Perpetual Superannuation Limited

INSURANCE IN SUPERANNUATION

TAKING OUT INSURANCE THROUGH SUPER CAN BE A TAX-EFFECTIVE WAY OF SECURING YOUR FINANCIAL FUTURE, BOTH FOR YOU AND YOUR FAMILY.

ASIC's MoneySmart website at www.moneysmart.gov.au/superannuation-and-retirement/how-super-works/insurance-through-super provides free and independent information and guidance.

INSURANCE OVERVIEW

Insurance cover can provide security and protection for your family in the event that you are temporarily or permanently unable to work. With many Australians relying on regular income to cover the cost of day to day expenses, mortgage repayments and personal loan or credit card debt without insurance there would be an additional burden on the family, which could otherwise be prevented.

- Life Insurance (also known as death cover) pays an agreed lump sum to your dependants if you die, or are diagnosed with a terminal illness and have less than 24 months to live.
- Total and Permanent Disablement Insurance (TPD) pays you a lump sum if you become totally and permanently disabled and are no longer able to work.
- Income Protection Insurance (also called salary continuance) pays you a portion of your salary each month if you are disabled due to injury or illness and unable to work.

We recommend you discuss with your financial adviser the appropriate amount of cover for your needs. Your adviser can determine the correct amount of cover considering your personal situation.

WHAT ARE THE BENEFITS?

- **Value for money.** Insurance offered within many super funds is based on group rates and standard benefits, so it may be more cost effective than taking out the same cover outside super.
- **Tax-effective.** Generally super contributions (including those to pay for your insurance premiums) are taxed in the super fund at 15%[1]. Since insurance premiums in super are tax-deductible, it effectively means that the insurance premium is paid from pre tax income, making it more tax effective than if held outside super.
- **Better cash flow.** As the premiums are deducted directly from your super balance, your net cash income is not affected by paying insurance premiums.
- **Ease of payment.** You don't need to make any payments as the premiums are automatically deducted from your super balance each month.
- **Better cover for less.** As insurance premiums in super are tax-deductible to the super fund, Perpetual will apply a 15% tax credit to your account. This gives you the option to either receive the same cover for less, or increase the cover for the same cost, compared to buying insurance outside super.

WHO IS COVER SUITABLE FOR?

Insurance through your super fund may be worth considering if you:

- are wanting to secure the financial future of your family by providing a lump sum in the event of your death or being unable to work
- are on a high marginal tax rate, given the tax-effectiveness of using your pre-tax salary to pay premiums
- don't have sufficient cash flow outside of super to pay for premiums
- are seeking the best cover at a reduced price, given that group rates available may be cheaper than similar policies held outside super.

1 Individuals will have to pay an extra 15% tax on some of, or all of their 'taxable contributions' if their income, plus 'taxable' contributions are greater than the $250,000 threshold.

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STRATEGY CONSIDERATIONS

While there are many benefits to having insurance through super, some of the things you may need to consider include:

- **How much tax is payable.** If your beneficiaries are dependants, such as your spouse or children under 18, the lump sum benefit will be paid tax-free.

  If your beneficiaries are non-dependants, such as your parents or children over 18, the taxable component (taxed element) of the lump sum will normally be taxed at 15% (plus Medicare levy). Since the lump sum will also include an insurance amount, it will generally include a taxable component (untaxed element) which will normally be taxed at 30% (plus Medicare levy).
- **Potential wait time for payment**, for all insurance held within super, any benefits are paid to the trustee of the super fund, rather than to you directly. This can often lead to delays of when you or your beneficiaries can receive the money.
- **Different release definitions.** In addition to meeting the policy requirements of the insurance company, you may also need to satisfy the conditions of release for superannuation before you receive your insurance proceeds in the event of a claim.
- **Reduction in your super balance**, as you are paying for premiums from your super balance, it may be worth considering making an additional contribution to cover the cost of your insurance premium, taking into account your contribution caps.
- **Reviewing your cover**, it is important to review your cover on an ongoing basis and if your personal situation changes then you may need to change your insurance. An event such as purchasing a home, marriage or having children can impact on the level of cover you need. Perpetual offers life stages increase for individuals to increase their level of cover as a result of specific life events, without undergoing medical underwriting, further information is available on our website.

INACTIVE ACCOUNTS

From 1 July 2019, insurance cover will cease where you have had no contributions for 16 months. The inactivity period is retrospective and includes any continuous period of inactivity where no contributions are received **prior** to 1 July 2019.

If you would like to maintain your insurance, you can provide an 'Insurance Election Form' so that you can elect to continue with your insurance cover even if your account is inactive for a period of 16 months. The 'Insurance Election Form' is a permanent election that applies to continue insurance cover if the account is or becomes inactive. Please contact us if you require an election form.

CASE STUDY

Jack is an IT manager earning $92,000 p.a, and he has decided to put in place some life insurance cover, with his wife and two young children as the beneficiaries. Taking into account his personal circumstances, Jack's financial adviser works out that the annual premium for the level of cover Jack requires would be $1,000 p.a.

Jack can either take out insurance through his super fund or buy a life insurance policy directly with an insurance company. Jack is on a 37% marginal tax rate (plus Medicare levy) and his financial adviser works out that he would save $639 p.a through holding his insurance policy through his super fund.

TABLE 1 – THE BENEFITS OF HOLDING INSURANCE THROUGH SUPER ARE CLEAR

	OUTSIDE SUPER	INSIDE SUPER
Pre-tax income needed	$1,639	$1,000

Source: Perpetual

This is because he would only have to salary sacrifice $1,000 of his income each year to pay the annual premium when held within super.

If he chose to hold the policy outside super, he would need to earn $1,639 in income (before tax) to pay the $1,000 premium after-tax each year.

To prevent reducing his super balance, Jack acts on his adviser's recommendation and starts topping-up his super to cover his annual premium.

MORE INFORMATION

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