

TPD COVER

Total and permanent disability (TPD) insurance can pay you a one-off lump sum payment if you become totally and permanently disabled and are unable to return to work or domestic duties.

Imagine, as a result of a serious injury or illness, you became totally and permanently disabled. The consequences would be not only physical and emotional, but also financial.

Among other things, a total and permanent disability (TPD) benefit payment can be used to:

- cover the cost of modifications to your home and/or car necessitated by your impairment
- pay off the mortgage and other debts
- cover your children's school fees
- meet your long-term living expenses.

TPD cover is generally available as a standalone insurance or as an optional extra with life cover (see 'TPD and life cover' below).





What's covered by TPD insurance?

Your insurer may pay you a benefit if, due to physical or mental incapacity, you're unable to work ever again.

'Any occupation' vs 'own occupation'

There are two main definitions of TPD cover that determine a person's eligibility to receive a benefit payment.

Some insurers require that you're unable to work in 'any occupation' — any gainful employment for which you're reasonably qualified by education, training or experience.

Other insurers require that you're unable to work in your 'own occupation' — the one you usually worked in before you became disabled.

Some insurers allow you to choose either 'any occupation' or 'own occupation'; the latter typically attracts a higher premium.

Some insurers have a third 'homemaker' definition for people who, due to physical or mental ill health, are unlikely to be able to perform unpaid domestic duties ever again.

It's therefore important to read the product disclosure statement (PDS) and confirm which definition applies.

Superannuation funds are only permitted to offer 'any occupation' TPD cover to their members.

TPD and life cover

TPD can be held stand alone or linked to a life cover policy. If you make a claim on a TPD cover policy attached to your life cover policy, your life cover will usually be reduced by the amount of the claim.

For example, if you have \$750,000 of life cover and are paid \$500,000 for a TPD cover claim, your life cover will be reduced to \$250,000 (your insurer will lower your premium accordingly).

For an additional premium, some insurers allow you to 'buy back' any reduction in your life cover. In other words, you can pay to reinstate your life cover to its original level.

TPD cover and tax

If you hold your TPD cover through your super fund, the premiums may be tax-deductible and are paid to the policy owner in the event of a claim (the super fund). If you then withdraw part or all of the proceeds before preservation age, the money withdrawn is likely to be taxed.

If you hold your TPD cover independently, the premiums are not tax deductible. Proceeds of a claim are paid directly to the policy owner and are not taxable.

I've already got trauma cover — why would I need TPD cover?

Trauma cover pays out for specified serious illnesses, such as cancer or a heart attack. These traumatic conditions may not render you permanently disabled. A claim may be approved regardless of whether you're eventually able to return to work or not.

However, if you suffered a musculoskeletal injury, say, that left you totally and permanently disabled, it would not be covered under your trauma policy and would be covered under a TPD policy.



What else should you consider?

- At the age of 65 your TPD policy may expire, or your insurer may gradually start reducing the amount for which you're covered (your premiums may be reduced accordingly).
- TPD premiums paid by your superannuation fund will reduce the funds invested for your retirement.
- If your policy is held within your superannuation fund you may not be able to transfer all of the benefit payment to a tax-effective income stream.
- Some insurers will reimburse the cost of engaging a financial advisers — typically up to \$2,000 — to prepare a financial plan to help you manage the proceeds of your lump-sum claim payment.
- Before selecting an insurance policy, you should always carefully read the product disclosure statement (PDS). It explains the terms, conditions, limits, and exclusions of your cover.

Get expert advice

Selecting TPD cover for your unique situation can be complex. There are many options to consider.

We recommend speaking with one of our financial advisers, who can help you choose a product suited to your circumstances.

Contact us for a complimentary consultation at info@banksgroup.com.au or +61 3 9810 0700.

Complete financial care is a phone call away.

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