

Document C-2  
Reference Product  
Individual Disability  
Income Insurance

IDI

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Disability Insurance Taskforce of the Actuaries Institute

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## About the authors

This document has been prepared by the Disability Insurance Taskforce of the Actuaries Institute (the Taskforce).

### Disclaimer

This paper is published by the Disability Insurance Taskforce for the purpose of providing information on its work on individual disability income insurance. The Disability Insurance Taskforce is comprised of a range of participants and stakeholders in the Individual Disability Income Insurance ecosystem. The work of the Disability Insurance Taskforce has been to establish guidelines for a sustainable ecosystem including the development of a Reference Product for Individual Disability Income Insurance. The work has been undertaken to promote better, more sustainable outcomes for both consumers and the industry. The Taskforce participants have shared knowledge on the basis that the outcome was of public benefit in advancing the debate of more sustainable product design.

## Acknowledgement of country

The Actuaries Institute acknowledges the traditional custodians of the lands and waters where we live and work, travel and trade. We pay our respect to the members of those communities, Elders past and present, and recognise and celebrate their continuing custodianship and culture.



## About the Actuaries Institute

The Actuaries Institute is the sole professional body for Actuaries in Australia. The Institute provides expert comment on public policy issues where there is uncertainty of future financial outcomes.

Actuaries have a reputation for a high level of technical financial expertise and integrity. They apply their risk management expertise to allocate capital efficiently, identify and mitigate emerging risks and to help maintain system integrity across multiple segments of the financial and other sectors. This unrivalled expertise enables the profession to comment on a wide range of issues including life insurance, health insurance, general insurance, climate change, retirement income policy, enterprise risk and prudential regulation, finance and investment and health financing.

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## Purpose of the IDII Product

Most working individuals are dependent on generating their regular income earned from their personal exertion to fund their life needs and wants, and to contribute to those of their family. The ability to earn such income typically represents a substantial asset of the individual and for many their largest single asset. A substantial risk in life is that an unanticipated disability results in the temporary or permanent loss of their ability to earn a significant amount of that regular income.

IDII provides insurance coverage to consumers to help them mitigate a substantial part of the net impact of this risk exposure, allowing them to contribute to society and lead a productive life with greater certainty and confidence.

The purpose of IDII is to provide financial support to customers in the event of a significant loss of earnings from personal exertion, due to their inability to earn their income as a result of a disability. In addition, where appropriate for the customer and as allowed by the law, it provides customers support to restore their working capacity, such as via medical rehabilitation and occupational retraining, to the extent practical.

To effectively support its purpose, IDII must be an attractive and valued product to the large majority of relevant consumers. This requires IDII to be reasonably affordable, to be understandable, to cater for a wide range of working constructs, and to deliver reliably the risk mitigation and impact support promised.

## Sound Product Design/Insurability Principles

- The event giving rise to a claim should be objectively identifiable, definable and measurable. The event should also occur by chance - that is, it should be beyond the control of the beneficiaries.
- The customer's net financial loss on the occurrence of the event should be measurable and definable.
- The insured benefit payment should not exceed the net financial loss suffered, after allowing for other sources of financial compensation and/or support.
- Benefits should not provide disincentives to return to work, either initially or over time. A customer should not be financially better off while on claim. This helps provide an incentive for customers to return to work and for the cover to support those in need.

# 1 Reference Product Concept and Design

This document sets out details of an IDII Reference Product, to be used in conjunction with the Sustainability Guide also prepared by the Taskforce.

The Reference Product has been designed to:

- meet the fundamental needs of a customer who wants financial protection against significant loss of income as a result of disability, pending return to work;
- be reasonably easy to understand, notwithstanding the inherent complexity of disability;
- have premium rates that are reasonably affordable over the course of the policy; and
- follow sound product design and insurability principles (see prior page). Note that the first of these principles poses a particular challenge for IDII.

It is expected that the Reference Product, were it to be offered as a retail product, would be seen by consumers as a reasonable product at a reasonable price, with reasonably stable and sustainable outcomes for both customers and insurance companies.

This said, the reason for publishing a Reference Product is not to prescribe a standard product, nor to limit insurers to one single product design. Rather, the intention is to provide a reference point to help senior management, Boards and regulators assess the level of risk and uncertainty, for both customers and insurance companies, in the products insurers issue.

