



# A guide to income protection: *protecting your biggest asset*



# What is income protection cover and why do you need it?

Income protection allows you to maintain your lifestyle and cover essential expenses when you can't earn your usual income due to illness or injury. The cover pays a portion of your usual income for an agreed period, and can be held personally, inside superannuation (where it's called 'salary continuance'), or by another entity such as a company for business purposes. It can be tailored to suit your needs, but it doesn't cover redundancy, resignation or termination from employment.

## The benefits of income protection:



### Peace of mind

The physical and emotional demands of a medical career can lead to burnout or injury. Income protection offers financial peace of mind, so you can focus on recovery.



### Premiums are tax deductible

If held personally, premiums are tax deductible at your personal tax rate. When held within superannuation, the fund benefits from tax deductions, reducing its overall tax obligations.



### Comprehensive coverage

Employer supplied sick leave, workers compensation or insurance plans often fall short of covering long-term financial needs or events not related to the workplace, such as recreational injuries.



### A safety net for the self-employed

If you're self-employed or a contractor, your income depends on your ability to work. Income protection covers you for the unexpected.

## What are waiting periods and benefit periods?

### Waiting period

The amount of time you must wait for income from the policy after you make a claim.

Typical waiting periods include:

- 30 days
- 60 days
- 90 days or longer.

### Benefit period

The maximum amount of time the income will be paid, for the period you continue to meet the conditions of not being able to work due to the injury or illness.

Typical benefit periods are:

- 2 years (maximum benefit period allowed in most super funds)
- 5 years
- to age 65.

The benefit is usually capped so it cannot exceed your usual income, and limits of around 70%<sup>1</sup> are common. For some longer duration benefit periods, the percentage of previous income may reduce after two years.

## Do you pay tax on income protection benefits?

While income protection premiums are tax deductible, regular benefits paid from a policy, whether held inside superannuation or personally, are taxed as regular income.

## How much cover do you need?

This varies, based on your individual circumstances. The [Avant Life Insurance Needs Calculator](#) can guide you on how much cover to consider.

## How much does income protection cost?

This depends on your circumstances and the specifics of a policy. Common influencing factors include:

- Age, gender, occupation
- Health status, smoker status
- Lifestyle and hobbies
- Benefit amount, waiting and benefit periods

## Can you update your income protection cover later?

Yes. You can adjust your cover as your circumstances change, like increasing your benefit amount, changing your waiting or benefit period, or switching between holding it inside or outside super. Keep in mind that changes may affect your premiums.

<sup>1</sup> Cannot exceed 90% of pre-disability income in the first six months on claim and cannot exceed 70% thereafter in accordance with the Australian Prudential Regulation Authority requirements of life insurers for this class of product.

# The pros and cons of income protection in superannuation

Holding income protection insurance inside a superannuation fund has advantages and limitations due to regulatory restrictions. To decide if it's right for you, consider these factors:

## Tax deductibility

Premiums for income protection cover are tax deductible to the superannuation fund, usually at the fund rate of 15%. If you're a high-income earner, you may receive a higher tax benefit with a personally-held policy, where you can claim a tax deduction at your marginal tax rate.

## Benefit period

Most current super-held policies limit income protection payments to a maximum of two years, to comply with regulations. Longer benefit periods are rare and usually only found in older policies.

## Group plans

Most policies within super are group plans, unless held by a self-managed superannuation fund. When deciding, consider these pros and cons:

- **Guaranteed renewability** – Unlike retail insurance policies, group policies are not guaranteed renewable, which means important features or benefits may change.
- **Underwriting** – Group plans pool risks so they won't undertake medical underwriting on individuals. Some manage this risk by excluding pre-existing conditions, others don't. Group cover can be useful if you are concerned about medical history or results that could impact a full underwriting process.
- **Sums insured** – For medical professionals with higher incomes, some group plans limit the maximum monthly benefit they can insure.

## Disability definitions

Super-held policies usually require stricter disability definitions, like 'any occupation', compared to the 'own occupation' definitions available in retail policies.

- **'Any Occupation'** provides benefits only if you cannot perform the duties of *any* job you are reasonably suited for by education, training, or experience. While less expensive, it's more restrictive, so you might not receive benefits if you can still perform some type of work.
- **'Own Occupation'** provides benefits if you are unable to perform the specific duties of your own job or occupation. This protection is more expensive because it covers you if you can't work in the particular role you were trained for or employed in.

Claiming on super-held policies can be harder because you must meet an 'any occupation' disability definition, or something even more restrictive. Retail policies with 'own occupation' definitions may be more appropriate for professionals. Although after two years on claim, most shift to a more restrictive definition, so for longer benefit periods make sure you read the fine print.

## Closing or rolling over your super fund

If you change to another super fund, you may lose some super-held income protection features. And remember to check if you already hold life insurance through your super, so you're not paying for cover you don't need.

Understanding these features can help you assess whether a policy meets your needs now, and into the future. Still need help deciding?  
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