

Income Protection

**Product guide
for advisers**

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Introduction

This Product Guide will help you understand the important enhancements we've made to our Income Protection products and how they benefit your customers, and provides a general refresher about how our products work.

If you have any questions, please contact your Business Manager or Business Account Manager.

Our IP products

Fidelity Life offers comprehensive protection including Life, Income Protection, Trauma and Total and Permanent Disability. Our Income Protection products are available under the following three product suites:

Platinum Plus (Yearly Renewable Term: YRT)

Yearly renewable premiums are fixed for one year at a time and will normally increase in line with age.

Income protection covers include:

- Income Protection Cover – Indemnity Value
- Income Protection Cover – Agreed Value
- Rural Key Person Cover
- Key Person Cover
- Business Expenses Cover

Platinum Plus (Level Term)

Level term premiums are fixed for the period selected¹.

Income protection covers include:

- Level Term Income Protection Cover – Indemnity Value
- Level Term Income Protection Cover – Agreed Value
- Rural Key Person Cover

Mortgage Protector (Yearly Renewable Term: YRT)

Yearly renewable premiums are fixed for one year at a time and will normally increase in line with age.

Income protection covers include:

- Income Protection Top-Up Cover – Indemnity Value
- Income Protection Top-Up Cover – Agreed Value
- Monthly Mortgage Repayment Cover
- Redundancy Cover

¹ Subject to tax and regulatory changes that are out of our control.

What's new?

Income Protection is ready for lift-off. We've added three great enhancements to power up our competitiveness and ensure we always meet your customers' needs.

These enhancements apply to Platinum Plus, Platinum Plus Level Term and Mortgage Protector, and will come into effect for most existing¹ and all new policies from 14 March 2018.

3

Total and Partial Disability Benefit waiting period.

Enhancement

The requirement that the insured person must be totally disabled for the first 14 days of their waiting period will be removed. The waiting period will now start from the date the insured person receives proper medical advice from a medical practitioner that they are unable to work due to total disability or need to reduce their hours of work due to a partial disability.

Benefits

Total Disability Benefit
Partial Disability Benefit

Covers

- Income Protection Cover – Indemnity Value
- Income Protection Cover – Agreed Value
- Rural Key Person Cover
- Key Person Cover
- Business Expenses Cover
- Monthly Mortgage Repayment Cover
- Income Protection Top-Up Cover – Indemnity Value
- Income Protection Top-Up Cover – Agreed Value

¹ Existing policies are Platinum Plus, Platinum Plus Level Term, Mortgage Protector, Lumley and Protection plan policies sold on or after 1 April 2001.

2

Total Disability Benefit.

Enhancement

The Total Disability Benefit will now be paid fully in advance. This means that if the insured person meets the requirements for a claim, we will pay 100% of their eligible benefit at the end of their waiting period and will continue to pay in advance while they remain totally disabled.

Benefits

Total Disability Benefit

Covers

- Income Protection Cover – Indemnity Value
- Income Protection Cover – Agreed Value
- Rural Key Person Cover
- Monthly Mortgage Repayment Cover
- Income Protection Top-Up Cover – Indemnity Value
- Income Protection Top-Up Cover – Agreed Value

1

Agreed Value replacement ratio.

Enhancement

The replacement ratio for new policies is being changed to a tiered approach where the customer's income is split depending on how much they earn. Each portion is calculated according to the relevant percentage and then added together to their total sum insured.

Benefits

Income Protection Cover – Agreed Value
Income Protection Top-Up Cover – Agreed Value

New replacement ratio calculation

Income	%
\$70,000 or less	62.5%
\$70,001 to \$100,000 (inclusive)	60%
\$100,001 to \$320,000 (inclusive)	55%
\$320,001 to \$440,000 (inclusive)	35%
\$440,001 or more	20% of any additional income

The benefits of Fidelity Life Income Protection

There are eight key reasons why you should recommend Fidelity Life Income Protection to your customers:

Feature

1. Unique income offset

2. Unique quarterly claim payments increases

3. Unique support beyond retirement

4. Comprehensive and flexible

5. Fixed premium certainty

6. Business continuity for the self-employed

7. Support for unexpected complications during pregnancy

8. Benefit certainty for indemnity cover claims

Key message

Customer benefits

Fidelity Life Personal Income Protection (Agreed Value and Indemnity Value) is the only product in the market which allows customers to keep working up to 10 hours per week, if they need to, without affecting their monthly benefit payment. This allows them to focus on recovery and returning to work faster.