Any significant difference in an insurer's product from the Reference Product is expected to be subject to rigorous assessment to meet minimum requirements by CROs, Appointed Actuaries, Product Managers and CEOs.

The Reference Product will not address all issues that the Taskforce believes are needed to achieve appropriate ongoing community outcomes, and is only one element of a range of proposals from the Taskforce.

## 1.1 Key Background Points

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The Taskforce has adopted a consumer lens in this work.

It is acknowledged that there is a wide range of views on what should be included in a Reference Product, and that the end result cannot and does not reflect the many preferences of all the various stakeholders in the IDII ecosystem. The Reference Product needs to balance a product that consumers could understand, value and purchase; that advisors could recommend; and that could support the principle of indemnity throughout the contract.

The Reference Product needs to be robust and contain sufficient risk mitigation controls to ensure benefits are paid only when reasonably justified by the true level of disability. At the same time, it needs to be understandable and liberal enough that it would be attractive to consumers and therefore a marketable product. For example, the maximum benefit reflected in the Reference Product is lower than is commonly available in the market today; however, it is comparable with that offered in overseas markets.

The Reference Product needs to be considered as a whole. The merits of restrictions/limitations need to be assessed in the context of the overall Reference Product construct and the interests of customers as a whole.

The Reference Product should be reviewed on a regular basis, with these reviews supported by ongoing research on developing market practices, claims experience and customer insights.

Last but not least, the Reference Product deals with a number of key elements of an IDII product. In formulating the Reference Product, a principles-based approach has been adopted. The Reference Product does not attempt, and does not address all aspects of an IDII product, nor does it address all details with respect to the matters it does address.

In a number of places in this document an indicative policy wording approach has been used to help explain or describe a concept or the general intention of the Reference Product. This indicative policy wording is not intended to be, and does not represent, suggested actual PDS or policy wording or any form of legal advice as to what may constitute appropriate actual PDS or policy wording. It is provided only to help expand on intended concepts, principles and intentions. Insurers and others should seek their own legal advice on the wording and construct of any PDS, policy document, marketing material or other similar material they will adopt in practice in promoting, describing or issuing any product.

## 1.2 Overarching Philosophies

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- The Reference Product is an indemnity contract, designed using sound product design and insurability principles, applicable both at inception and over the duration of the policy.
- Under the Reference Product, the primary purpose of the insurance cover is to support the customer to return to work (RTW) and/or engage in work to the extent reasonable while supporting their well-being. It is also intended to help shift the focus of interaction between customer and insurer from the customer proving 'how disabled they are' to a collaborative effort to support the customer's return to work. It is acknowledged that for some disabilities, for example severe or degenerative disabilities, RTW and longer-term engagement in work may not be a practical outcome.
- In addition to income support, actual unanticipated expenses incurred can be reimbursed where consistent with the RTW objective. Other than this, there are minimal ancillary benefits in the Reference Product.
- Insurers should be able to update terms and conditions over time so that the product remains contemporary and responds to evolving society needs, for the benefit of customers.
- The Reference Product is intended to support longer term product affordability.

## 1.3 Key Product Elements

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### 1.3.1 Total Disability Definition<sup>1</sup>

**First two Years of disability:** Unable to perform the customer's 'Own Occupation'.

**Beyond two Years:** Unable to perform work in any occupation for which the customer is reasonably suited by education, training or experience (i.e. an Education, Training or Experience, or 'ETE', occupation definition).

**All Periods:** The customer is required to comply with the insurer's and health professionals' reasonable requests to participate in rehabilitation and/or retraining. Reasonable job modification is expected if it will assist RTW. Refer to the commentary on Recovery Management Plan in section 1.3.14 for more details.

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<sup>1</sup> See indicative definition in section 2.1 for more detail.

**Excluded:** The above definition is different from the current common 'three-tiered' definition and does not include hours-based and income-based definitions. The definitional focus on inability to perform work means benefits are not paid simply because appropriate work is not available in a particular location – that is, cover is not provided against unemployment per se. Retraining is specifically designed to facilitate appropriate RTW.

### 1.3.2 Basic Sum Insured – Income Replacement Ratio (IRR)

**Long Term:** The long-term maximum IRR is calculated as follows (in 2021 dollars):

- 60% up to \$240,000 p.a. income;
- 40% of the next \$240,000 p.a. income, and
- 20% of the next \$480,000 p.a. income (nil thereafter).

