

# Ongoing income offset for self-employed customers

## TAL ACCELERATED PROTECTION ADVISER FACT SHEET

The latest Income Protection products have a built-in ongoing income offset which may apply when the customer is totally unable to work. Under the ongoing income offset, the benefit payable is reduced by the customer's share of net profit that their business continues to generate while on claim. This ensures that customers are not paid a higher income replacement ratio while they are on claim. If your customer's share of their total net profit (aggregation of all net profit from all business entities that they own) is a loss (i.e. negative), the amount of offset applied will be at least zero (net profit = at least \$0).

### What is ongoing income?

Ongoing income generally refers to the net profit (business profits less business expenses, before tax) that the business continues to generate while the business owner (the life insured) is on claim and is totally unable to work. This can happen when a business has employees, contractors or other business owners who continue to generate income for the business.

### How to determine whether there might be ongoing income

Businesses operate in dynamic environments, so it can be difficult to predict how much income, if any, would continue and for how long, if the business owner were unable to work.

Considerations to help identify whether ongoing income is likely to apply:

- What is the nature of the business?
- What industry does the business operate in?
- How does the business generate income?
- What is the business structure?
- How large is the business in terms of turnover, gross profit, net profit, and operations?
- How many employees, contractors, and subcontractors does the business employ?

- What are the income generating duties of the customer in the business?
- What are the income generating roles and duties of other owners, partners and/or employees?

### Where you can find information on offsets in the PDS

Information on offsets can be found in section 2.6.5 of the Accelerated Protection Combined Product Disclosure Statement and Policy Document (PDS). The ongoing income offset described in this document is referred to in section 2.6.5 of the PDS as "Earnings while Totally Unable to Work".

### How the ongoing income offset is applied and how it may impact benefit payment

The ongoing income offset may apply if the customer meets the following criteria:

- They are self-employed;
- Their business continues to operate profitably even when they are totally unable to work because of a sickness or injury.

If the customer makes a claim and they have ongoing income while they are totally unable to work, the benefit payable calculation is:

Totally Unable to Work Benefit, less 'Earnings while Totally Unable to Work', less 'other payments'.

Earnings for self-employed customers is *"their share of the total of all net profits and all net losses generated or accrued in the conduct of the business or businesses, after excluding business expenses which were not necessarily incurred or normally required in the usual conduct of the business/businesses"*.

During the first 24 months on claim, we will only apply the reduction for 'Earnings while Totally Unable to Work' to the extent required to ensure the Life Insured's combined benefit payment and Earnings (or entitlement to Earnings) do not exceed 70% of their Pre-Claim Earnings.

Thereafter, we will apply the reduction in full.

The benefit payment may be further reduced by any 'other payments'.

## Example of how the ongoing income offset works

This example shows how the ongoing income offset works. It is illustrative only.

- Archer has a business with four income generating employees. Net profit is expected to reduce by 50% if Archer becomes sick or injured and is totally unable to work.
- Archer has a monthly income (net profit) of \$20,000 and has taken out IP Focus which insures up to 70% of income with a 5-year benefit period:
  - Scenario A:** Archer's monthly benefit is \$14,000 (the maximum benefit based on monthly net income of \$20,000)
  - Scenario B:** Archer's monthly benefit is \$7,000
- The maximum monthly benefit (MB) that Archer can take out is \$14,000


