

Maintaining your financial fitness:

protect your income!



ACCORDING TO THE INSTITUTE OF ACTUARIES OF AUSTRALIA, at some stage of their working life one in three Australians under the age of 65 will be off work for more than three months due to sickness or injury. Unfortunately, many of these people have to rely on social security to pay the rent, keep up with the mortgage repayments or just meet the basic cost of living.

Protecting your standard of living is just as important as building it in the first place. Unfortunately history is full of real-life stories of individuals and families suffering financial hardship because they didn't insure against the unexpected. Those with desk-bound jobs may feel that this is a risk that they are willing to take, but most fitness professionals whose careers are dependent, to at least some extent, on physical activity may struggle to make ends meet should they find themselves physically incapacitated.

Income protection cover (also referred to as 'salary continuance') can provide you with a financial safety net of up to 75 per cent of your income if you are unable to work due to illness or injury. It is designed to ensure your cash flow needs and loan repayments are met by paying you a monthly amount, just like wages and salary.

As with some other insurances, it's natural to push the prospect of income protection to the back of your mind,

but it's worth asking yourself how you would meet your living expenses if something happened to you that affected your income. How much sick leave would your employer pay you? Some employers are very generous and it's possible that you wouldn't have to worry about your immediate finances for three or four months. But what if you are self employed and rely on regular income? This isn't such a good scenario. Do you have any investments that could tide you over? Would your partner have to find a job, or work longer hours? Would the children have to move to another school?

What types of income protection are available?

Unlike death cover which is fairly straightforward, income protection has a wide variety of options so you need to talk to a financial adviser to find out which combination is appropriate for your particular circumstances. However, it is possible to give a general overview.

There are two broad types of income protection – 'guaranteed' policies and 'indemnity' policies. A guaranteed policy requires you to apply for a specific amount of income, and to provide evidence that justifies that amount. Once you have been assessed by the insurance company and they have accepted your application, you will be paid the agreed monthly amount. This is regardless of whether

you are actually earning less than the claimed amount at the time you lodge the claim.

An indemnity policy works the other way – you don't have to supply proof on application, but when you make a claim, you have to demonstrate that you are earning what you are insured for.

With both guaranteed and indemnity policies, you can choose what period of time you want to be covered for (the 'benefit period') and how long you want to wait before receiving payments (the 'waiting period'). The most popular benefit periods are two years, five years or up to the age of 65, and the most common waiting periods are 30 days, 60 days or 90 days. You can generally choose any combination of benefit and waiting periods.

How much will it cost?

The cost (otherwise known as the 'premium') depends on a number of factors, but the main ones are your age, sex, occupation and smoking habits. However, the cost is also dependent on which benefit and waiting period you choose. As you might expect, choosing a two year benefit period with a 90 day wait is the cheapest option.

One of the major benefits of income protection insurance is that the premiums are tax deductible. Consequently, the cost may not be as expensive as you might imagine. For example, taking the tax deduction into consideration, a 25 year-old, non-smoking male fitness instructor would pay around \$35 a month for a two year policy which pays \$3,125 a month with a 30 day waiting period. Unfortunately, many life insurance companies are unwilling to insure fitness instructors so if you were to recommend income protection to your staff you would need to shop around on their behalf, or encourage them to do so.

Fitness facility managers and owners, providing their roles are predominantly administrative, can access income protection cover much more easily. Five thousand dollars worth of monthly cover for a 35 year-old non-smoking male fitness centre manager would cost around \$45 a month after taking the tax deduction into consideration. As a general rule, income protection costs between 20 per cent and 40 per cent more for females than it does for males – apparently women are more likely to make claims than men.

If you would like to insure your income, but just can't find the money from your day to day living expenses, you

can often arrange cover via your superannuation fund. This means that the premiums are paid from your super balance rather than your after-tax income. Not only does this mean that you don't have to dip into your everyday living expenses to pay the premiums, you are also using money that is normally inaccessible until you are at least 55 years of age.

In summary, while insurance is a confronting subject, it's a vital part of planning for financial security. Work out what's at risk, speak to a professional adviser and then decide whether or not it's worthwhile for you. ■



Rick Cosier

Rick has an honours degree in business studies, a diploma of applied finance and investment, and a diploma of financial planning. His company, Healthy Finances, provides financial advice on investments, superannuation, insurance and estate planning to over a thousand companies and individuals across Australia. For more information, e-mail Rick at healthyfinances@iprimus.com.au



20-22 April 2007
Sydney Convention Centre

Keep your finger on the pulse of fitness by attending the business sessions at FILEX 2007. During the 3-day program Rick will be speaking at the Business Lunch. Be sure to catch his thought provoking suggestions on how to plan the rest of your life:

- ◆ Planning ahead – The key to financial security

Rick will also be delivering a session at the inaugural Personal Trainer Summit on Thursday 19 April:

- ◆ Improving your financial fitness

For program information see pages 7 to 12 of your FILEX brochure, or visit www.fitnessnetwork.com.au/ FILEX where you can also register online.

REMEMBER – you'll save \$\$\$s if you register as an Early Bird by 5 March!