Some people – especially the self-employed – find it hard to fully step away from work, even if they are totally disabled. Fidelity Life allows customers to keep working up to 10 hours per week, if they need to, without affecting their monthly benefit payment.

This means they continue to receive their monthly benefit (less any benefits received from ACC or other insurance company) as well as their income from working. If they are able to return to work for more than 10 hours per week and are earning less than 25% of their pre-disability income, Fidelity Life will consider there to be nil earned income when calculating a partial disability entitlement.

Fidelity Life is the only provider to offer a Claims Escalation Option which increases claim payments on a quarterly (as opposed to annual) basis to protect your customers against rising inflation.

Fidelity Life's Claims Escalation Option ensures your customer's monthly benefit continues to keep up with inflation by linking it to the Consumer Price Index every quarter, rather than annually. This means that claims lasting less than a full year can still be protected against rising inflation costs (in return for an additional premium).

Fidelity Life is the only provider to offer an Extended Benefit Option which continues to pay a claim beyond retirement if your customer has a severe disability which lasts beyond retirement age.

Sometimes your customer's disability will last beyond retirement. While they no longer face the risk of not being able to work, this can result in additional unforeseen costs, such as nursing care or home help, which typically need to be funded out of retirement savings. While some support can be provided by the Government, this is not guaranteed.

To protect them against this risk, we offer an Extended Benefit Option (in return for an additional premium). This ensures that, if they are on claim for at least three months prior to age 65 and their disability leaves them unable to undertake two or more activities of daily living without assistance (for example dressing, bathing or eating), Fidelity Life will continue to pay their claim until they recover or die.

Fidelity Life's comprehensive Income Protection product provides a range of flexible options which allow you to tailor the policy to your customers' individual needs and budget.

Fidelity Life's comprehensive Income Protection product provides a range of built-in and optional benefits which provide you with the flexibility to tailor the policy to your customers' individual needs. Whatever their needs and budget – whether they simply want to cover their income, or consider more comprehensive covers such as continuing their benefit beyond retirement – we've got your customers covered.

A feature that is not widely available in the market, Fidelity Life offers a level term premium option, giving your customers certainty their premium won't increase as their age increases, even allowing for inflation protection¹.

With Fidelity Life's level term premium option, customers can be certain their premium is actually level – their premium won't increase as their age increases, even when indexation has been selected, making it ideal for customers with fixed budgets.

With self-employed customers, Fidelity Life Income Protection allows them to direct their monthly benefit towards hiring a replacement to continue running their business while they can't.

Fidelity Life provides your customers with the flexibility to direct their monthly benefit towards employing someone to continue running their business, and minimise the impact of being unable to work.

Fidelity Life Income Protection will consider claims for unexpected complications during pregnancy.

We understand that not every pregnancy is the same and some women are unable to work due to unexpected complications. If your customer is hospitalised with unexpected complications, such as Hyperemesis gravidarum, then we may consider a claim.

Fidelity Life Income Protection pays the first six months' benefit of an indemnity cover claim as agreed value, proving certainty about how much your customers receive.

For an indemnity cover claim, if your customer provided financial evidence at the start of their policy in support of their monthly benefit, then the first six months of their claim will be assessed as agreed value.

This means that at the time of claim, your customer does not have to worry about providing us with financial evidence when they are dealing with a disability. This also benefits customers who have had a drop in income and not reduced their benefit to match, because Fidelity Life will pay the higher amount for the first six months of their claim.

¹ Subject to tax and regulatory changes that are out of our control.

