# Offsets and your insurance cover

Income Protection insurance can provide you with financial certainty if you’re unable to work due to illness or injury. If you understand how it works, including the circumstances where your insurer can reduce your benefit, you won’t be caught by surprise if you make a claim.

Many people have access to insurance through their superannuation. This is one of the ways superannuation funds help their members and customers protect their financial future. Insurance under superannuation typically covers Income Protection, Total and Permanent Disability and death.

Income protection is designed to provide you with a percentage of your salary (for example, 75%) if you become totally or partially disabled and you are unable to work in your usual occupation. Percentage of salary can vary based on your policy.

Income Protection policies typically have **offset clauses**. This means that the insurer can reduce the amount that they pay to you if you receive money from other sources. Offset clauses are designed to ensure that the total amount you are paid from all sources doesn’t exceed the amount that you are entitled to under the insurer’s policy.

### Understanding offsets

Offsets can be applied in a number of ways.

If you have multiple superannuation accounts or insurance that is held outside of superannuation, you may be entitled to benefits from more than one insurance policy. When this happens, an insurer may reduce the benefits they pay to you by the amount you are entitled to receive through the other insurance policies. If the amount that is offset exceeds the amount that you are entitled to under the insurer’s policy, no benefit will be paid.

Offset clauses can be used to reduce benefits when you are totally disabled, and unable to work at all, and when you are partially disabled and have returned to work in a reduced capacity.

If you become entitled to or receive other income, benefits or payments after you have already started receiving your income protection benefit, your insurer may recover any amounts that they would otherwise not have paid, or would have offset, for the relevant period.

### What can be offset from your income protection benefit?

The insurance policy will outline the sources of income which may cause your income protection benefits to be offset. These typically include:

* Payments made under other income protection / income replacement insurance policies
* Worker’s compensation payments for lost wages or income
* Payments made to you by your employer, including any sick or annual leave
* Allowances or other payments paid to you by your employer that you continue to receive after your income protection claim starts
* Payments made to you under any other insurance scheme or policy because you have lost income (this can include payments under mortgage or loan protection policies).
* Certain lump sum payments (for example, compensation payments)

### What can you do?

When you make a claim, you will need to tell the insurer about any claims or benefits/ payments that you receive or are entitled to receive from other sources. The income protection policy will describe the ways in which those payments might be offset against your benefit payment, which will reduce the total amount payable to you.

If you have multiple income protection policies, you may be able to receive benefits from more than one insurer if the combined total benefit is less than the amount you are insured for.

If you have more than one income protection policy or cover with different insurers you may want to consider whether you need multiple policies. If you need more cover, you may be able to increase the percentage of income covered and/or the duration of cover under your policy. If you require financial advice, please speak to your financial adviser.

## Offset examples

### Janice: Injury at work

Janice is a forklift driver who broke her leg in an accident at work and will require significant treatment and rehabilitation before she is able to return to work.

Janice is covered by the income protection insurance provided through her superannuation, which provides 75% of her salary while she is unable to work.

As the accident occurred at work, Janice also qualifies for workers’ compensation payments, which cover 100% of her salary. As the workers’ compensation payments are greater than her income protection benefit, Janice’s income protection benefit will be reduced to zero, and no payments will be made under the income protection policy.

### Andy: Serious illness

Andy has purchased an insurance policy outside of superannuation which includes income protection. It will pay him $3,000 per month if he becomes disabled. He is also covered by a policy through his superannuation for 75% of his salary or $5,000 per month.

Andy has been diagnosed with a serious illness that will leave him unable to work.

Andy’s income protection policies come into effect because he is unable to work. He receives $3,000 from his private insurance but, because of the offset rules under his superannuation policy, his benefit under his superannuation policy reduces to $2,000 per month.

*This kind of offset can happen if you hold insurance through another superannuation fund as well, which means that you’ve paid premiums for two policies but are only receiving the full benefit from one.*

### Anja: Motor Vehicle Accident

Anja was injured in a serious motor vehicle accident. She sustained several injuries, required surgery and a lengthy period off work. She has an income protection policy through her superannuation fund which has a 30-day waiting period.

Anja’s benefits commenced on 1 September, and her employer continued to pay her sick pay at her full rate of pay, until she ran out on 30 September. As Anja’s monthly benefit is 75% of her salary, and her sick leave payments are more than this, her first month’s benefit is reduced to zero.

### Margaret: Settlement payment

Margaret is 50 and has been on claim for a number of years as a result of a serious back injury she suffered at work. Her policy has an “age 65” benefit period with a monthly benefit of $5,000.

Margaret took her employer to court, and eventually arrived at a settlement, which included payment of a lump sum amount of $50,000 for her for lost earnings. Under the offset provisions of her income protection policy, her insurer is entitled to convert 1% of the lump sum payment to income, each month for the next 8 years. This means that her insurer will reduce her monthly benefit by $500 per month, and subject to any other offsets that might apply to reduce her benefit, she will receive $4,500 per month for the next 8 years.

*Payments for loss of income received as a lump sum can generally be converted to a monthly figure and offset for a certain period.*