

## Insurance in super

Taking out insurance through super can be a tax-effective way of securing your financial future, both for you and your family.

### What types of insurance can be included within super?

**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 12 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.

These are the most common insurances available through super. However, not all super funds offer all these, so you may need to take out separate cover outside super.

### 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.** All super contributions (including those to pay for your insurance premiums) are taxed at 15%, which is deducted from the super fund, rather than at your marginal rate, making it more tax-effective than if held outside super.
- **Better cashflow.** 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 do anything as the premiums are automatically deducted from your super balance each month.
- **Automatic acceptance.** Many super funds offer automatic acceptance up to certain dollar limits, providing you with insurance cover without the onerous paperwork or providing medical evidence.
- **Better cover for less.** As insurance premiums in super are tax-deductible to the super fund, you can either receive the same cover for less, or increase the cover for the same cost, compared to buying insurance outside super.
- **Higher default levels of cover.** In response to the issues of underinsurance, many super funds are now offering higher levels of default cover than the legislated minimum levels.



### Who is it suitable for?

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

- are on a high marginal tax rate, given the tax-effectiveness of using your pre-tax salary to pay premiums
- don't have sufficient cashflow outside super to pay for premiums
- are seeking the best cover at the best price, given the group rates available may be cheaper than similar policies held outside super
- are wanting to secure the financial future of your family by providing a regular income stream if you die or are unable to work.

### Strategy considerations

While there are many benefits to having insurance through super, some of the things you may need to consider before applying 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 of the lump sum will be taxed at up to 31.5% (including Medicare levy).

**Potential delays in payment.** For all insurance held within super, any benefits paid within super are paid to the trustee of the super fund, rather than you directly. This can often lead to delays between this time and when you or your beneficiaries can receive the money.

**Different release definitions.** In addition to meeting the policy requirements of the insurance company, you will also need to satisfy the conditions of release for superannuation before you receive your insurance proceeds in the event of a claim.

**Changes in circumstances.** If insurance cover is provided by your employer through your super fund, this may cease on the day you leave, even though contributions can still be paid into the fund.

This means you may need to extend your insurance until you are able to confirm your insurance arrangements with your new employer.

### Buying insurance through super

Premiums for insurance within super are paid for by contributions made to your fund.

This is through either super guarantee (SG) contributions from your employer, salary sacrifice contributions (or, if you are self-employed, personal deductible contributions you make), and any personal after-tax contributions you make.

As these premiums can reduce your super balance, it may be worth considering topping up your super to cover these payments.

The Government can also help pay for your insurance through:

- **Government co-contribution** - the Government pays \$1 for every \$1 that an eligible person contributes (up to a maximum of \$1,000) into super
- **Spouse contributions** - you can contribute to your spouse's super fund and receive a tax offset, up to a maximum of \$540 per year.

### Case study

#### Insurance in super

Jack is an IT manager earning \$85,000 pa, 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 pa.

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 \$626 pa 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	\$1,626	\$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 \$1,626 in income (before tax) to pay the \$1,000 premium after-tax each year.

So as to not reduce his super balance, Jack acts on his adviser's recommendation and starts topping-up his super to cover his annual premium.

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