Note definition of insurable income on page eight.

**Superannuation:** Superannuation Guarantee contributions can be insured in addition to the long-term IRR but claim payments are to be paid directly into a complying superannuation fund (not paid in cash to the customer).

**Six Month Top Up:** An additional 25 per cent of the long-term IRR scale (e.g. 60% x 1.25 = 75% up to \$240,000 p.a. income) can be payable for a maximum period of 6 months. This supplement is to be payable only if:

- the customer is meeting RTW objectives; and
- they reported the claim within 12 months of the date the disability was incurred.

**\$ payment: Total Disability Benefit = Monthly Benefit Amount less Offsets Amount.**

### 1.3.3 Partial Disability<sup>2</sup>

**Definition:** The customer has reduced work capacity due to injury or sickness.

**Eligible:** When the customer:

- suffers a 20% reduction in their 'personal income' (see section 1.3.5) due to reduced capacity to work; AND
- has less than 80% capacity to work; AND
- is not capable of working 32 hours or more of work per week.

**Benefit Ceases:** When the customer has 80% or more capacity to work OR if the customer is capable of working 32 hours or more of work per week.

**\$ Payment: Partial Disability Benefit = Total Disability Benefit (less offsets) less 75% x Current Monthly Income while partially disabled.**

### 1.3.4 Waiting Period

A choice of waiting periods is available, with a minimum and maximum period of 30 and 180 days applying.

No Total Disability or Partial Disability benefit is payable during the waiting period.

Any days or parts of days worked during the waiting period are added to the nominal waiting period (i.e. the waiting period reflects the total days of equivalent time off work that must elapse before any benefits are payable).

The waiting period may not be extended more than 100% from added days (or parts of days) worked.

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<sup>2</sup> See indicative definition in section 2.1 for more detail.

That is, the effective number of days of time off work (or fraction of days) must be completed within a continuous period not exceeding two times the nominal policy waiting period. Until this is achieved, the waiting period is not completed.

If the Insured Person returns to work in other than a partial capacity for more than five consecutive business days during the waiting period, the person's accumulated eligible time off work is reset to zero.

### 1.3.5 Insurable Income Concepts<sup>3</sup>

There are three types of income for this purpose: Personal Income, Unaffected Business Income and Passive Income. Unless stated otherwise, they are before tax amounts.

- **Personal Income:** Income from personal exertion from the customer's main occupation. For self-employed customers, Personal Income means income earned in the conduct of the business that will cease in the event of the insured becoming unable to work in the business because of disability, and excludes any Unaffected Business Income which continues post disability.
- **Unaffected Business Income:** The customer's share of income and profit that continues in the event of the customer being unable to work in the business because of disability. This includes changes in such income from changes in the business when assessed post disability. This is not insurable.
- **Passive Income:** Income received that is not dependent on personal exertion. This is not insurable.

The existence of **Unaffected Business Income** and material **Passive Income** reduces insurable and claimable amounts.

**Income Period:** Pre disability income is assessed over the previous 12 months.

Where **Personal Income** is historically subject to variation, a different period for averaging will be considered, but it must be 'unbiased' (e.g. it will not be higher of averages over two different periods).

**Personal Income** must reflect a maximum of 40 hours of work per week (consistent with claim payments).

**Atypical Personal Income:** Infrequent or atypical amounts are excluded. For example, variable annual bonuses should only be counted where there is a genuine history of their payment but not exceeding a reasonable, modest limit (e.g. 20% of regular income).

### 1.3.6 Insurable Benefit

The maximum insurable benefit is based on total income less income that continues post disability. That is:

- Apply the IRR Scale to the total of Personal Income, Unaffected Business Income and Passive Income.
- Deduct Unaffected Business Income and Passive Income.

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<sup>3</sup> See indicative definition in section 2.2 for more detail.



