

group income protection insurance – pros and cons

The question is reproduced exactly as received so as to show how the answer was compiled to cater for the nuances of the question. ↻

"I recently did a plan for a professional client and recommended Income Protection with ABC insurer, with a 30 day wait to age 65.

Since presenting my plan, the XYZ Professional Association has made available automatic acceptance for IP, 2 year benefit, portable policy as long as still a member of the professional association.

I'm looking for any articles on the website that provide reasons for and against IP not being held within super, as my client has asked what is best for her. By going with the Special Offer she will save approx \$1000 per year. I have recommended that she maintain and increase Life and TPD within her work super.

Is there anywhere on the website that may help provide the best advice?"

the risk store's response:

Yes there is some information on the site. First go to the Helpline Query of the Week archived segment 'Income protection: key person or not?' from 3/10/06 for some information (make sure you read to the end for what you need). The next query of the week 'Life cover in group super' from 17/10/06 is useful also as the comments in there mostly apply to income protection too.

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Here are some questions that will help you work through this:

1. Is your client healthy and so is the auto acceptance really important? A few forms and a blood test isn't much trouble for a lifetime of **guaranteed renewable** cover with a 65 benefit period, which she would have with ABC.
2. Does she perceive the 'as long as a member of the professional association' is a good enough safeguard for keeping the policy? People **move careers**, change jobs, lose professional status!! (This would lead to stress, which could lead to a claim and suddenly she hasn't got a policy to claim on – worse things have happened to good people). Or, she would be hard pressed at 55 or older to go **looking for a new policy** if she has had enough of her profession and starts a business or the like.
3. There are I believe few ancillary benefits on the XYZ Professional Association product although I must disclaim full recent knowledge of this one. Most importantly if she took the 2 year policy and you topped it up, there are very few ancillary benefits on even a very good 2 year-wait contract in the retail IP market.

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the risk store's response:

continued

4. The extent of ancillary benefits operating on the XYZ contract could be very narrow. What is the significance of this to her? Say she has a \$10000 per month benefit and gets cancer. She gets immediate payment **during the waiting period** with the product you have recommended – there already is \$10000 worth of benefit she probably can't enjoy with the XYZ product. That's trading a \$1000 pa saving for a much bigger potential benefit payout. If you can get hold of the policy wording for the XYZ Professional Association you will be in a position to advise her much better as it isn't just about premium, as you know. I believe that to have a record of advice without having viewed the policy wording of the 'competing' product is not a sound strategy for you as an adviser, anyway!

Lastly is the premium saving comparing apples with apples? Is she 'saving' \$1000 and buying a 2 year benefit period compared to your premium quote of benefits to 65? I don't know this as you haven't specified, but if so then the comparison is irrelevant until it includes a top-up policy premium as well.