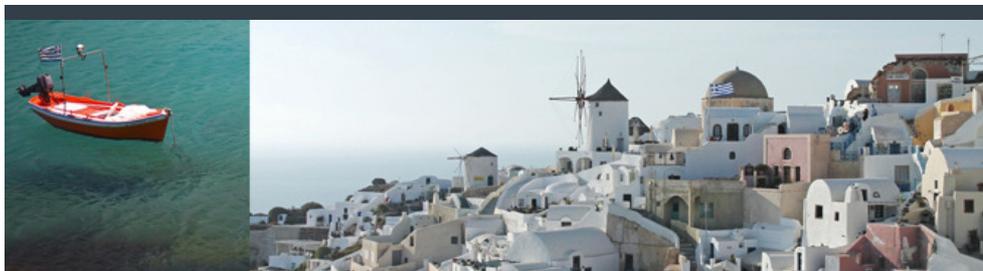


GLACIER MONTHLY



Product news

Income protection – a vital part of financial planning

Income protection is a vital part of financial planning, especially for younger clients with many working years ahead of them and those who are self-employed. Your clients' ability to earn an income is their most valuable asset – and they need to protect this earning ability against illness or disability.



Andre Krause,
National
Distribution
Manager:
Diversification

Income protection products offer cover for both temporary and permanent loss of income due to illness or injury from the client's regular occupation.

Lump sum disability cover differs in that it only pays out on permanent disability.

Looking at markets in the recent past, income replacement benefits have become the preferred solution, although there's merit in combining the two products.

Tax changes in March 2015 have allowed product providers to address client needs by designing more innovative solutions. Previously income protection premiums were tax deductible and clients paid tax on the proceeds of their income replacement benefit.

Since March 2015 the situation has been reversed. Premiums are now taxed but the monthly benefit payable is tax free. Lump sum disability cover remains non-tax deductible and the disability benefit payment is not taxable. Income protection and lump sum disability cover are now both treated the same way for tax purposes.

The result of the tax change is that some clients may now be overinsured for their stated needs. Part of their premiums may potentially be better deployed elsewhere to cover other needs. This has led to a wider range of benefits being offered.

Some of these benefits are:

- Child Protector – Will cover childcare costs if the client or their spouse are unable to work.
- Spouse Protector – A client may need to take time off work to look after their spouse who has suffered an illness.
- Overheads Expenses Protector – This will cover your self-employed client's overhead expenses, such as utility bills.
- Income after death – Your client can select an income to be paid to their spouse and/or beneficiaries.

When selecting a lump sum disability product, your client should consider the following facts:

- The life insurer will only pay out when satisfied that the condition is permanent.
- The client, together with their adviser, is responsible for managing the lump sum.
- Reducing the premium to make the cover more affordable may result in the client being underinsured.

Features of income protection products include the following:

- Clients are able to maintain their standard of living.
- Income can be inflation-protected.
- Income is better matched to the client's need.
- Income protection products offer protection against both temporary and permanent disability.
- The longevity risk is retained by the insurer.

Income protection and lump sum benefits are different and satisfy different needs. A lump sum disability benefit is best used in combination with an income protection product.

Statistics show that 38% of the true need for permanent disability cover is actually covered and 7% to 25% of the true need for temporary disability cover is actually covered. Don't let your client become a statistic – speak to them about income protection today.

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