Insurable Benefit Example				
	Example 1	Example 2	Example 3	Example 4
Personal Income	\$150,000	\$150,000	\$150,000	\$100,000
Unaffected Business Income	\$0	\$50,000	\$50,000	\$0
Passive income	\$0	\$0	\$100,000	\$250,000
Total Income	\$150,000	\$200,000	\$300,000	\$350,000
IRR Scale on Total Income	\$90,000	\$120,000	\$168,000	\$188,000
Less UBI, Less PI	\$0	-\$50,000	-\$150,000	-\$250,000
Insurable Benefit p.a.	\$90,000	\$70,000	\$18,000	\$0
Insurable Benefit p.m.	\$7,500	\$5,833	\$1,500	\$0
Effective IRR	60%	47%	12%	0%

### 1.3.7 Benefit Offsets and Income Tax<sup>4</sup>

**Tax:** Where practical and subject to ATO practices, the insurer will deduct PAYG tax from the benefit and pay a net amount to the customer. Where this is not possible, the insurer may pay the benefit gross of tax to the customer and inform the ATO of this payment.

**Offsets:** To the extent permitted by law, any benefit payable will be comprehensively reduced for the effect of other benefits the customer is entitled to in respect of disability. These include sick leave, workers compensation, other similar income replacement insurance payments, consumer credit insurance benefits, disability support pension or other social security payments<sup>5</sup>.

### 1.3.8 Indexation

**Benefit Indexation:** No automatic indexing of cover is provided. Increasing cover option may be provided, subject to evidence of insurability of the increased cover being provided by the customer.

**Claims Indexation:** No automatic indexing of claim payments. An option for indexation of claims payments may be purchased, with the indexation limited to CPI.

### 1.3.9 Parental Leave, Sabbatical, Long Service and Unemployment Adjustments

**Occupation Definition:** Eligibility for the 'own occupation' provisions of the total disability and partial disability definitions (i.e. for the first 2 years of disability) only apply for the first 6 months while the customer is unemployed, on parental leave, on long service leave or on sabbatical.

Once the customer has been on leave or unemployed for more than 6 months, all claim eligibility and payments are based on the ETE definition (i.e. any occupation ETE applies from 6 months on leave/unemployed).

**Cover Suspension:** Benefits are suspended after the customer has been on leave/unemployed for 12 months until the customer returns to regular employment.

### 1.3.10 Benefit Periods

A range of benefit periods are available under the Reference Product, up to a maximum Benefit Period of 'to age 60'.

<sup>4</sup> See offset amounts in section 2.3 for more detail.

<sup>5</sup> It is noted that under current law it is not possible to offset government social security entitlements as these themselves are reduced for insurance benefits. Such offset in the policy document would currently be non-functional and should not be applied by insurers in practice. Nonetheless, it is proposed that allowance for such reduction is included in policy documents to allow for future changes in law that may arise (as it could not be added in post policy issue unless the policy has a reliable unilateral right of variation if tax or social security laws change in future).

### 1.3.11 Exclusions

The Reference Product includes standard living benefit product exclusions such as in respect of disability, sickness or injury caused directly or indirectly by self-inflicted act, war or act of war, normal or uncomplicated pregnancy or childbirth, or voluntary elective surgery or treatment (within 6 months of policy commencement, etc).

It also excludes any claim that arises from participation in criminal activity or disability that arises directly or indirectly from the consequences of a criminal conviction (e.g. anxiety or stress as a result of a criminal conviction).

### 1.3.12 Financial Information and Pastimes (Income, Cover, Occupation, Pastimes)

**Income and sum insured:** The Reference Product is a comprehensive indemnity contract, with benefit amounts limited to those supported by current pre-disability income and current unaffected business income and passive income amounts (i.e. based on the maximum income replacement ratios as set out above applied to the customer's current pre-disability income, unaffected business income and passive income, not these income amounts at policy inception).

At each policy anniversary, the customer is requested to confirm that their previously chosen sum insured continues to be supported by their current income amounts (as set out above). This helps ensure that they are not paying for cover they are no longer entitled to (e.g. because their personal income has reduced significantly). It would also indicate if they could be under-insured because their personal income has increased significantly since the last renewal. For various reasons, in practice, some customers may not actually provide such updates. However, as explained in section 2.3, in the event of a claim the benefit payable will reflect the customer's actual pre-disability income if it has fallen since policy inception, and the impact of changes in Unaffected Business Income and Passive Income.

**Pastimes and occupations:** The occupation used for claims assessment, disability and benefit entitlements is the occupation being pursued at the time of disability (not the occupation at the time of policy inception). This is consistent with the ongoing indemnity nature of the Reference Product.