Claim period	Business status description	Benefit payable	
		Scenario A: MB \$14,000	Scenario B: MB \$7,000
<b>1 – 6 months</b>	<ul style="list-style-type: none"> <li>Archer is totally unable to work</li> <li>Net profit of Archer's business reduces to \$10,000 per month while he is totally unable to work (from \$20,000 pre-claim)</li> </ul>	\$4,000 benefit payable (\$14,000 - \$10,000)  Total income = $\$10,000 + \$4,000 = \$14,000$ (70% income replacement ratio)	Archer's \$7,000 monthly benefit is reduced by \$3,000 to \$4,000. The \$3,000 reduction is less than his ongoing business income (\$10,000).  The \$3,000 reduction is calculated so that Archer's total income = (\$10,000 net profit + \$4,000 adjusted monthly benefit) = \$14,000, i.e. a 70% income replacement ratio.
<b>7 – 12 months</b>	<ul style="list-style-type: none"> <li>Archer remains totally unable to work</li> <li>Archer's contribution to the business is underestimated and net profit reduces to \$2,000 per month</li> </ul>	\$12,000 benefit payable (\$14,000 - \$2,000)  Total income = $\$2,000 + \$12,000 = \$14,000$ (70% income replacement ratio)	Archer's \$7,000 monthly benefit is not reduced.  His Total Income of \$9,000 (= \$2,000 + \$7,000) results in an income replacement ratio of 45%, below the 70% cap.
<b>12 – 24 months</b>	<ul style="list-style-type: none"> <li>Archer remains totally unable to work</li> <li>A business manager is hired to replace Archer and net profit increases to \$6,000 per month</li> </ul>	\$8,000 benefit payable (\$14,000 - \$6,000)  Total income = $\$6,000 + \$8,000 = \$14,000$ (70% income replacement ratio)	Archer's \$7,000 monthly benefit is not reduced.  His Total Income of \$13,000 (= \$6,000 + \$7,000) results in an income replacement ratio of 65%, below the 70% cap.
<b>25 – 36 months</b>	<ul style="list-style-type: none"> <li>Archer remains totally unable to work</li> <li>The business manager has made some operational changes and net profit increases to \$7,500 per month</li> </ul>	\$6,500 benefit payable (\$14,000 - \$7,500)  Total income = $\$7,500 + \$6,500 = \$14,000$ (70% income replacement ratio)	After 24 months on claim, the reduction for 'Earnings while Totally Unable to Work' is applied in full. No benefits payable due to MB being totally offset by ongoing income.  Total income = \$7,500 (37.5% income replacement ratio)

Claim period	Business status description	Benefit payable	
		Scenario A: MB \$14,000	Scenario B: MB \$7,000
37th month	<ul style="list-style-type: none"> <li>Archer remains totally unable to work and is not expected to be able to work again</li> <li>Archer sells the business and is therefore no longer entitled to the operating profits of the business</li> </ul>	\$14,000 benefit payable (ongoing income offset stops because Archer is no longer receiving profit from the business)  Total income = \$14,000 (70% income replacement ratio)	\$7,000 payable (ongoing income offset stops because Archer is no longer receiving profit from the business)  Total income = \$7,000 (35% income replacement ratio)
38 – 60 months	<ul style="list-style-type: none"> <li>Archer remains totally unable to work and is not receiving any profits from any business</li> </ul>	\$14,000 benefit payable (70% income replacement ratio)	\$7,000 benefit payable (35% income replacement ratio)

The claim is finalised after the end of the 60th month because the 5-year benefit period is reached

## Frequently asked questions

QUESTION	ANSWER
<b>Why does Income Protection have an ongoing income offset?</b>	The ongoing income offset applies to ensure that the customer is not in a similar or better off financial position than prior to claim. This is important to encourage customers to return to work.
<b>Will passive income (for example, investment income from shares on publicly listed shares) or income from the sale of the business reduce the benefits payable from Income Protection?</b>	No, we will not offset passive income or income from the sale of the business.
<b>What happens if the customer receives ongoing income that was generated prior to the claim?</b>	We will not offset any pre-claim income received during the claim if it can be established that it was generated during the pre-claim period.

 Please contact your BDM or underwriter if you have any queries about Income Protection for your self-employed customers.

For more information, contact your TAL sales representative or the Adviser Service Centre on **1300 286 937** (Monday to Friday 8am – 7pm AEST) or via email at **acceleratedservices@tal.com.au**

**[www.tal.com.au](http://www.tal.com.au)**

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