

ADVISER INCOME PROTECTION CORE

FAQs

January 2021



Income Protection CORE is the latest addition to our suite of Income Protection cover options.

What is the new Income Protection CORE?

New guidelines from the Australian Prudential Regulation Authority (APRA) and in consultation with the Actuarial Institute on sustainable pricing have resulted in AIA developing a new product that sits in our Income Protection suite of products: Income Protection CORE. The APRA requirements will become an industry standard in October 2021, and we are taking a **leadership approach** by being one of the first insurers to launch a new product based on these principles.

We have carefully designed this product to align with APRA's and the Actuarial Institutes' objective to deliver more stable and predictive premiums in the Income Protection market. Because of this, your clients will now have greater ability to tailor their income protection based on their personal needs and budget.

How is Income Protection CORE different to Income Protection cover?

As with our Income Protection cover, Income Protection CORE provides a monthly benefit if your client becomes Totally or Partially Disabled solely due to sickness or injury. There are however some significant differences to understand.

These include changes to **income replacement ratios** and changes to disability definitions.

This table compares AIA Priority Protection Income Protection and Income Protection CORE:

Summary of key differences	Income Protection	Income Protection CORE
Cover Basis	<ul style="list-style-type: none">• Indemnity• Extended Indemnity	<ul style="list-style-type: none">• Indemnity only
Income Replacement Ratio	Up to 75% of Pre-disablement Income	Up to 70% of Pre-disablement Income for 24 months of benefit period, then 60% for remainder of benefit period
Policy Term	Guaranteed renewable until the Expiry Date	Guaranteed renewable until the Expiry Date
Expiry Date	Choice of Policy Anniversary prior to your: <ul style="list-style-type: none">• 65th birthday• 70th birthday Note: Depending on your occupation category	<ul style="list-style-type: none">• Policy Anniversary prior to your 65th birthday
Waiting Period	14, 30, 60, 90 days and 1 and 2 year	30, 60, 90 days and 2 year
Benefit Period	2 years, 5 years, To Age 65*, To Age 70* and 2 year benefit to age 70 * To policy anniversary before age 65/70	5 years and To Age 65* * To policy anniversary before age 65

Occupation categories	IP A1, A2, M, A3, A4, B, C, CT, D, E	IP CORE A1, A2, M, A3, A4, B, C, CT, D
Disability definition	Unable to perform one or more essential income-producing duties of your usual occupation for more than 10 hours pw Total Disablement - Multi Definition also available under Extended Indemnity	Unable to perform the Material and Substantial Duties of your Own Occupation for initial 24 month Benefit Period and a Suited Occupation thereafter
Total Disability Benefit	✓	✓
Partial Disability Benefit	✓	✓ Must be earning income of less than 80% of pre-disablement income After 2 years capability based on maximum of 40 hours or 80% of pre-disability hours
Definition of income	Can include employer superannuation contributions for employees	<u>Excludes</u> employer superannuation contributions for employees
Pre-disablement income	12 consecutive months or latest financial year preceding disablement Under Extended Indemnity option, highest average of monthly Income in any consecutive 12-month period in the 3 years immediately prior to disablement	12 consecutive months or latest financial year preceding disablement (can be extended to 24 months where there is >25% reduction in income year on year)
Benefit Offsets	Fewer offsets	Broader list of offsets
Benefit Indexation	✓ Higher of CPI increase and 3%	✓ Increase limited to the CPI increase
Guaranteed Insurability / Salary Increase Benefit	✓	✓
Recurrent Benefit	✓	✓
Waiver of Premium	✓	✓
Rehabilitation Benefit	✓	✓
Death and Terminal Illness	✓	x
Needlestick Benefit (Occupation Category M only)	✓	✓
Cosmetic or Elective Surgery benefit	✓	x
Involuntary Unemployment Waiver of Premium	✓	✓
Accident only options	✓	x
Optional Benefits	Access to a range of additional benefits through the Advantage and Plus options	No additional optional benefits
Rider Benefits	Range of rider benefits including Day 1 Accident, Income Protection Lump sum, Carers Allowance, Retirement Optimiser or Business Expenses	Claim Escalation only
Superannuation Option	✓ Benefits not permitted under Super legislation available via a separate Super Extras policy	✓ Benefits not permitted under Super legislation provided to all insureds via a separate Complimentary Income Protection CORE Extras policy

Please note this is only a summary of the key differences between these products. For full details please refer to the Product Disclosure Statement.

