Super life cover

Is holding insurance cover in your superannuation fund a good idea? Read on...

Life and total and permanent disability (TPD) cover

Many super funds provide insurance that pays a lump sum if you die or are disabled to such an extent that you will never be able to work again. There is currently no limit on the amount of death cover that can be paid to dependants.

As an example, consider Tony and his wife Sue. He is the only income earner whilst she looks after their three young children. They have a large mortgage. His adviser tells him he needs $2.5 million of life cover so that if he dies the debts will be paid off and his family will have the financial support they need.

Having life cover in his super enables Tony to pay the premiums tax effectively. He is on the highest tax rate and by salary sacrificing he is able to pay the premiums with pre-tax dollars.

Using super for life insurance may not suit everyone. A death benefit paid to non-dependants will be taxable whereas a lump sum paid by a personal policy will be tax-free. In addition, superannuation policies may lack the flexibility to meet your individual needs and you may not be able to specify in advance who will receive a death benefit paid by the super fund.

Temporary disability insurance

Some super funds offer a policy that will pay you an income if you are temporarily unable to work due to accident or illness. Alternatively, you can buy a personal income protection policy directly and the premiums are generally tax deductible.

Premiums for policies offered through superannuation might not impact on your current budgeting but, as always when buying any type of insurance, the most important issue is to have a policy that will pay out if you have a claim. It’s important to remember that any lump sum payments paid from a TPD policy held within a super fund **cannot** be made to the beneficiary

unless and until that person satisfies a condition of release as defined in the legislation. This virtually rules out the use of 'own occupation' TPD policies within super.

As from 1 July 2019, if a super fund hasn't received any contributions for at least 16 months, any insurance held in the fund may be cancelled. You will need to advise your fund if you wish to continue to hold the insurance.

My Super

Under the 'My Super' arrangements, default super accounts for employees who have not exercised a choice of fund must include a minimum level of Life and TPD cover on an **opt-out** basis.

Affordability

One of the advantages of holding life cover through superannuation is that the premiums are deducted from your super account.

As an example, consider Sam and Hannah. They have just bought their first home and are finding it hard to keep on top of their mortgage payments. Even though they are both working, they can't afford insurance premiums as well as their other expenses. Arranging cover through their super means the premiums are deducted from the superannuation guarantee contributions.

Sam and Hannah accept that their retirement benefits will be lower because they are using their super to pay premiums. However, when they can afford it they can pay more into super to catch up.

Often it is hard to achieve all your financial goals at the same time and you may have to compromise. We recommend you seek professional advice and review your insurance policies at least annually to ensure they continue to meet your needs.

Sources:

www.ato.gov.au - Self Managed Super Funds, Insurance for Members

www.ato.gov.au - TR 2012/6, "Income tax: deductibility under subsection 295-465(1) of the Income Tax Assessment Act 1997 of premiums paid by a complying superannuation fund for an insurance policy providing Total and Permanent Disability cover in respect of its members"

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