INVESTMENT REPORT

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BRENTHURST
THE HOME OF WEALTH

THE POWER
OF INDEPENDENT ADVICE

IN THIS ISSUE

INCOME PROTECTION IS DESIGNED TO SUPPLEMENT YOUR INCOME WHEN YOU ARE UNABLE TO WORK BECAUSE YOU'RE ILL OR INJURED.

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BRENTHURST RANKED BEST BOUTIQUE WEALTH MANAGER IN SA 2017 RUNNER-UP IN 2018 AND IN THE TOP 4 IN 2019 AT INTELLIDEX WEALTH MANAGER AND PRIVATE BANKS AWARD

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WHY YOU SHOULD PROTECT YOUR INCOME

By Andre Basson, Financial Planner and Leslie Greyling, Registered Financial Planner™ – Brenthurst Wealth Management

Most people are well aware of the importance of life insurance and to some degree also cover for dread disease and disability, but less so when it comes to income protection policies.

Income protection is a long-term insurance policy designed to supplement your income in circumstances where you are unable to work because you're ill or injured. It will continue to do so until you retire, are able to return to work or upon death – whatever comes first. It is an important part of an overall risk plan and financial strategy.

The level of income cover is based on a percentage of your selected income, typically between 50% -75%, but can be increased to 100% with top-up income protection benefit structures, which can help sustain the lifestyle you have become accustomed to.

There are also options of temporary and/or extended cover which can cover you to the ages of 65 to 70, or even whole-of-life.

In the event of a claim, the policy will pay out either until you're able to go back to work, or until the end of the policy term, retirement or death.

It is important to remember that income protection policies don't necessarily pay out as soon as a claim is made. You need to wait for a pre-agreed period to pass, known as a 'deferral period'.

That will be determined when you take out the cover and can range from a few weeks up to a year. The longer the deferred period, the cheaper the monthly premiums will be up to the moment of (if) any claim. The shorter the waiting period the more expensive the cover, as the risk is perceived higher by the insurer.

One can select to have a waiting period for example 7 days, 1 month, 3 months, before the benefit kicks in. If you choose a very long deferred period, you'll need to be certain you'd be able to survive on your sick pay, or that you have enough savings to cover all your expenses.

Usually, salaried employees would be eligible for between 20-30 days sick leave in a 2-3 year cycle. Over and above that annual leave days will be taken into consideration when taking off from work. When these allocations have expired, unpaid leave is the only option left.

There is also the possibility of losing one's job if it becomes impossible for you to do it for a significant period, if not indefinitely. An employer might even decide to adjust your salary to suit the parts of your duties you are still able to perform.

For business owners or self-employed people who are not afforded any sick or annual leave privileges, the risk is even higher, especially if they can only perform their occupation partially.

A good structure is to combine sickness benefit (which will pay out when booked off by a doctor) covering short and medium-term needs, with a "permanent incapacity benefit" covering long-term income generation (here you will need to provide proof of loss of income). A sickness benefit is especially relevant for professionals earning a fee from client consultations, such as lawyers and doctors (to name a few).

The livelihoods of the business' salaried employees are also at stake here, so the knock-on effect can be substantial, albeit devastating.

There are many variables at play here, and every individual's circumstance is unique, not to mention the fact that income protection products are in general more expensive than lump-sum disability insurance.

It is for all these reasons, among others, that choices of structure and substance should be discussed in detail with a financial advisor, and in the context of reaching certain long-term financial objectives.

The one piece of good news in such stressful times of claims or permanent incapacity, as well as the monthly cost associated with such a grudge purchase, is that any pay-outs will be free of any tax liability. Unfortunately, monthly premiums are no longer a tax-deductible expense.

The scope of income protection has also evolved over the years offering options for retrenchment and closure of sole proprietary business or partnerships.

INCOME PROTECTION COVER SHOULD ALSO NOT BE CONFUSED WITH ACCIDENT, CRITICAL ILLNESS OR UNEMPLOYMENT

INCOME PROTECTION INSURANCE CAN WORK IN DIFFERENT WAYS, AND COME IN MANY FORMS, SO READ THE SMALL PRINT CAREFULLY.

For example, if an income protection policy is arranged on an 'own occupation' basis, then it will pay out in the event that you are unable to perform your own job due to illness or injury. However, if the cover is arranged on an 'any occupation' or 'work tasks' basis, it will only pay out if you're unable to do any kind of work at all.

Income protection cover should also not be confused with an accident, critical illness or unemployment insurances, which all work in different ways – in both premium and pay-out – and are offered by various institutions, with their own terms and conditions.

The importance of discussing all these options and variations with one's financial advisor can thus not be iterated enough.

Long gone are the times to only discuss the matter of whether you need income protection or not, but talking about how you would cope financially if you were no longer earning a salary due to an illness or injury, and how it forms part of your financial plan, is what should be at the top of the agenda.

This content was prepared in consultation with Financial Planner, Leslie Greyling.
To know more about risk planning and how it fits in an overall financial strategy read more here: https://www.bwm.co.za/about-us/risk-planning-2/

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