Core benefits

In addition to protecting your customer's income if they are unable to work due to illness or injury, Fidelity Life includes the following core benefits for **no additional premium**:

Benefit	How it works
Family Member Support	This pays an additional benefit if the customer's spouse, partner or child stops work to provide required full-time care while the customer is confined to bed.
Hospitalisation/ Nursing Care	This benefit is payable if, during the waiting period, the customer is confined to bed under the care of a registered nurse.
Rehabilitation	This benefit provides financial assistance for the customer to undertake a rehabilitation programme in order to retrain or re-educate in a new career and return to work.
Recovery Support	To assist the customer in their recovery, this benefit pays towards the costs of specialist equipment or required home alterations.
Relocation	If your customer is living overseas for more than three consecutive months and is disabled, this benefit provides reimbursement a one-way economy airfare to New Zealand.
Recurring Claim	If your customer is able to return to work, but has a relapse of the same disability or extended illness within 12 months, their claim will restart without them needing to wait.
Benefit Period Reset	If we have paid a claim to your customer with a 2 or a 5 year benefit period and they become totally or partially disabled from the same or related injury or sickness after returning to full time work for more than a set period of time, then we will pay another claim, even if we have paid them for the full benefit period.
Waiver of Wait Period	If the customer is unlucky enough to suffer a new, unrelated disability within 12 months of returning to work after a claim, we will waive the wait period.
Future Insurability	This benefit allows the customer to increase their monthly benefit by up to 10 per cent without health evidence if their income increases.
Leave without pay	If the customer takes unpaid leave from their job or is made redundant, they can put their income protection cover on hold for up to 12 months and not pay premiums. While on hold, the customer can't claim any benefit.
Replacement	For a self-employed customer, this benefit gives them the flexibility to use their monthly benefit to employ a replacement into their business.

Additional benefits

Your customers can choose to include additional benefits to meet their needs and budget, **in return for additional premium:**



Waiver of Premium Cover

While an income protection claim is being paid for an insured person with the waiver of premium cover, the premiums due on the policy after the waiting period ends will be waived and premiums due and paid during the waiting period will be refunded.



Extra Benefits Option

How it works

Death Benefit

If the customer dies on claim while they are receiving a monthly benefit, we will pay their estate three months' benefit.

Specified Medical Condition

Even if they do not meet the definition of disability, the customer will receive a monthly benefit for six months if they suffer one of 12 specified medical conditions.

Specific Injury Benefit

This benefit provides the customer with a payment if they suffer one of the listed injuries, from a fracture to complete paralysis. The amount of the payment depends on the severity of the injury.

Total and Permanent Disability

If the customer is determined to be totally and permanently disabled after we have paid their claim for 12 consecutive months, we will pay an additional lump sum of 24 months of their monthly benefit.



Claims Escalation Option

This option increases claim payments on a quarterly (as opposed to the annual approach taken by other providers) basis to protect your customers against rising inflation. This means that claims lasting less than a full year can still be protected against rising inflation costs.

Additional benefits continued



Extended Benefit Option

It is only in recent years that the insurance industry has recognised that customers want flexibility regarding their retirement age.

While most people are not lucky enough to retire prior to age 65, there are others who continue to work for longer, and this is why the option to take a benefit until age 70 was added.

While most customers do not seek to protect their income after age 65 due to New Zealand's universal pension, a disability continuing beyond retirement can mean additional unforeseen costs.

To protect them against this risk, we offer an Extended Benefit Option. This ensures that, if they are on claim for at least three months prior to age 65 and their disability leaves them unable to undertake two or more activities of daily living without assistance (for example dressing, bathing or eating), Fidelity Life will continue to pay their claim until they recover or die.



Booster Benefit Option

Fidelity Life recognises that it is often in the early stages of a customer's disability that they incur additional costs, for example modifications to their home, or simply medical expenses incurred during their waiting period which need to be paid off.

To assist with this, the Booster Benefit Option adds an additional third of the claim payment during the first 3 months of claim.