At each policy anniversary, the customer will be asked to reconfirm their pursuits/pastimes and occupation. This allows the insurer to make an up to date risk assessment of the customer, reflecting current information. For various reasons, in practice, some customers may not actually provide such updates. However, claims arising as a result of injuries or sickness from regular engagement in pastimes or occupations associated with higher risk of injuries or sickness may not be covered (or cover amounts will be appropriately reduced) unless these have been disclosed and accepted by the insurer prior to the relevant event occurring.

**Premiums:** The annual premium payable under the policy will be based on the current sum insured, occupation and pastimes as requested by the insurer and last advised and confirmed by the customer. The insurer may include some mechanism in their product to encourage customers to positively update and confirm this information when requested by the insurer from time to time (such as a meaningful premium discount for customers that provide positive affirmation, actual or imputed, or information update).

### 1.3.13 Updating Contract Terms at Regular Intervals<sup>6</sup>

**Product Terms:** The insurer has the ability to modify or update the substantive policy terms and conditions at least every five years.

**Renewal/rollover option:** Terms include appropriate and reasonable protections for customers at the time of such modification and update, including:

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<sup>6</sup> There may be challenges in implementing this feature of the Reference Product under the current legislative framework.

- availability of replacement or continuing cover (under the updated/modified terms) without requiring new evidence of health; and
- the customer being treated fairly at the time of any update/modification of financial information and pastimes required at renewal as set out above.

### 1.3.14 Recovery Management Plan, Rehabilitation, Retraining<sup>7</sup>

Where reasonable, the insurer will prepare a recovery management plan for a disabled customer's recovery, including reasonable rehabilitation and retraining steps. This is to aid in the customer's recovery (where possible) from the injury or illness causing impairment and to support the maintenance and/or restoration of work capacity (where possible).

The customer is expected to actively participate in their recovery management plan, and any rehabilitation and retraining (where reasonable), subject to these being consistent with medical advice.

### 1.3.15 Ancillary Benefits

Ancillary benefits are limited in order to maintain simplicity and insurable interest. Where ancillary benefits are offered, they relate to an expense incurred or a need. For example:

**Premium waiver:** When receiving benefits.

**Reimbursement of Costs:** Unexpected costs incurred as a result of the cause of disability (e.g. medical and rehabilitation costs) may be covered.

**Other:** None.

### 1.3.16 Coverage for all Causes of Claims

Under the Reference Product, cover is provided for loss of income due to physical or mental injury or illness, as long as the customer meets the definition of disablement and other policy terms.

There are no exclusions or limitations in respect of any particular injury or illness (other than as addressed under the Exclusions section above).

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<sup>7</sup> See section 2 Technical Matters for more details

# 2 Technical Matters

## 2.1 Indicative Total and Partial Disability Definitions

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### Total Disability Definition

Solely because of *sickness* or *injury*:

- you are not working and you do not have *work capacity* for *suitable work*; and
- you are under the regular care and following the advice of a *medical practitioner* in relation to that *sickness* or *injury*; and
- you are meeting your *recovery management plan obligations*.

### Partial Disability Definition

Solely because of *sickness* or *injury*:

- you are working to your full *work capacity* [as per your level of disability] for less than 32 hours per week in *suitable work*; and
- your *current monthly income* is less than 80% of your *pre-disability earnings*; and
- you are under the regular care and following the advice of a *medical practitioner* in relation to that *sickness* or *injury*; and
- you are meeting your *recovery management plan* obligations.

If you are working but not to your full *work capacity*, then your partial disability benefit will be calculated allowing for your *work capacity* and not your actual hours worked.

### Suitable Work

**Suitable work** means:

- in the first two years from the date of disability, your regular occupation;
- after the first two years from the date of disability, any occupation for which you are reasonably suited by way of education, training or experience.

Your regular occupation is the occupation in which you were engaged at the date of your disability.

In performing this assessment of *suitable work*, we will have regard to:

- the nature of your incapacity;
- your education, skills and work experience;
- any plan or document prepared as part of your recovery management plan;
- any reasonable job modification;
- any occupational rehabilitation or retraining services that are being, or have been, provided to you; and
- any other relevant matters.

In performing this assessment, we will not take into consideration any expectations or demands to work more than 40 hours per week (i.e. our assessment will have regard to your capacity to perform suitable work for up to 40 hours per week, and not the physical and mental demands or expectations

of working greater hours than 40 hours per week).