How can I ensure my client is adequately protected?

Our new Income Protection CORE works best in combination with a range of AIAA insurance products including Life, TPD Cover and Crisis Recovery. This can then support your clients at different stages whilst providing comprehensive coverage.

Do the APRA guidelines include a maximum 5 year contract term for clients?

Yes, the guidelines commencing in October 2021 do include a 5 year contract term. It's important to note that there are currently ongoing industry discussions around this measure so the first release of Income Protection CORE in January 2021 won't include the 5 year contract term.

Why is the Income Protection CORE pricing similar to the Income Protection contracts in market?

We have priced Income Protection CORE to provide stable premiums based on our assessment of likely claims costs based on the design of the new product. Whilst the cost of these premiums will not at launch be dis-similar to our existing Income Protection cover, we expect the two premium types to diverge over time. We project that the new product design will enable us to deliver more stable premiums over time. However, consistent with wider industry trends, we expect our existing income protection products to be materially impacted by further price increases.

Over time this will mean that Income Protection CORE customers enjoy more stable premiums and increased peace of mind that ongoing premiums will continue to be affordable over the term of the policy.

How can I help my client move from a 70% to 60% replacement income effectively after 2 years on claim?

By utilising a combined insurance strategy, which might include Crisis Recovery, Crisis Extension and TPD in combination, Income Protection CORE can work at replacing the required income and enable the other benefits to do the heavy lifting of helping cover debt and future loss of earning when the illness is prolonged. For more information on combined insurance strategies refer to our Income Protection Technical Document available on the Adviser site.

Why is AIA bringing this to market now when we have until 1 October 2021?

By taking this leadership approach we want to make sure advisers understand the changes and have the opportunity to provide feedback on the new approach we've taken. We believe consultation with advisers is critical to delivering the successful future of Income Protection under these requirements.

By taking this **leadership approach** we also want to make sure you're ready for the October 2021 changes. By assisting with adviser education and understanding early in 2021, we can work together on the implementation of these requirements, so they are integrated into your protection strategies in the best way.

Why would I recommend this product now when my clients can still purchase the more generous benefits offered by traditional income protection until October?

For clients who have budget constraints Income Protection CORE offers long term affordability. This is particularly important where stepped premiums sometimes become unaffordable right when they're more likely to need the Income Protection cover the most.

Does the Own Occupation for 24 months rule apply with each new claim, or do I only get 24 months (in total) of being assessed against my Own Occupation over the term of the policy?

In the first 24 months of the benefit period clients are assessed on their inability to perform the Material and Substantial duties of their Own Occupation. The client will be assessed against their Own Occupation (for the first 24 months) of each claim that is submitted.

Where any claim is due to a new event or illness and not related to a previous claim then a new 2 year Own Occupation and 70% of pre-disability income benefit period will be available.

If however the claim is a recurrence of a previous claim or due to a condition related to a previous claim then your claim will be treated as a continuation from where the previous claim ceased.

What is the difference between Own Occupation and Suited Occupation?

For Income Protection CORE, Own Occupation means the trade, profession or type of work the client was working in prior to the claim, whereas suited occupation means an occupation the client is reasonably suited to by education, training or experience, including that which has been acquired through AIA Occupational Rehabilitation Programs, re-skilling or employment acquired during the claim period. Remember also that it is the Material and Substantial duties of their Own Occupation or suited occupation that they'll be assessed for.

Why is the Superannuation Guarantee of 9.5% NOT included in the definition of Income under new Income Protection CORE cover?

The new APRA requirements do allow superannuation contributions to be protected as long as any resulting benefits are paid directly to the fund and not to the insured. Whilst Income Protection CORE will not have this facility at launch we will be working hard to develop this benefit for future product releases.

Are AIA's other Income Protection products still available with the introduction of Income Protection CORE in January 2021?

Yes, initially the new Income Protection CORE will run in parallel with AIA's other Income Protection products. However, the commencement of the APRA requirements in October 2021 will mean that further changes will occur to the AIA Income Protection product suite.

For more information contact your AIA Client Development Manager or Client Development Support on 1800 033 490.