

Income and Expenses Cover – FAQs

Disclaimer: This overview is a document that explains Income and Expenses Cover and some issues relating to its use in general terms only. The full terms and conditions that apply to Income and Expenses Cover and its benefits are detailed in the Policy wordings. Advisers are urged to familiarise themselves with all these Policy provisions. In addition, the content of this document is for information only and is not a substitute for commercial judgement or professional advice, which should be sought prior to acting in reliance on it. To the extent permitted by law, Partners Life and its related companies disclaim liability or responsibility to any person for any direct or indirect loss or damage that may result from any act or omission by any person in relation to, or in reliance on, the information supplied. Where any conflict arises between what is said herein and the policy wording, the policy wording always prevails.

1. What is Income and Expenses Cover?

Income and Expenses Cover is a monthly disability product designed to give clients cover against the loss of income caused by total or partial inability to work, due to sickness or accident (total and partial disability), at an affordable and more sustainable price. To achieve lower, more sustainable prices, different benefit design from that under Partners Life's Income Cover and Mortgage Repayment Cover products is necessary. Some of these important differences are discussed below. **We recommend advisers study the Policy wordings for full details.**

2. How are benefits paid under Income and Expenses Cover?

Like Partners Life's Income Cover, Mortgage Repayment Cover and Household Expenses Cover, benefits are paid monthly in advance after the end of the waiting period. Benefits are paid for so long as the life assured remains totally or partially disabled as defined, or, to the end of the Cover Term, the Payment Term selected, or any payment term restriction.

The Payment Term options for Income and Expenses Cover are, fixed terms of 2 years or 5 years, or 'to-age-65'. There is no 'to-age-70' option.

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3. Why is a product like Income and Expenses Cover necessary?

Income protection insurance is under pricing pressure in many countries including New Zealand, and concerns for the product's sustainability have been growing. In short, income protection has become too generous. The problem has become so bad in Australia (where insurance companies have been losing staggering amounts of money on their income protection products) that the Australian regulator, APRA, has had to impose some very severe restrictions on income protection type products. For example, a ban on new agreed value policies, strict replacement ratio rules and contract terms limited to 5 years, to name just a few.

Partners Life's Income and Expenses Cover is designed with various features to address these 'sustainability' concerns, while still ensuring suitable protection for clients whose disability makes it impossible for them to undertake any reasonable occupation. The 'sustainability' features in Income and Expenses Cover are broadly designed to do a few things:

- Reduce moral hazard by ensuring clients are not financially advantaged when disabled (better-off than they were prior to disability), by:
 - basing benefits on actual income lost (no agreed value);
 - including suitable replacement ratio's (based on income); and
 - including suitable offsets of other income earned while disabled; and
 - Requiring evidence, other than just the client's self-reporting of their degree of disability, to justify long term claims.
- Encourage a return to work or to some other reasonable work, when able to do so.

Income and Expenses Cover costs less than all Partners Life Income Cover options and is expected to produce more certain future price stability.

4. What are the 'sustainability' features built-into Income and Expenses Cover?

Income and Expenses Cover is designed to provide a less costly and more price sustainable long-term alternative to typical current (and too generous) income protection policies. As a result, certain 'sustainability' and cost saving features have been built-into Income and Expenses Cover, for example:

- Benefits are based on actual pre-disability income or actual (share of) Monthly Domestic Expenses, not the sum insured.
- There is a limitation of 12 x monthly payments for clients disabled due to causes with no certain medical diagnosis or evidence – i.e., where the degree of disability is entirely self-reported.
- A 'Reasonable Occupation' definition of disability applies after 12 months on claim.

Unlike the new rules in Australia, where APRA has insisted on limiting policy terms to 5 years, Income and Expenses Cover does not include a similar limited policy term (of 5 years or any other term).

Income and Expenses Cover is guaranteed, and cover ends at age 65.

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5. How does the limitation of benefits paid for disability causes that cannot be confirmed by medical evidence work?

The restriction is not a hard limit on mental health claims as can be found as an option on income protection policies. The restriction will not apply, for example, to mental health claims that can be medically evidenced, for example, Bi-Polar Disorder and Schizophrenia.

The 12-month claim limit only applies while a disability condition remains medically unevidenced i.e., the degree of disability is entirely self-reported. Once evidence is available, the restriction falls away. Effectively the limitation allows clients 12 months on claim to get a suitable diagnosis of their condition. If no suitable diagnosis or evidence is found after 12 months on claim, the claim will end but cover will continue until evidence becomes available; or a new disability causing inability to work, arises.

6. What does 'disabled' mean under Income and Expenses Cover?

For occupation class 1-4: disabled means:

- The life assured cannot perform their pre-disability occupation for more than 10 hours per week; or
- The life assured cannot perform more than 75% of their pre-disability occupation; or
- After being totally or partially disabled for more than 12 months, the life assured cannot perform their pre-disability occupation or any other 'Reasonable Occupation'.

