J FLEMING
FINANCIAL SERVICES

financial **snapshot**

The difference a word makes

Who would have thought that changing one three letter word for another could make a difference to insurance cover within superannuation?

But, changing the definition of the types of insurance allowed to be held through superannuation has had just such an outcome.

That's because, from 1 July 2014, the only new type of insurance policies that can be held through a super fund are those that match up with a superannuation condition of release.

As a result, in order for total and permanent disability (TPD) insurance cover to be allowed inside super, there is no longer a choice of 'own' or 'any' occupation – essentially only 'any' occupation type policies will be permitted.

Similarly, new policies of trauma cover (also known as critical illness insurance) will no longer be allowed inside super.

Both changes are based on the same premise – making sure you can access insurance payouts following an insured event.

So nowadays, while existing policies will be grandfathered, the only new policy that a super fund can take out is one where the terms of that cover essentially match a condition of release. This will in effect limit the available types of cover within super to life, TPD (any occupation) and income protection.

What is covered?

TPD insurance provides cover if you suffer a long-term disability that stops you from working. It may be as a result of events such as an accident, cancer, heart attack, mental illness or stroke.

'Any' occupation cover means there will be no payout by the insurer unless you have totally lost the ability to work in any capacity.

By comparison, 'own' occupation cover means the insurer pays out if you are unable to perform your existing occupation.

For instance, if you were a surgeon and lost your hand in an accident, then clearly you could not continue working in this capacity. As a result this would trigger an insurance payout under the 'own' definition.

The difference a word makes continued

But maybe you could practise as a general practitioner. As a result, under an 'any' occupation policy you would not receive a payout.

Conditions of release

Even if an insurer agrees to pay your claim, you may not receive the money if the policy was bought through your super fund. That's because your super fund will not necessarily be able to pass on the proceeds until you meet a condition of release.

So, for example, to receive a superannuation payout on the grounds of disablement you must meet the permanent incapacity condition of release for 'any' occupation.

If you already have an 'own occupation' type policy in super, you may not be able to access the money from your super fund under the permanent incapacity condition of release and as such you'd need to meet another condition of release like retiring or reaching the age of 65 to receive the proceeds of a payout.

Because of this potential danger, the rules have been changed for new policies taken out from 1 July 2014.

Inside or outside super?

For many, these recent changes may be grounds for holding some TPD cover inside super with additional cover outside super to benefit from the 'own' occupation option.

There are a number of advantages in holding insurance inside super. You can have your fund pay the premiums from your pre-tax super contributions rather than your post-tax income, or you could choose to have the premiums deducted from your super balance to help your cash flow.

But there are also downsides, as the table below shows. For instance, if a payout is made in your super fund and you are under 60, you may have to pay tax on your TPD benefit.

However, if your benefit qualifies as a superannuation disability benefit under the Tax Act, then you'll receive an increased tax-free component based on service foregone until retirement.[i] So the younger you are, the higher your tax-free component.

Don't be underinsured

Rice Warner Actuaries calculates that 95 per cent of families do not have adequate insurance[ii], yet the chances of you being unable to work may be higher than you think.

In 2008, 235,790 working age parents suffered a serious illness or injury and more than 17,000 of them were forced to stop working either permanently or for an extended period.[iii]

However, the median level of TPD protection provides just 14 per cent of what is really needed to maintain the standard of living of a family making a claim.[iv]

If you have any queries about your current level of protection, your advisor can help you work out how much cover you need for your family and whether it should be inside or outside super.

While existing policies will be grandfathered, it is still worth considering looking outside super for TPD insurance cover given that you may encounter problems accessing your payout when you need it.

It may seem like a small change, but the removal of one word has presented a great opportunity to check that your insurance has got you adequately covered.

i. http://www.iknow.cch.com.au/#!/topic/tlp403/document/atagUio933061sl54074167/legislation/superannuation-income-stream-benefits-taxation/section-301-40-superannuation-income-stream-taxable-component-is-assessable-income-15-offset-for-disability-benefit

ii. http://www.lifewise.org.au/downloads/file/aboutthelifewisecampaign/2010_0203_LifewiseNATSEMSummaryA4FINAL.pdf

iii. http://www.lifewise.org.au/downloads/file/aboutthelifewisecampaign/2010_0203_LifewiseNATSEMSummaryA4FINAL.pdf

iv. http://ricewarner.com/newsroom/2013/december/02/rice-warners-latest-underinsurance-research-report/

Insurance		Inside super	Outside super
TPD	Premium	Premiums may be tax-deductible to the fund. However, if you make super contributions to cover premiums, you may benefit from reduced personal income tax or other Government benefits	Premiums not tax-deductible
	Benefit	Generally taxed as a super withdrawal	Tax free

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