Retirement Protection Benefit

With KiwiSaver employee contributions only made while your customers are working, if they become disabled and unable to work, their contributions will stop.

This benefit provides for continued payment of your customers' KiwiSaver employee contributions (limited to a maximum of 8%) to their KiwiSaver schemes via the IRD.

Fidelity Life is one of only three providers in the New Zealand market to allow a customer to protect their KiwiSaver employee contributions.

Supporting customers at claims time

The most important feature of income protection cover is to provide a replacement income if your customers are unable to work due to a disability or extended illness.

Income protection claims can last for months or even years. We're there to help your customers, and in 2018 we paid out more than \$26.6 million in income protection claims.

Our expert claims team provides you and your customers with the support they need when recovering from a disability or extended illness. We don't believe that one size fits all, so our support is tailored, and focused on helping your customers get back to work faster.



Total disability claims

We assess the customer's claim to test if they are unable to perform one important income producing duty or work more than 10 hours per week. This important income producing activity is key as it may only take up one hour of the working week, but is critical to the overall operation of the business.

An example of this is a sales manager who needs to travel and visit clients. If they suffer a seizure, then they are unable to drive for 12 months². As their income is mostly produced as a result of their client visits, Fidelity Life recognises that the inability to drive substantially reduces this income.

This approach is a key Fidelity Life feature as it provides a definition that is flexible enough to be assessed against your customer's actual loss of income.

How does it work?

The following case studies are based on indemnity value cover for total disability, but very similar scenarios apply if agreed value is selected instead. All case studies shown in this document are for illustration purpose only. Actual payment may vary due to individual circumstances, special loadings and exclusions. For more information, please speak to your Business Manager or Business Account Manager.



Case Study 1 – Unique income offset

If the customer is able to continue working while they are totally disabled, we do not offset any income earned up to 10 hours per week. Fidelity Life is the only company that will not reduce a customer's benefit due to these earnings.

Sam, an employee, unfortunately falls ill and is unable to work. Her annual income prior to disability is \$50,000 and she has a benefit of \$3,125 which will be paid to her while she remains disabled.

The benefit payments start after Sam's 13 week waiting period has finished and will continue to be paid in advance while she is totally disabled. While at first Sam is not able to work at all, she is able to gradually build up her work hours. Anything she earns while she is working less than 10 hours per week does not affect the amount we pay her (see Figure 1).

Figure 1 – Sam's total disability claim with Fidelity Life



2 Source: nzta.govt.nz/driver-licences/getting-a-licence/medical-requirements/epilepsyseizures-and-driving



Case Study 2 – Benefit certainty for indemnity claims

If the customer has had an increase in their income, but they haven't increased the monthly benefit on their income protection cover to match this yet, with Fidelity Life they will receive the benefit of the higher amount. This is due to the way we structure our benefit calculation at the time of claim.

George runs his own business. At the time of application, his income was \$80,000 and he insured a monthly benefit of \$5,000.

When he made a claim 5 years later, his income had increased to \$160,000 (\$13,333 per month) which, with standard underwriting, would have given him a monthly benefit of \$10,000. He dialled down his ACC entitlement under CoverPlus Extra to the minimum of \$25,376, which is \$2,115 per month.

The calculation with Fidelity Life will be looked at on 2 parts. If instead of increasing, the customer's income has gone down, they can provide evidence of what their income was at the time of underwriting so that their policy is treated as an agreed value policy for the first six months of claim.

As George has had an increase, it is in his best interests to use his income prior to claim (see Figure 2).

Figure 2 – George's indemnity claim with Fidelity Life

Monthly Benefit	\$5,000
Pre-disability Income	\$13,333
ACC	\$2,115
Maximum allowable benefit	Monthly Benefit + other income cannot be more than 75% of pre-disability income \$5,000 + \$2,115 must be less than \$10,000
Benefit paid to customer	As this total equals less than \$10,000 , then we will pay the full monthly benefit of \$5,000 .



Case Study 3 – Booster Benefit Option

Figure 3 shows how Sam’s claim would be positively impacted by the Booster Benefit Option.

