Personal risk insurance.

Strategy Information Flyer

Insurance is a cost-effective way to provide you with a wealth protection plan. Insurance will provide a lump sum or income stream to help you through times when unexpected events such as illness, injury or death impact your ability to earn an income or to provide for yourself and others.

Insurance premiums can be calculated with either variable age-stepped or variable premiums.

- Variable age-stepped premiums are recalculated each year based on your age at your policy anniversary. Generally, this means your premium will increase each year as you get older.
- Variable premiums are calculated based on your age when any cover started. Your premium is generally averaged out over a number of years, which means you avoid increases in your premium due to age at each policy anniversary. This means your cover is more expensive than 'variable age-stepped premiums' at the beginning of your policy, but generally gets cheaper (relative to variable age-stepped premiums) as your policy continues.

There are four main types of personal insurance cover.

Life insurance.

Life insurance will pay your beneficiaries a lump sum when you die. How much they get paid depends on the sum insured of your policy. This insurance reduces the financial stress of leaving behind debt and expenses for your spouse and/or family. Life insurance will be paid directly to your nominated beneficiaries.

It can be used to fund items such as:

- Funeral costs;
- Final medical bills;
- The balance of your home and/or investment mortgage;
- Other debt;
- Children's education and other costs;
- Ongoing income for your spouse or family members; or
- Bequests to beneficiaries.

Most life insurance policies have a waiting period for suicide, normally 12-13 months from the commencement of the policy. Some low-cost, group cover, often provided by super funds, has further exclusions such as acts of war. You need to understand what these are and how they affect the cost of your cover.

Total and permanent disability (TPD) insurance.

TPD insurance provides a lump sum when illness or injury prevents you from being able to work again. No income, with increased medical costs, can significantly impact the lifestyle and financial health of yourself and those around you.

Typically, TPD insurance allows for the payment of items such as:

- Nursing and in-home care;
- Rehabilitation;
- Medical care;
- Home or vehicle modification;
- The balance of your home and/or investment mortgage;
- Children's education and other costs; or
- Ongoing income for you and your family.

There are two types of occupation definitions that you can choose from that will impact your ability to claim, any or own occupation.

The any occupation definition means you are unable to return to an occupation for which you are reasonably suited by education, training and/or experience. This definition makes it harder to claim as you may be able to return to a different occupation that suits your skills, training or experience. This is the only definition available if your insurance is held within super. Certain occupations can only have this type of definition also.

The own occupation definition means that you are unable to return to your occupation specifically. This makes it easier to claim as you are only being assessed against your own occupation.

Holding your TPD policy in super can make it harder for you to access. You need to meet a condition of release before payment can be made, and payments need to be approved by the trustee of the fund. The own occupation definition is not available for new TPD policies held in super. TPD benefits paid from super may include taxable and tax-free components, with concessional treatment available in some circumstances, and this can reduce the amount you receive on a claim. You should carefully consider the requirements of the trustee and trust deed of your fund before holding your TPD policy in super.

Trauma insurance.

Trauma insurance can provide a lump sum of money to help you meet medical expenses and clear debts when you have suffered a medical trauma. The types of trauma covered will differ between policies, with some of the more commonly defined events being cancer, heart attack, and stroke. Due to the temporary nature of these events (in many cases), no claim could be made under a TPD policy, but the medical costs could still be financially crippling.

Trauma insurance may cover items such as:

- Debts repayments;
- Medical costs including specialised treatment;
- Nursing or in-home care;
- Care for children; or
- Home or vehicle modifications.

One key difference between trauma insurance, compared to TPD or income protection, is that there is no work test. That is, the payment is made on the diagnosis and/or treatment of a specified medical event rather than your ability to work. This insurance, by its nature, cannot be held inside super.

Income protection.

Income protection insurance provides a monthly payment in the event that you are unable to work due to illness or injury. Unlike TPD insurance, it covers temporary illness and injury.

For modern income protection policies, insurers typically limit cover to a percentage of your pre-disability income (often around 70%, and sometimes higher for initial periods), although limits vary between insurers.

There is a waiting period before your monthly payments start and then you can continue to receive the payments for the benefit period, that is how long it is paid for. The cost of cover will depend on the waiting and benefit periods selected.

Income protection is designed to cover a large portion of your income for you to meet your financial commitments, medical costs and costs associated with your return to work.

Most modern policies are indemnity-based, meaning your benefit is assessed using your income at claim time (and often verified at application).

Generally, an average of your income over the preceding 12 months will be taken to determine your claim payment. If your income has reduced, so too will your payment.

There are certain payments such as WorkCover, that will offset income protection payments you are due to receive. Check your policy details so that you know what these offsets are.

Income protection policies have many additional features and benefits that can significantly assist in your time of need. Some of these can only be held outside of super to ensure you receive the benefit at the time of the claim. The product disclosure statement (PDS) will explain what these benefits are. Some are at no cost, while others will add to the cost of your policy.

To receive a benefit from an income protection policy held through super, the life insured must satisfy the “temporary incapacity” condition of release.

Insurance held in super.

Insurance held through super can be paid from your super balance, or you can make additional contributions to fund the insurance. The fund can claim a tax deduction for premiums paid and, in many instances, they will pass this deduction (15% of the premium) back to you, reducing the net cost of the insurance cover. Paying with concessional (pre-tax) contributions can effectively reduce the cost of your cover. It is cost-effective because you are paying for it with money that has been taxed at the 15% contributions rate rather than at a personal tax rate that could be as high as 47%.

While the benefits are clear, there are some cautions to consider. If you pay for your insurance from your super balance, or your contributions don’t keep pace with the cost of your insurance, you will deplete your retirement savings. Regular review of your insurance needs and costs can help you to reduce this risk.

Claiming insurance through super requires approval from the insurer as well as the trustee of the fund. This can cause lengthy delays in the claim process. Some trust deeds make it challenging to receive your payments as you need to meet a condition of release before they

can pay your claim. Make sure your trust deed allows for payments in the event of total and temporary disablement. If you add features and benefits to your policies, make sure that they can be used if the policy is held within super.

Risks to consider for insurance.

- **Keep up to date** - The level of cover may not be suitable if your financial position changes. Your income increases need to be reflected in your income protection policy for you to receive the maximum payment at claim time.
- **Increase in cover** – Some policies allow for future increases in your cover without medical assessment for life events such as marriage, starting a family or home purchases. If further cover is required in the future, outside of these provisions, you will need to undergo underwriting assessment, and there is no guarantee the increased cover will be accepted by the insurer.
- **Non-disclosure** - Not completing the application form(s) honestly and in full may give the product provider due cause to dispute any future claims.
- **Estate planning** - Insurance held within super is not dealt with in your personal Will. You can elect for the proceeds to be paid to your estate or your dependants on death, provided you make a valid nomination to your super fund.
- **Tax to non-dependants** - If your insurance is held within a super fund, and the benefit is paid to non-dependants, then there may be tax payable on the benefit of up to 32%.

The tax treatment of life insurance premiums and benefits

If you take out life, TPD, trauma or income protection insurance, the following tax implications will apply:

Product	Premiums for policy owner	Benefit for the policy life insured
Life insurance	Premiums are not tax-deductible	Tax does not apply to benefit payments
TPD insurance	Premiums are not tax-deductible	Tax does not apply to benefit payments
Trauma insurance	Premiums are not tax-deductible	Tax does not apply to benefit payments
Income protection	Premiums are tax-deductible	Tax applies to any benefit payments

Note: Excludes policies held within super.



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