Income and Expenses Cover is designed with sustainability of premium in mind, and this requires that people who can work in a reasonable occupation do in fact go back to work. Getting back to work is the best outcome for clients and the sustainability of disability insurance. Accordingly, after being totally or partially disabled for more than 12 months, the client will continue to be regarded as totally or partially disabled, as the case may be, only if they cannot perform their pre-disability occupation **or any other 'Reasonable Occupation'** (and the cause of their disability remains medically evidenced!).

After a period of 12 months on claim, the Income and Expenses Cover definition of 'disabled' changes essentially from inability to perform their 'own occupation' to inability to perform any 'Reasonable Occupation'.

For occupation class 5: disabled means the life assured is so disabled that they are:

- Continuously confined to a medical institution or the life assured's home under medical supervision; or
- Continuously unable to carry out at least two (2) Activities of Daily Living without the physical assistance of another person; or
- Continuously unable to perform three (3) of the Normal Domestic Duties without the assistance of another person.

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7. What does 'Reasonable Occupation' mean?

Reasonable Occupation is a defined term and means:

"Any occupation or profession that the life assured could reasonably be expected to perform on the basis of the life assured's education, training, and experience and for which the market remuneration would be at least seventy-five percent (75%) of the life assured's pre-disability Income."

8. How is Occupation Class 5 determined under Income and Expenses Cover?

Under Income and Expenses Cover, a life assured is categorised as Occupation Class 5 at claim time a little bit differently than under Partners Life Income cover.

A life assured is classified Occupation Class 5 under Income and Expenses Cover if they have:

- Been on an employer approved period of leave without pay or been unemployed for a period of greater than twelve (12) consecutive months immediately prior to disability; or
- Been incarcerated in a penal institution immediately prior to disability; or
- Been working an average of less than the required Full-Time hours (25 hours per week) for a period of greater than twelve (12) consecutive months immediately prior to disability; or
- Been legally barred (disqualified, deregistered, banned, or lost a practising licence which prevents the life assured from pursuing, practising, or engaging in their Usual Occupation), unless this has occurred as a direct result of their disability.

9. How are total disability benefits calculated under Income and Expenses Cover?

Please note that Income and Expenses Cover is not agreed value.

Total disability claims are based on the greater of Pre-Disability Income, (a 'loss-of-earnings' approach applies, namely the benefit is: Pre-disability income less offsets multiplied by 75%) or the life assured's share of pre-disability Monthly Domestic Expenses, less offsets.

For most disabled clients, their Pre-Disability Income will be greater than their share of Monthly Domestic Expenses and so a loss of earnings approach is beneficial, compared with the simple indemnity approach which deducts offsets directly from 75% of pre-disability income.

Of course, an overall maximum of the sum insured always applies.

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10. How is Pre-Disability Income determined?

Pre-disability income under Income and Expenses Cover is defined as it is for other Partners Life Income Cover products and means:

For non-Self-Employed

If the life assured is employed but not Self-Employed, Pre-disability Income means the greater of:

- The average monthly Income Earned for the best twelve (12) consecutive months during the previous thirty-six (36) months immediately prior to the life assured becoming totally disabled or partially disabled; or
- The monthly Income Earned immediately prior to the life assured becoming totally disabled or partially disabled.

Any overtime or bonuses to be included will be the average monthly amount Earned over the previous twelve (12) months immediately prior to the life assured becoming totally disabled or partially disabled.

For Self-Employed

If the life assured is Self-Employed, Pre-disability Income, means the average monthly Income Earned in the twelve (12) consecutive months immediately prior to the life assured first suffering the Injury, Illness or undergoing Surgical Procedure causing the life assured's total disability or partial disability.

11. Do Income and Expenses Cover Total Disability Benefit or Partial Disability Benefit calculations include offsets, and if so, what income is offset?

Suitable offsets are central to ensuring clients are not better off financially while on claim than they are when at work, and so are crucial to sustainability. The definition of 'Offsets' is the same as for Partners Life Income Cover. Only the following can be offset:

- Other income received as direct result of working while disabled;
- ACC; or
- Other disability insurance benefits received for the same disability, to the extent they exceed the replacement ratio (for instance if the client has multiple income cover policies with different providers).

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12. Why include this concept of Monthly Domestic Expenses’?

Because Income and Expenses Cover disability benefits are based on pre-disability income, a client whose income has unexpectedly dropped in the time leading up to disability, can find their benefits significantly reduced, notwithstanding having paid for a higher sum insured.

Income and Expenses Cover provides a safety net benefit for those circumstances where clients Pre-Disability Income is significantly reduced (and disability benefits would be low as a result). That safety net is calculation of the benefit based on their share of Monthly Domestic Expenses rather than on their lower Pre-Disability Income.

13. How is the life assured’s ‘share of Monthly Domestic Expenses’ determined?

‘Monthly Domestic Expenses’ is a defined term. You will find this in the Partners Protection Plan ‘base wording’. Eligible domestic expenses are listed in this definition. To keep it simple and avoid unnecessary assessment costs, the life assured’s ‘share of’ **shared** Monthly Domestic Expenses is simply determined by dividing the total qualifying shared Monthly Domestic Expenses of the household by the number of adults (excluding dependent children under the age of 25 at commencement of their disability) living there. Some expenses which are not ‘shared’ but solely for the life assured are allowed in full – check out the definition.

