

# INCOME PROTECTION CORE

## Adviser FAQs

September 2021



### What is 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 Income Protection product: Income Protection CORE. The APRA requirements become an industry standard from October 2021. Back in January 2021, we took a **leadership approach** by being one of the first insurer 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.

### How is Income Protection CORE different to Income Protection cover?

Like previous Income Protection covers, 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:**

	<b>Income Protection*</b> *Closed for New Business	<b>Income Protection CORE</b>
Cover Basis	Indemnity, Extended Indemnity	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 Expiry Date.
Expiry Date	Choice of Policy anniversary prior to your 65th birthday or 70th birthday.  Note: Depending on your occupation category	Policy anniversary prior to your 65th birthday.
Waiting Period	14, 30, 60, 90 days and 1 and 2 years.	30, 60, 90 days and 2 years.
Benefit Period	2 years, 5 years, to age 65*, to age 70*, 2 year Benefit to age 70*  * To policy anniversary before age 65/70	2 years, 5 years, to age 65*  * To policy anniversary before age 65
Occupation Categories	A1, A2, M, A3, A4, B, C, CT, D, E	A1, A2, M, A3, A4, B, C, CT, D
Disability Definition	Unable to perform one or more essential income-producing duties of the usual occupation for more than 10 hours p/w.  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.

**Income Protection\***  
\*Closed for New Business

**Income Protection CORE**

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.	Excludes employer superannuation contributions for employees. but these can be insured under a separate Retirement Protector rider.
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 three years immediately prior to disablement.	12 consecutive months or latest financial year preceding disablement.  (Can be extended to 24 months where there is a >25% reduction in income year on year). Other definitions apply for those unemployed or on maternity, paternity or sabbatical leave on the Date of Disablement.
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	✓	✗
Needlestick Benefit (Occupation Category M only)	✓	✓
Cosmetic or Elective Surgery benefit	✓	✗
Involuntary unemployment Waiver of Premium	✓	✓
Accident Only Options	✓	✗
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 and Retirement Protector.
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?

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. AIAA has developed an Income Protection Technical and Positioning document to assist you when developing strategies that incorporate Income Protection CORE.

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

The original APRA proposals have now been deferred until October 2022 and in the meantime Income Protection CORE will operate on a traditional Guaranteed Renewable basis. AIAA continues to work alongside industry bodies to find a practical solution to meet APRA's objectives regarding this aspect of the product.

## Will we see future premium increases on Income Protection CORE similar to those happening with old-style policies?

We have priced Income Protection CORE based on our assessment of likely claims costs resulting from the revised product features. Our expectation is that premiums for new and old style income protection policies will diverge over time as, consistent with wider industry trends, we expect existing income protection products to be materially impacted by further price increases. Over time we expect the new style cover to become materially more affordable than traditional types. This will mean that Income Protection CORE customers should 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](#).

## Didn't AIAA bring Income Protection CORE to market in January 2021 before the APRA deadline?

By taking this leadership approach back in January 2021, we wanted to make sure advisers understood the changes and had the opportunity to provide feedback on the new approach. During this time, we've gained **valuable insights** and **feedback** from industry, including advisers in preparation for the mandatory introduction of the APRA guidelines.

Our teams, and specifically your Client development Manager (CDM) or Client Development Associate (CDA) has developed a deep understanding of the challenges and intricacies advisers face with the new Income Protection products.

Our focus on the income protection changes throughout 2021 positions us as knowledgeable specialists to provide help and support in educating your teams. We're here to answer your questions about the changes and how to integrate them into advice strategies.

## 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 within 12 months of previous 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 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 10% 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. From September 2021, Income Protection CORE will offer access to Retirement Protector.

With Retirement Protector, your client's can insure up to the current rate of the Employer Statutory Contribution rate (10% as of 1 July 2021) of their average monthly Income. When we pay a Total Disablement or Partial Disablement benefit under Income Protection CORE, we will also pay a Retirement Protector benefit into a nominated superannuation account.

This can help to replace or complement any previous retirement planning arrangement which has ceased or has been compromised by your client's disability.

## **Are AIAA's other Income Protection products still available with the introduction of APRA guidelines on 1 October 2021?**

No, AIA Priority Protection Income Protection and Income Protection Accident Only policies are not open to new business following the implementation of the APRA IDII Guidelines in October 2021.

However, existing AIA Priority Protection policyholders who already hold these benefits are still able to make alterations to these policies and cancel their existing policy and replace it with a new equivalent policy, in specific circumstances.

Please refer to Section 5.3 of the Priority Protection Product Disclosure Statement for more information.

## **What if my client has a current income protection policy?**

AIAA will continue to honour your client's policy. Provided your client continues to pay the premiums your client will still be protected under Income Protection. It will be important for your client to ensure that the premiums are paid.

## **If the client lapses the policy what will occur?**

In accordance with AIAA's reinstate policy we will be able to reinstate the policy within the first 90 days of non receipt of payment. Once the policy is over 90 days, AIAA will be unable to reinstate this policy.

## **If my client cancels the policy and wishes to return to the Income Protection policy are they able to reactivate the policy?**

No, once the policy is cancelled there is no ability to re-issue the Income Protection terms.

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