Figure 3 – Sam’s Booster Benefit Option



Partial disability claims

If a customer is able to work more than 10 hours per week or perform one or more important income producing activities, they are considered to be partially disabled. This partial disability may have occurred because the customer was originally on a total disability claim and has recovered enough to work part time, or they may have developed a health condition which upon medical advice means they need to reduce their hours at work.

With Fidelity Life the total of the monthly benefit plus income can add up to 75 per cent of their income prior to their disability.

How does it work?

The following case studies are based on indemnity value cover for partial disability, but very similar scenarios apply if agreed value is selected instead. All case studies shown in this document are for illustration purpose only. Actual payment may vary due to individual circumstances, special loadings and exclusions. For more information, please speak to your Business Manager or Business Account Manager.



Case Study 4 – Unique income offset

Sam is able to work more than 10 hours per week, and the amount Fidelity Life pays her takes into account her earnings. She is gradually able to increase her hours until she is able to work 50 per cent of every day (see Figure 4).

Figure 4 – Sam's partial disability claim with Fidelity Life



Case Study 5 – Partial Disability Booster

Once Sam starts to transition back to part time work, again she may incur additional expenses. The Partial Disability Booster will provide assistance in the form of a 25 per cent boost to her claim payment either until she is no longer partially disabled or we have made 12 months of payments for her particular illness or injury (see Figure 5).

Figure 5 – Sam's Partial Disability Booster



Eligibility criteria

Entry age

Fidelity Life Personal Income Protection is available for customers in eligible occupations between the ages of 16 and 59, although if a customer wishes to take cover until age 70, then the maximum entry age is 55.

If the customer chooses an age 70 benefit period it is important to note the cover provided after age 65 reduces each year, with premiums payable reflecting the reduction in cover. This is because most customers over age 65 are generally only working part-time, and are also eligible to receive superannuation from the Government.

Benefit periods

There is a choice of four benefit periods:

- 2 years
- 5 years
- To age 65
- To age 70

Waiting periods

There is a choice of seven waiting periods:

- 2 weeks
- 4 weeks
- 8 weeks
- 13 weeks
- 26 weeks
- 52 weeks
- 104 weeks



Product choices

Cover types

Fidelity Life offers two variations of Income Protection:

1. Indemnity Value

Cover is assessed at the time of claim based on 75 per cent of your customer's pre-disability income (before tax) up to a maximum of their monthly benefit. This means your customer needs to provide us with financial evidence at the time of their claim to allow us to assess their benefit.

Income Amount	Percentage Applied
\$320,000 or less	75%
\$320,001 to \$440,000 (inclusive)	50%
\$440,001 or more	20% of any additional income

Our understanding of current tax law is that customers must pay tax on their claim payments but are able to claim a deduction for their premiums in their annual tax return. As this interpretation is subject to change, we recommend your customers seek their own expert tax advice.

2. Agreed Value

Cover is assessed at the time of application. The benefit is based on a proportion of the customer's gross income at the time of application, and is calculated on a tiered basis as follows:

Income Amount	Percentage Applied
\$70,000 or less	62.5%
\$70,001 to \$100,000 (inclusive)	60%
\$100,001 to \$320,000 (inclusive)	55%
\$320,001 to \$440,000 (inclusive)	35%
\$440,001 or more	20% of any additional income

For example, a customer earning \$120,000 per annum could expect to be insured for a monthly benefit of \$6,063. This is calculated as follows:

$$\begin{aligned} & \$70,000 \times 62.5\% = \$43,750 \\ & + \$30,000 \times 60\% = \$18,000 \\ & + \$20,000 \times 55\% = \$11,000 \\ & = \text{Total Insured Benefit: } \$72,750/12 = \$6,063 \end{aligned}$$

By agreeing the amount of cover at time of application, your customer doesn't have to prove their income at the time of their claim when they are dealing with their disability or illness.

Our understanding of current tax law is that this benefit is tax free. As this interpretation is subject to change, we recommend your customer seek their own expert tax advice.



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