

# Practice expense cover

Factsheet  
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**It can take a long time to build a successful medical practice. Should you fall ill or suffer an injury, practice expense cover is there to ensure your practice can meet its obligations with respect to fixed ongoing expenses. This factsheet provides a high level explanation of what practice expense cover is and how it works.**

## What is Practice Expense Cover?

When most people think about life insurance it's the policies that pay on death or disability, or those that replace your income that come to mind. This is not surprising as these are the cover types that most people would recognise from their superannuation or have seen advertised on television. However, there is another type of cover not as well-known; practice expense cover – it's also often known by other names such as business expenses or business overheads cover.

For doctors who run their own practice, it can be an important addition to a portfolio of insurance products.

Practice expense cover is similar to income protection in that it pays a monthly amount to the policyholder if they are unable to work due to illness or injury. However, unlike income protection cover which typically pays a percentage of the insured person's pre-disability salary, practice expense cover provides a reimbursement of fixed expenses incurred by the insured person's business.

## What fixed expenses are covered?

Depending upon the specific policy, fixed expenses which are typically covered include business expenses such as rent, electricity, staff salaries, lease payments on equipment, etc. It is a short-term means to provide cash to the business for typically no longer than one year. For more serious illnesses or injuries that result in the insured person being off work for a period longer than one year, it would be expected that given the time frame other arrangements could be made to enable the business to cover or reduce its expenses e.g. finding a locum, winding up the business, or restructuring to reduce expenses to lower levels.

## Why would I need both income protection and practice expense cover?

Income protection cover is for your income. Generally speaking, for practice owners this means you can cover a percentage of your business revenue less any expenses. However, income protection cover will not provide reimbursement of your business expenses. So if you have stopped working and no other revenue is being generated by your practice, then any ongoing expenses will either need to be covered by savings, your income protection payments (leaving you with less in your pocket), short-term financing, or in the worst case scenario you will need to close your business completely.

The operation of practice expense cover in conjunction with income protection cover is illustrated in the case study provided below.

### Case study

Dr Michaels is the sole GP working in his own practice. The revenue he generates from seeing patients is approximately \$420,000 per annum. His fixed expenses for the year total \$180,000 and includes things like the salary of his receptionist, insurance costs, rent on his surgery, and electricity.

Income protection relates to revenue less expenses. Therefore, this would be calculated as:

$\$420,000 \text{ revenue} - \$180,000 \text{ expenses} = \$240,000 \text{ earnings.}$

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### Case study cont.

Assuming Dr Michaels' is contributing 10% of his earnings to super, income protection will pay 75% of his pre-disability earnings plus 10% super, split into monthly payments. Dr Michaels' monthly benefit could be  $\$240,000 \times 85\% = \$204,000$ , divided into monthly payments of \$17,000.

For practice expense cover, the fixed expenses = \$180,000, resulting in a monthly payment of \$15,000.

Subject to underwriting assessment, Dr Michaels would be eligible for the following cover providing a monthly benefit in the event of a claim:

- Income protection cover: \$17,000 per month
- Practice expense cover: \$15,000 per month

Dr Michaels is involved in a serious car accident and as a result he is expected to be off work for at least four months.

#### Scenario 1: holding both income protection cover and practice expense cover

Following the 30-day waiting period, an income protection benefit of \$17,000 is payable each month Dr Michaels remains off work. In addition, a further \$15,000 is paid under the practice expense policy which is used to cover the monthly expenses that are continuing to accrue for his business.

#### Scenario 2: holding income protection cover only

Following the 30-day waiting period, the income protection benefit of \$17,000 is payable each month Dr Michaels remains off work. While off work the fixed expenses for Dr Michaels' practice continue to accrue and require payment. As a result, only \$2,000 of the income protection payment remains after these expenses are paid, resulting in Dr Michaels having to dip into his savings to cover his living expenses each month.

### Benefits of practice expense cover

What is evident is the practice expense cover can ensure you have a business to return to once you have recovered from an illness or injury.

Importantly, it means that the salaries of non-income producing staff can continue to be paid and helps ensure the ongoing viability of your practice over the short term.

### Get advice that suits your situation

This factsheet provides an overview only of some of the notable aspects of practice expense cover, its purpose and benefits.

For professional advice that will confirm the appropriate form of practice expense cover for your circumstances and ensure that it is structured correctly to achieve your objectives, contact the expert team at Doctors Wealth Management.

You can find additional resources and information about Doctors Wealth Management at [avant.org.au/doctorswealthmanagement](http://avant.org.au/doctorswealthmanagement) or call **1800 128 268**.

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