is not restricted to just one of these methods so that you have more options when you come to claim.

How much will it cost?

The investment you make in this form of insurance may be minimal when you compare it to the potential benefits you could be entitled to.

In general, it will amount to a fraction of your income allocated to ensure you keep an income flowing in the worst of circumstances.

What if I'm not at work or on holidays?

One of the key benefits of a good income protection plan is that it offers cover regardless of where you are or when you become incapacitated. It gives you around the clock protection anywhere in the world.

Quality check

Look for a policy that offers extra benefits if you are sick or injured away from home so that you have immediate financial resources during this difficult time.

What happens if I change jobs, leave work to have a baby, or go on a sabbatical?

While the general principle is to protect you while you are actively engaged in earning an income, there may be provisions which allow you to continue cover to some extent during periods away from work, or to suspend cover and recommence without further qualification after you return to work. The type of policy you take will specify how these conditions work.

Quality check

Be sure to assess the policy provisions in cases where you have to temporarily leave employment. Some policies may disqualify you from cover as soon as you leave paid employment.