



Monthly Information Newsletter – Tax & Super

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Insurance: Inside or outside super?

Most people insure their personal assets, such as their house, contents and car, but when it comes to personal insurance, many overlook the importance of protecting their wealth because personal insurance is often seen as unnecessary, a luxury and an additional cost to pay for.

Unfortunately, we don't know what's around the corner but having the right level of protection in place will assist you and your family through sickness and injury and protect you and your family's lifestyle when times get tough.

Depending on your needs, insurance can be structured either inside or outside superannuation, with most superannuation funds offering insurance for their members.

Superannuation funds generally offer three types of life insurance for their members, including life insurance, total and permanent disablement (TPD) insurance and income protection insurance. This article briefly summarises these insurances and covers some common benefits and considerations when owning insurance in superannuation.

Life insurance

Life insurance, also known as death cover, is a lump sum amount paid to your beneficiaries on top of the balance that's already in your superannuation account if you pass away. It may also be paid if you have a terminal illness.

TPD insurance

Total and permanent disablement (or TPD) cover pays you a benefit if you become seriously disabled or are too sick to ever work again.

In addition to meeting the insurance policy definition of incapacity, you must also meet the permanent incapacity condition of release definition under superannuation law before the trustee can pay the TPD benefit to you.

Superannuation law defines permanent incapacity to mean:

“ill health (whether physical or mental), where the trustee is reasonably satisfied that the member is unlikely, because of the ill health, to engage in gainful employment for which the member is reasonably qualified by education, training or experience”.

To be 'reasonably satisfied', a superannuation fund trustee will usually request medical evidence in the form of two doctors' certificates to that effect. This is to also satisfy the requirement for the payment of a disability superannuation benefit.

It is also worth noting that the superannuation law definition of permanent incapacity is generally referred to as an 'any occupation' definition of permanent incapacity because it relates to gainful employment 'for which the member is reasonably qualified by education, training or experience'.

Income protection

Income protection (also called salary continuance insurance) helps replace your income if you can't work due to a temporary disability or illness. If your claim is approved, your superannuation fund will pay you a regular income as a percentage of your salary for a specified period of time (i.e., the benefit period could be for 2 years, 5 years or up to a certain age, such as age 65).

What about trauma cover?

Trauma cover (also known as critical illness cover) pays you a lump sum amount if you are diagnosed with a critical illness or injury as specified in the policy, such as cancer, stroke, coronary bypass or heart attack.

However due to changes in the law that came into effect on 1 July 2014, it is no longer possible to take out trauma insurance through your superannuation fund.

Factors to consider

The key benefits of insurance inside superannuation include:

- Premiums can be funded from your existing superannuation account balance, which can assist in managing your cashflow and affordability of premiums
- You may benefit from income tax savings if you claim a tax deduction for personal contributions or if you contribute via a salary sacrifice arrangement using pre-tax salary which may provide cost savings on premiums
- Insurance in employer superannuation plans may be cheaper than insurance outside superannuation as superannuation funds purchase insurance policies in bulk
- After joining your employer's default superannuation plan, you may be able to obtain automatic acceptance up to a set level of cover with no medicals required.

On the other hand, potential downsides of insurance inside superannuation include:

- The amount of cover you can get inside superannuation is often lower than the cover you can get outside superannuation. Further, default insurance through superannuation isn't specific to your circumstances and some eligibility requirements may apply. To avoid this risk, you can purchase a retail insurance policy through superannuation (or personally outside of superannuation). While retail cover requires a more detailed application process, underwriting your personal history and generally higher premiums than default group cover, retail cover can provide you with better quality cover and greater confidence that a payment is likely to be made at claim time
- Premiums can erode your retirement savings if you do not make extra contributions to negate the premium cost
- Contributions made to fund premiums count towards the contribution caps
- If you consolidate your superannuation accounts, you may lose any cover you have with the superannuation fund you close. Thus, you should always check that the new superannuation fund you're choosing can cover you for equivalent (or more) insurance cover
- Unless you actively opt-in to maintain your insurance, your cover may be cancelled if your superannuation fund becomes inactive for 16 months or more, the fund balance falls below \$6,000 or you are under age 25.

The last word

Wealth protection is considered to be the foundation of all good wealth creation plans, because without it, even the best laid wealth creation plans can go awry. Insurance is all about having peace of mind, so plan for tomorrow by obtaining advice on whether you need insurance cover and if so, the types of personal insurances you may need and how to best structure the cover.

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