14. How do ‘Monthly Domestic Expenses’ differ from ‘Monthly Household Expenses’?

Monthly Domestic Expenses is a defined term that applies to Income and Expenses Cover. It includes monthly mortgage repayments for the life assured’s primary place of residence. It also includes the simple ‘share-of’ concept for shared Monthly Domestic Expenses (where life assured’s ‘share of’ shared Monthly Domestic Expenses is determined by dividing total domestic expenses for the home by the number of adults living in the home (including a spouse, civil union or de facto partner but excluding dependent children under 25 at the commencement of disability)).

Monthly Household Expenses is a defined term that applies to Household Expenses Cover. It does not include monthly mortgage repayments.

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15. How are Partial Disability Benefits calculated under Income and Expenses Cover?

Partial Disability Benefit calculations are the same as those for Total Disability Benefits. The inclusion of income earned while working as an offset, means that any income earned while partially disabled is taken into account to reduce monthly benefits proportionately. This is the same calculation as applies with Partners Life's Indemnity Loss of Earnings Income Cover.

However, it is important to remember that to qualify as 'disabled' for Partial Disability Benefits after receiving benefits for more than 12 months (for either total or partial disability), the life assured must be unable to fully perform, any 'Reasonable Occupation'.

16. Will Income and Expenses Cover disability benefits be taxable?

Income and Expenses Cover disability benefits are determined by income at claim time (indemnity) not the sum insured. For this reason, we believe the tax consequences of Income and Expenses Cover will be the same as they are for indemnity income covers; namely benefits paid will be taxable and premiums potentially deductible.

17. Is there a requirement that the life assured be totally disabled for a period before they qualify for Partial Disability Benefits?

No. As the case with all Partners Life's Income Cover options, Mortgage Repayment Cover and Household Expenses Cover, there is no requirement the client be totally disabled for a period before they qualify for Partial Disability Benefits.

18. Are Partial Disability Benefits paid in advance or in arrears?

As is the case with other Partners Life disability products, all Partial Disability Benefits are also fully paid in advance. Consequently, there is no part-payment or bridging-payment required.

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19. What ancillary benefits are not included in Income and Expenses Cover?

Income And Expenses Cover is designed to provide a less costly alternative to Partners Life's Income Cover, Mortgage Repayment Cover and Household Expenses Cover and as a result, it does not include many of the built-in ancillary benefits provided under these products.

The following ancillary benefits are **NOT INCLUDED** in Income and Expenses Cover.

- Critical Illness Benefit
- Specific Injury Benefit
- Lump-sum TPD Benefit
- Childcare Assistance Benefit
- Death Benefit
- Return to Home Benefit

The following ancillary benefits **are included** in Income and Expenses Cover:

- Bed Confinement Benefit
- Return to Work Benefit
- Increasing Income Benefit

Also included, but at reduced benefit level are:

- Recovery Support Benefit (maximum of 6x the sum insured)
- Vocational Retraining and Rehabilitation Benefit (maximum of 3x sum insured to a max of \$10,000)

There are no optional benefits under Income and Expenses Cover.

20. Is Income and Expenses Cover and its disability benefits protected against inflation?

Income and Expenses Cover is automatically indexed. This means the sum insured will go up each year by the inflation rate. It also means disability benefits being paid on claim will go up each year by the inflation rate. Clients can always decline an indexing increase to their sum insured (and should do so if their income does not support the increased sum insured). Regardless of how many times clients decline annual indexing increases to their sum insured, disability claims paid will still be increased for inflation each year.

Indexing is crucial for ensuring client benefits are not eroded over time by the effects of inflation.

The minimum 5% indexing option is not available on Income and Expenses Cover.

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21. Do fixed payment terms, the 2-year and 5-year options, 'reset' for new disability?

Income and Expenses Cover does include the Fixed Payment Term Reset Benefit. Fixed Payment Terms (2 years or 5 years) reset in full for new disability. New disability is defined as disability, for previous or new causes, after the life assured has been back at full-time work for at least 12 months.

22. Can existing Partners Life Income Cover and Mortgage Repayment Cover clients, who want to reduce premiums, convert some or all, of their existing Income Cover, Mortgage Repayment Cover or Household Expenses Cover, to Income and Expenses Cover without underwriting?

Yes, and this is a big benefit because it allows clients to reduce benefits and premiums without the need for underwriting – they are not forever locked by poor health into an ever-increasing cost product.

Essentially, conversion to Income and Expenses Cover allows an affordability option for clients for whom the more generous Income Cover, Mortgage Repayment Cover or Household Expenses Cover, has become too costly.

Having an 'affordable' option for monthly disability cover, like conversion to Income and Expenses Cover, is a good reason to recommend Partners Life Income Cover, Mortgage Repayment Cover or Household Expenses Cover, because it allows future flexibility by conversion at some time in the future, without the underwriting risk that poor health might pose to an application for new cover (exclusions, loadings, or even complete decline and of course, non-disclosure risk).

This is naturally a good conservation tool for advisers too.