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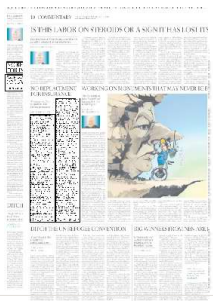

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NO REPLACEMENT FOR INSURANCE

The scheme offers support but not income protection

JOHN BROGDEN

THE DisabilityCare scheme is an important policy — supported by the life insurance industry — to provide the disabled with the support they need. But it is important to note it is not, and will never be, an insurance scheme.

For our own protection, we need to understand what the scheme does and doesn't cover and not see it as a substitute for taking out insurance to cover income loss.

DisabilityCare Australia is not the equivalent of income protection insurance or total and permanent disability insurance. The proposed scheme covers only the basic costs of care for those disabled from birth or as a result of an accident. It does not cover the cost of daily living expenses.

This is not a criticism of DisabilityCare which is a massive step forward that will assist many Australians. But it will not provide a substitute income for those left unable to work.

TPD insurance typically pays a lump sum if you become disabled and can't work again. In 2008, the Australian Institute of Superannuation Trustees found that about 71 per cent of its superannuation fund members had TPD cover. However, the level of coverage is too low to meet ordinary wage earners' daily expenses. Based on current median levels of cover for total and permanent disability, the level of underinsurance is an extraordinary $8 trillion nationally and, for income protection alone, $600 billion.

Income protection insurance provides a replacement income for those who are temporarily unable to work because of sickness or injury. The replacement income can be up to three-quarters of current income and can be for short or long periods, generally after a waiting period.

Australians already chronically underinsure their lives. The fact that DisabilityCare will be funded through a levy which appears in tax returns heightens the risk that individuals will see themselves as covered for accidents that affect their income. This is not the case.

It is also concerning given the number of people who will be affected by accidents or illness each year. The 2008 Household Income and Labour Dynamics Australia Survey found that more than 235,000 working-age people, living as members of a couple with dependent children, had suffered a serious injury or illness in the previous 12 months. The same survey found that more than 17,000 employed people who were living as members of a couple with children were unable to continue working due to illness, disability or injury over the previous year. The chances of an accident, sickness or death affecting a family emphasise the need for adequate personal insurance.

The level of permanent and temporary disability underinsurance costs the Australian government nearly $1.5bn a year.

DisabilityCare will have almost no impact on this, as the majority of this cost is from income and other social-security payments.

Life and income protection insurance is a social good which should be supported by federal and state governments and anything that reduces the uptake needs to be removed.

The taxation of life insurance products is complicated and inconsistent for each state and territory adding to the cost of providing these products, driving up the price and contributing to underinsurance.

Implementing DisabilityCare is a good opportunity for the federal government to work with the states and territories to create a uniform, national taxation regime for all life insurance products. The Financial Services Council has already proposed the government co-fund an awareness campaign for underinsurance in Australia. The implementation of DisabilityCare and the associated risks of exacerbating Australia's underinsurance problem now makes such a campaign critical.

John Brogden is chief executive of the Financial Services Council.