*[Note: IDII is not unemployment cover. Therefore, if a person is fit to return to work but there is no employment available for their original occupation, disability income benefits are not payable.]*

## Work Capacity

A **Work Capacity** determination reflects a professional assessment made by us about your capacity to work in suitable work, and may involve you engaging in a *work capacity* assessment. A *work capacity* determination may affect your entitlement to total or partial disability benefits.

In assessing your ability or inability to perform *suitable work*, the assessment will have regard to:

- the typical weekly hours you work in your *regular occupation*, which we will assess based on your working status over the twelve months immediately prior to the date of your disability, however, in no case will we consider or assess you relative to a working status involving more than 40 hours per week (i.e. we will not assess inability to work beyond standard full-time working hours); and
- to what level you can engage in your *suitable work* to earn income without substantial risk of exacerbating your *sickness* or *injury*.

## 2.2 Indicative Definition of Insurable Income

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### Monthly Income

If you are an employee, **Monthly Income** is the gross monthly income earned by way of remuneration package. This can include salary, regular overtime, commissions, bonus payments, salary sacrifice amounts and fringe benefits.

If you are self-employed or a working director, *monthly income* is your share of the gross monthly income earned in the conduct of the business less your share of the business expenses necessarily incurred in generating that income.

**Monthly income** excludes:

- any superannuation guarantee contribution amounts paid by you or on your behalf;
- any element of *passive income* reflected in your earnings; and
- any element of *unaffected business income*.

*[Note: Monthly income is equivalent to Personal Income referred to under the Insurable Income Concepts above].*

### Passive Income

**Passive Income** is income which you receive that is not income earned from working or from the conduct of a business. *Passive income* includes income such as interest, dividend or rent, other investment income or capital gains, ongoing contractual royalties or annuities, or other similar recurrent income.

### Unaffected Business Income

**Unaffected Business Income** is your share of the net income (revenue less expenses) which you receive or are entitled to receive from your current or former business activities, including related business entities, that can be maintained irrespective of your disability (e.g. net business income earned above the cost of a locum to replace your product or service delivery role in your business).

Where expenses include discretionary items, such as superannuation contributions greater than the legislated Superannuation Guarantee (SG) contribution percentage of post disability income applicable at the time of claim, such expenses will be excluded (added back) to the *unaffected business income*.

Where you receive any lump sum payments related to your current business or a former business (e.g. from the sale of a business), these will be converted to a monthly income equivalent (i.e. the monthly income equivalent that would be generated by that lump sum amount, over a reasonable period of time) and that monthly income amount will be treated as if it is *unaffected business income* for the purposes of this definition and the definition of *monthly income* above.

## Insurable Monthly Income

Your **Insurable Monthly Income** is based on your *monthly income* adjusted as follows:

- Where your *monthly income* is derived based on you working more than 40 hours a week, we will reduce your *monthly income* in proportion to a 40 hour week to derive your insurable monthly income (i.e. you cannot insure your income beyond what you can reasonably earn within a 40 hour week).
- We will also adjust your *monthly income* for single large amounts or amounts that are not reliably recurrent in nature (i.e. you cannot insure short-term, above-normal income as if it is normal income to be expected over the longer-term future). This means that large, unusual amounts of bonuses, redundancy payments, over-time, one-off transaction fees or income, will be excluded.

## Pre-disability Earnings

**Pre-disability Earnings** are your average *insurable monthly income*, for the consecutive 12-month period immediately preceding the date of your disability.

If the previous 12-month period includes parental leave, sabbatical or long service leave, or a period of unemployment, or you become disabled while on parental leave, sabbatical or long service leave, or while temporarily unemployed, then *pre-disability earnings* will be based on your average *insurable monthly income* during the 12 months before the period of leave or unemployment commenced.

Where the determination of your income is subject to some complexity, for example you are self-employed and not earning a readily identifiable monthly salary or wage amount, we may assess your *insurable monthly income* based on your last lodged tax return (consistent with ATO normal specified time frames) with appropriate adjustments for *unaffected business income* and *passive income*, provided that return was within 12 months of your date of disability and related to a period of income ending no more than 24 months before your date of disability. In assessing your *unaffected business income* component for this purpose, we may consider your recent actual *unaffected business income* as evidence of your historic *unaffected business income*.

