BANKS GROUP

PERSONAL INSURANCE IN SUPER

Personal insurance can be purchased both through your superannuation fund or a specialist insurer.

If you earn an income, your death or incapacitation could leave your family struggling to pay bills like the mortgage or rent, groceries, transport, utilities, and schools fees.

Personal insurance is a way to protect your partner, children, and other dependants from financial hardship in the event you pass away or become seriously ill or injured.

The insurer can temporarily replace most of your income or pay a lump sum of cash to your beneficiaries, including your family. This can help you to:

- pay your mortgage and other debt
- afford day-to-day living expenses
- cover the cost of children's education
- maintain your standard or living
- provide an inheritance.

Insurance is available from most superannuation funds or via specialist insurers. This decision will influence the tax benefits, implications and claim payments associated with the cover.

We recommend you seek personal advice before making decisions relating to the type, ownership structure and amount of cover. Here are some key points to consider when purchasing insurance through your super fund.

Types of cover offered by super funds

Not all types of cover can be held inside of your superannuation fund. Super funds typically offer their members three types of personal insurance:[1]

- **Life cover** — also knowns as death cover, it pays you a one-off lump sum in the event you pass away or are diagnosed with a terminal illness.
- **Total and permanent disability (TPD) cover** pays a one-off lump sum if you become permanently disabled and are unable to work in either your 'own occupation' or 'any occupation' ever again. (Read the product disclosure statement to find out how your fund defines TPD.)
- **Income protection** — can replace up to 70% of your monthly income for a set period (e.g. two years) or up to a certain age (e.g. 65) if you suffer a serious illness or injury and cannot work in your own, or usual, occupation.

Due to changes to the law that came into effect on 1 July 2014, super funds no longer offer new **trauma cover** policies. If you were in a super fund that offered trauma insurance before that date, you might still have it. Check your member statement or contact your super fund to find out.

Pros of personal insurance in super

Among the advantages of getting personal insurance through your super are:

- **Tax-effective payments** — your employer's super contributions are taxed at 15% — lower than the marginal tax rate for most people. This can make paying for insurance through super tax-effective.[2]
- **Cheaper premiums** — super funds can negotiate bulk discounts on insurance premiums, which are generally lower than those charged by specialist insurers.
- **No medical evidence** — most super funds will accept you for a default level of cover without you having to undergo medical exams or blood tests. That said, it may be a requirement to provide medical evidence when a claim is made.

Cons of personal insurance in super

Among the disadvantages of getting personal insurance through your super are:

- **Limited cover** — the level of cover available in super is sometimes lower than the level of cover you can have outside super. It may not be enough to adequately cover your needs.
- **Reduces your super balance** — insurance premiums are deducted from your super balance. This reduces your investable cash or savings for retirement.
- **Ends relatively early** — TPD cover in super usually ends at age 65 and life cover at 70. As long as you keep paying your premiums, some specialist insurers may cover you for longer, possibly — in the case of life cover — potentially until you turn 100.
- **Additional release criteria** – when insurance is paid by your super fund and it is not owned by you personally, there may be additional release criteria imposed. The additional criteria can result in the insurance benefit being trapped in your super fund.

Do you have enough personal insurance through super?

If you have personal insurance through your super, make sure the cover is sufficient to meet your family's future needs.

Depending on your situation, you may want to consider things like your:

- **debts** — what you owe on your mortgage, credit card, car and personal loans, etc.
- **dependants' future expenses** — the ongoing housing, food, utilities, transport, education, insurance, medical and other bills your loved ones would still need to pay for in your absence or incapacitation
- **current cover** — the amount of personal insurance you have within existing policies that you intend to maintain (including any insurance outside your super).

If it turns out you're underinsured, you may be able to increase your level of cover through your super fund. Alternatively, you might wish to consider getting extra cover through a specialist insurer.

Get expert advice

Personal insurance can be complex to understand. There are many factors to consider, including:

- whether to purchase inside/outside super
- how much insurance to get
- the type of insurance you need.

Before making any decisions about your personal insurance, we recommend speaking with one of our financial advisers. They can help you choose the ideal insurance for your unique circumstances.

Request a complimentary consult at info@banksgroup.com.au or +61 3 9810 0700.

1. The types of personal insurances available, conditions and level of your insurance cover will be specific to the super product or your plan — and are set out in the relevant product disclosure statement and/or insurance guide. Your most recent superannuation statement should show if you have any insurance through your fund. If you're not sure, contact your super fund for more information.
2. Generally taxed at concessional rate of 15%. Please speak with your financial adviser or a registered tax agent to obtain financial advice tailored to your personal circumstances.

Complete financial care is a phone call away.

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