

## SIGNIFICANT CHANGES TO INCOME PROTECTION INSURANCE

### What is income protection?

Also known as ‘salary continuance insurance’ or ‘disability income insurance’, income protection provides a portion of your income, for example 75% of your annual salary, if you are unable to work due to injury or sickness for a certain period of time. You need to advise your annual salary when you take out the cover.

Income protection policies always have a waiting period and a payment period. The waiting period is the time you must wait from when you make a valid claim, to the time you become eligible to start receiving payments. The payment period is the period you can be paid so long as you remain unable to work. Other terms and conditions apply depending on the policy. All of these factors affect the level of premiums you pay.

### What are the changes?

Recently, the Australian Prudential Regulation Authority (APRA) announced that it is concerned that insurance companies have been keeping premiums at **unsustainably low levels** to compete for customers. APRA also think that some policies have very generous features and terms that, in some cases, provide a financial disincentive for people to return to work after successfully making a claim.

They have made some substantial changes to how Insurance companies design and build Income Protection policies. What this will mean is that Income Protection products will not be as generous and comprehensive as they are today. They will still offer the necessary protection that we all need, however they will be removing some of the key features and benefits of these products.

### Has APRA announced what changes will be made?

Yes, effective from 31 March 2020, insurance companies have:

- stopped providing ‘agreed value’ policies that are based on the income you advise at the start of cover, regardless of any subsequent change in income. This means no more ‘agreed value’ contracts can be bought or sold after 31 March 2020.

Yes, effective from 1 January 2021:

- Premium pricing must factor in industry experience studies that are no less than 18 months old, coupled with internal company experience that is no greater than 12 months old.
- APRA states that the intent of this measure is to ensure that life insurance companies charge premiums that accurately reflect the risks associated with income protection policies, and do not run at a loss.

Yes, effective from 1 July 2021, new policies:

- include your insured income based on your annual income at the time you make a claim, and are not able to look back more than 12 months
- limits of 100% of income replacement payments can be made in the first six months and 75% thereafter, with a total limit of \$30,000 per month
- a maximum payment period of five years, with a right to renew cover
- insurance providers must have adequate risk management processes in place to mitigate the risks associated with long term benefit payment periods.

Yes, effective from 1 October 2021, new policies will be limited in the following areas:

- **Payments shall not exceed 5 years.** (Previously you could select payments to be made up to age 55, 60 or 65).
- After the initial 5 years, the policy may be renewed without medical underwriting, but both income, dangerous pastimes, and occupation will need to be reviewed and confirmed.
- After the initial 5 years, the terms and conditions issued on the new policy must be based on the policy on issue at the time of renewal (which may provide less benefits).
- For individuals with predominantly stable income, insured income will be based upon the life insured's income over the preceding 12 months
- For individuals employed in occupations with substantially variable income, insured income will be based upon an average over an appropriate period of time
- Insurance benefits will not exceed 90% of the life insured's income for the first 6 months of benefit payments.
- Insurance benefits will not exceed 70% of the life insured's income for benefit payments that are longer than six months.
- Superannuation benefits can be paid in addition to the income replacement benefit, provided they are paid directly to a superannuation fund.
- Retraining or rehabilitation benefits may be paid in addition to the income replacement benefit, provided these payments are made directly to a third party provider, or a reimbursement to the life insured for costs incurred.
- Have effective controls in place to manage the risks associated with long benefit periods, such as stricter disability definitions or lower benefit levels.

#### **What happens to existing policies?**

If you have an existing retail income protection policy which include a 'Guarantee of Renewability' in the policy wording or a long benefit period, the policy is automatically renewed each year, and your policy will continue under the original more favourable terms. Once you cancel or replace it, you will lose these benefits. <sup>i</sup>

#### **More information & Action Steps**

There is a window of opportunity right now to get a superior income protection policy that won't exist for after 1 October 2021. If you are currently working and don't have Income Protection cover, we can help you to review your current situation to determine how much cover you need and discuss with you the reasons why Income Protection might be right for you. For peace of mind, it is worth having a chat to see if income protection insurance is something that could be of benefit to you.

Please don't delay your decision to reach out longer than you need to. As Income Protection policies can take several weeks to approve. Time is of the essence here as the changes that APRA are implementing will come around quickly and there is potentially a lot involved if we need to make any changes.

#### **Are you able to let me know when would be the most suitable time for us to talk about this further and complete your review?**

For more information, please read [APRA's media release](#) or contact our Strategic Wealth Management financial adviser Jasmine Theophile on 02 9580 3353 or [adviser@swmfp.com.au](mailto:adviser@swmfp.com.au)

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<sup>i</sup> Based on data available as at 2-9-2021