

Business insurance strategies

Protect your income

If you're self-employed or run your business through a company or trust, income protection insurance could replace up to 75% of your pre-tax income if you are unable to work due to illness or injury.

How does the strategy work?

If you are unable to work for an extended period due to illness or injury, you could run down your savings very quickly and face financial difficulty.

Rather than putting your family's lifestyle at risk, by taking out income protection insurance, you could receive a monthly benefit of up to 75% of your income to replace your lost earnings while you recover.

During this period, income protection insurance could ensure that business resources do not have to be used to fund your income while you are not contributing to the business.

What is your future earning capacity?

If you're in any doubt about the importance of protecting your income, the table below shows how much you could earn by the time you reach age 65.

For example, if you are currently 35 and earn \$80,000 pa, you could earn around \$3.8 million before you turn 65.

Isn't that worth protecting in the event that you are unable to work due to illness or injury?

How much will you earn by age 65?				
Current income (pa)	Age now			
	25	35	45	55
\$40,000	\$3,020,000	\$1,900,000	\$1,070,000	\$460,000
\$60,000	\$4,520,000	\$2,850,000	\$1,610,000	\$690,000
\$80,000	\$6,030,000	\$3,810,000	\$2,150,000	\$920,000
\$100,000	\$7,540,000	\$4,760,000	\$2,690,000	\$1,150,000

Assumptions: Income increases by 3% pa. No employment breaks. Figures rounded to nearest \$10,000.

Other key considerations

- The premiums for income protection insurance are generally tax-deductible and benefits received will generally be assessable as income. You should get advice from a registered tax agent relevant to your circumstances.
- Most income protection policies offer a range of waiting periods before you start receiving your insurance benefit (with options normally between 14 days and two years).
- You can choose from a range of benefit payment periods, with maximum cover generally available up to age 65.
- As a general rule, the longer the waiting period and the shorter the benefit payment period, the less income protection insurance will cost.

Seek advice

A financial adviser can help you assess all the issues that need to be considered and determine whether income protection insurance suits your needs and circumstances.

Case study

Harriett is a self-employed architect and receives an income from her business of \$120,000 pa. She owns a home worth \$500,000 and has a mortgage of \$350,000.

If she is unable to work due to illness or injury, she wants to be able to meet her living expenses and mortgage repayments without having to eat into her limited savings.

After assessing her goals and financial situation, her adviser recommends she take out income protection insurance to cover 75% of her monthly income. After taking out the insurance, Harriett is involved in a bad car accident and is unable to work for six months.

Because Harriett had income protection insurance, she receives the full benefit of \$7,500 per month for five months after her initial one month waiting period.

As a result, she receives a total income of \$37,500 during the six months she spends recovering. If Harriett had not taken out income protection insurance, she would have received little (if any) income during this period and would have struggled to meet her living expenses, mortgage repayments and out-of-pocket medical costs.

Other business insurance needs

- If you're self-employed or in a small partnership, you should consider using business expenses insurance to cover 100% of your eligible business overheads if you are unable to work due to illness or injury. To find out more, ask your adviser for a copy of our **'Meet your business expenses'** flyer.
- Insurance can also be used to protect your business revenue if you (or another key person) die, become disabled or suffer a critical illness. To find out more, ask your adviser for a copy of **'Protect your business revenue'** flyer.

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