Where your income is subject to material monthly or seasonal variation, we may choose, acting reasonably, to use a longer assessment period, up to 36 months, to assess your average *insurable monthly income*.

## Current Monthly Income

Your **Current Monthly Income** is the greater of :

- your actual *monthly income* for the relevant month; and
- the amount we have assessed you are capable of earning monthly based on our *work capacity* determination.

## Current Passive Income

**Current Passive Income** means your average monthly *passive income* during the 12 months prior to calculation of a monthly benefit amount.

## Current Unaffected Business Income

**Current Unaffected Business Income** means your monthly *unaffected business income* applicable to the month of claim.

## 2.3 Benefit Amount

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### Monthly Benefit Amount

While you are *totally disabled*, your **Monthly Benefit Amount** is the lesser of:

- your *insured monthly benefit amount*; and
- your *eligible monthly benefit amount*.

Your *insured monthly benefit amount* is the amount identified in the Policy Schedule.

Note: *insured monthly benefit amount* was subject to a maximum of:

- 60% of the first \$20,000 p.m. of the sum of (*insurable monthly income* plus *unaffected business income* plus *passive income*); plus
- 40% of next \$20,000 p.m. of the sum of (*insurable monthly income* plus *unaffected business income* plus *passive income*); plus
- 20% of next \$40,000 p.m. of the sum of (*insurable monthly income* plus *unaffected business income* plus *passive income*) (and nil thereafter); less
- *unaffected business income*; less
- *passive income*.

Your *eligible monthly benefit amount* is calculated as:

- 60% of the first \$20,000 p.m. of the sum of (*pre-disability earnings* plus *current unaffected business income* plus *current passive income*); plus
- 40% of next \$20,000 p.m. of the sum of (*pre-disability earnings* plus *current unaffected business income* plus *current passive income*); plus
- 20% of next \$40,000 p.m. of the sum of (*pre-disability earnings* plus *current unaffected business income* plus *current passive income*) (and nil thereafter); less
- *current unaffected business income*; less
- *current passive income*.

### Monthly Partial Benefit Amount

While you are *partially disabled*, your **Monthly Partial Benefit Amount** is calculated as your *monthly benefit amount* (as if you were totally disabled) less 75% of your *current monthly income*.

### Offsets Amounts

We will reduce any *monthly benefit amount* or *monthly partial benefit amount* we pay you by amounts you receive or are entitled to receive from the following sources:

- sick leave;
- workers compensation or motor accident compensation or compensation under common law relating to sickness or injury;
- any other similar income replacement insurance or consumer credit insurance payments; and
- any social security benefits to the extent that we are permitted to do so by law.

Where you receive a lump sum disability insurance payment, such as a total and permanent disability insurance benefit, that you insured subsequent to the date we issued you this disability income policy, we may also reduce your *monthly benefit amount* or *monthly partial benefit amount* by the monthly income equivalent that would be generated by that lump sum amount.

## 2.4 Recovery Management Plan and Customer Obligations

When a benefit is being paid to a customer, the insurer will establish a **Recovery Management Plan** in consultation with the customer, their relevant medical practitioner and their employer (if applicable) that is appropriate to the customer's condition.

A *recovery management plan* is a plan for co-ordinating and managing those aspects of injury/sickness management that concern the customer's treatment, rehabilitation, retraining and maintenance and/or restoration of work capacity, for the purpose of assisting the customer in achieving a timely, safe and durable return to work outcome. A *recovery management plan* can provide for the rehabilitation and retraining to be given or provided to the customer. The *recovery management plan* aims to assist the customer in their recovery and incorporates the responsibilities and obligations of all stakeholders appropriately involved in the plan.

Reasonable job modification may be involved when considering work capacity.

The customer is expected to:

- actively participate and co-operate in the establishment of a *recovery management plan* established with them; and
- comply with the reasonable obligations imposed on the customer under their *recovery management plan*.

Where circumstances are such that a restoration of work capacity that could allow for a return to work is unlikely, for example in the case of permanent, severe or degenerative injuries or illnesses causing impairment and reduced work capacity and return to work, a *recovery management plan* focused on increasing work capacity and return to work may not be appropriate. Nonetheless, the insurer may request the customer engage in a programme to support their well-being or slow deterioration of existing work capacity which will be deemed a *recovery management plan* for the purposes of this policy.







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