



Changes to Income Insurance

What Is Income Insurance?

For the vast majority of working Australians, our ability to earn an income is our single greatest financial asset. The loss of our potential to work and generate an income can have significant repercussions to our financial stability and goals for our future. Medical conditions that leave you unable to work, such as an illness or injury, can be offset through the purchase of an Income Insurance policy.

Income Insurance benefits can be payable for events that have a short duration – like recovery from surgery, right through to longer duration events or those that impact our ability to work the number of hours we were previously capable of – like Cancer treatment or an accident.

According to the Financial Services Council (FSC), in 2019, there were 5.8 million Income Insurance policies in force with 95% of lodged claims paid, 33% of which were as a result of accidents.

Income Protection (IP) / Disability Income (DI) Insurance	5.8 million covers in force
Pays you an income after an initial waiting period if you are not well enough to work due to illness or injury.	

Number of claims paid	Acceptance rate	Amount paid (\$m)
37,465	95% paid	\$4,342

Top 5 causes of claim	% of total claims paid	Amount paid (\$m)
Accident	33%	1,450.4
Cancer	14%	595.1
Mental Disorders	14%	594.4
Musculoskeletal	13%	554.1
Circulatory System	9%	370.7

For further information, [click here](#).

However, over time, insurance companies have added additional benefits to the products which, along with the increasing cost of claims, has meant some products have become unsustainable. As such, the Australian Prudential Regulation Authority (APRA) has mandated changes to support the long term profitability and sustainability of Income Insurance.



Why Might I Need Income Insurance?

Only 36% of Aussies are in a position to live off savings for four months or more if they lost their source of income.

16% (or about two million Australians) are living day-to-day and they could only survive for one week if they lost their jobs.

For further information, [click here](#).

So What's Changing?

Benefit Calculation Method

Currently, new Income Insurance policies are all offered on an indemnity basis, meaning you have the choice of looking at your earnings in the 12 months, or up to 3 years prior to the date of an event causing disability. From 1 October 2021, the assessment of income prior to the date of disability is likely to become more restrictive.

Benefit Calculation Percentage

From 1 October 2021, the maximum income you will be able to receive from all sources will be capped at 90% in the first 6 months, with a maximum of 70% for all subsequent periods.

Contract Terms

Currently, the majority of Income Insurance products available through your Financial Adviser are guaranteed renewable and once commenced, the terms of the contract remain in-force.

For policies taken out from 1 October 2021, you'll need to advise your insurer of your occupation, income and pastimes at intervals (to be determined). This may then result in your Income Insurance cover you hold being adjusted, including your premium, to reflect the changes in your circumstances.

Avenues to Claim

Currently, the best Income Insurance policies offer multiple ways to claim against your policy. For example, to work more than 10 hours per week, or not being able to perform an important duty of your occupation. For policies taken out from 1 October 2021, the definitions related to disability may result in these being more restrictive.

What Are My Options?

Income Insurance policies applied for before 1 October 2021 will have their terms 'Grandfathered', meaning any existing 'more generous' terms will remain in place under the policy.

It's important that if you have cover in place, or are interested in taking out Income Insurance for the first time, that you discuss this with a Financial Adviser to ensure that the cover considers your circumstances now and into the future.

If you have any concerns about your income insurance or any questions in relation to the above, please feel free to contact a Nexia Insurance Specialist.



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