

# Business Expenses – what’s the best fit?

Zurich offers two unique business expense product solutions, however the key is determining which one is the best fit for your client.



## Case Study 1 – Ongoing Fixed Expenses

Mary is a self-employed Barrister operating from a small office in the CBD employing a legal clerk and an office administrator. If she were not able to work for more than a couple of weeks all revenue would stop and she would need to refer existing cases to another barrister. Whilst her income is approx \$150,000 pa her allowable business expenses (including the likes of rent and costs for non-income generating employees) are circa \$70,000.

### Thought process:

1. Business owner – Yes
2. Would the business cease to generate revenue if the client was not able to work or not generate enough revenue to cover the majority of ongoing fixed expenses? – Yes
3. What are the allowable business expenses? – \$70,000 pa
4. Does it sound reasonable and make sense? – Yes

### Best fit solution:

Ongoing Fixed Expenses cover of \$5,833mb

## Case Study 2 – Ongoing Fixed Expenses

Jim is a self-employed Plumber trading as a sole trader with 1 apprentice. If he was not able to work all revenue would stop and he would be unable to complete current jobs or quote for and generate new work. Whilst his income is approx \$90,000 pa his allowable business expenses (including the likes of insurances, motor vehicle lease costs and the cost of the apprentice, a non income generating employee) are circa \$45,000.

### Thought process:

1. Business owner – Yes
2. Would the business cease to generate revenue if the client was not able to work or at least not generate enough revenue to cover the majority of ongoing fixed expenses? – Yes
3. What are the allowable business expenses? – \$45,000 pa
4. Does it sound reasonable and make sense? – Yes

### Best fit solution:

Ongoing Fixed Expenses cover of \$3,750mb

## Case Study 3 – Ongoing Fixed Expenses Claim Example

Mark has on Ongoing Fixed Expenses BE policy with an insured monthly benefit of \$6,750 and has ruptured his Achilles and his total disability claim is lodged in June. Because Mark is unable to work and generate any revenue his self-employed net income has dropped to nil whilst his ongoing fixed expenses have continued. (See Diagram A)

In August the first month after the end of the waiting period Mark has \$7,600 in allowable business expenses (which is greater than the insured monthly benefit), so the full benefit is payable. (See Diagram B) However, in the September only \$5,900 of allowable business expenses are incurred by the business. This is less than the insured monthly benefit, so the lesser

amount of \$5,900 is the benefit paid in September (\$850 remains in reserve and could be paid out in month 13 if Mark is still on claim).

Diagram A

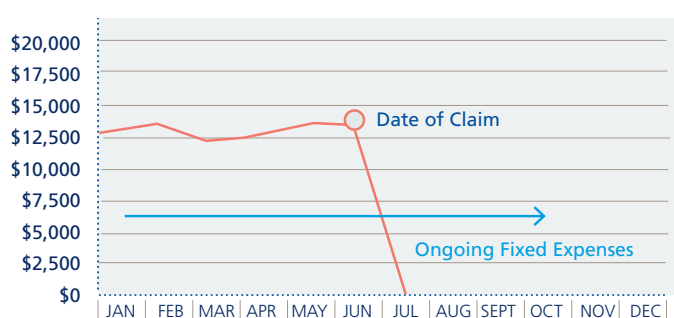
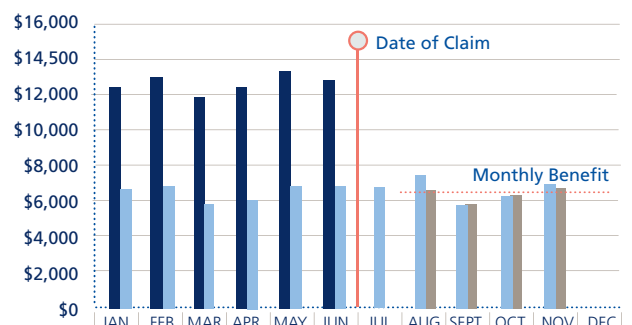


Diagram B



## Case Study 4 – Key Person Replacement Cover

John is a Radiologist in a partnership 50/50 with another radiologist earning approx \$450,000 pa. The practice also employs 3 full-time radiologists under an arrangement whereby they are each paid 65% of the fees they generate, which equates to approx \$250,000 each pa. Whilst the business would likely continue to generate revenue and continue to make a profit if the life insured was unable to work due to sickness or injury, the business would need to get a replacement for John in order to service its clients. The cost of a replacement would be at least equivalent to the \$250,000 paid each of the full-time radiologists (if not more).

### Thought process:

1. Business owner – Yes
2. Key Person – Yes
3. Would the business need to replace John or get a locum if he was unable to work? – Yes
4. What would a replacement cost? – \$250,000 pa
5. Does it sound reasonable and make sense? – Yes

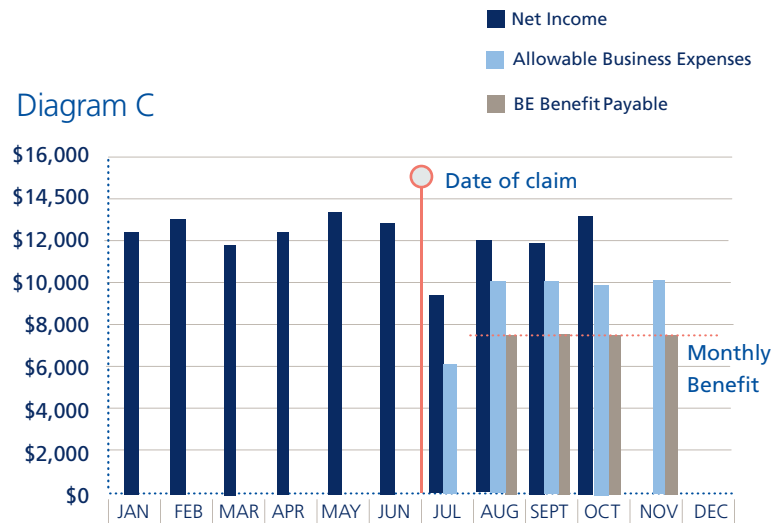
### Best fit solution:

Key Person Replacement cover of \$15,625mb (and any Income Protection is subject to a 1 year wait)

## Case Study 5 – Key Person Replacement Cover Claim Example

Tony is a Dentist who has a Key Person Replacement policy with an insured monthly benefit of \$7,500 and has fractured his right hand resulting in a claim in June. It took a week during the waiting period for the business to get a replacement/locum for Tony during which time (in July) there was a dip in revenue and net income. However in August, the first month after the end of the waiting period with the replacement/locum doing Tony's work, revenue and net income increased to a level akin to pre claim levels.

The replacement/locum cost \$10,000pm, which at 75% is \$7,500, therefore the full insured monthly benefit is payable on claim in August (and following months as shown in Diagram C)



### How to Quote

Go to [zurich.com.au](http://zurich.com.au) and complete a quote, selecting which BE solution you are applying for.

### How to apply:

Complete the Business Expenses Questionnaire in the application and lodge with the life insured's application.



## For more information

Contact your Zurich BDM on 1800 252 650 or call Tony Baker, Financial Underwriting Manager on 02 9995 1941 or [adviser.service@zurich.com.au](mailto:adviser.service@zurich.com.au)

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