Case Study

Insurance Inside Superannuation

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Insurance Inside Superannuation

An essential part of the financial planning process is to protect your livelihood & wealth creation strategies in the event of you having an illness or accident. While it's something you don't want to think about, there is a risk that one day your may suffer from a severe injury, be diagnosed with a serious illness, or even die prematurely.

No matter how healthy a lifestyle we lead, illness and injury doesn't discriminate. No one is guaranteed good health and a long life.

These events can leave people emotionally, physically and financially shattered and safety nets like the disability pension and Workers' Compensation simply don't provide the financial protection we think they do.

Workers' compensation for example, will only cover you for injuries that occur inside the workplace. So if you injure your back in a game of backyard cricket, or if you are diagnosed with a serious illness such as cancer, you won't be covered. What's more, the disability pension is a lot less than you probably think.

While you can't prevent misfortune from occurring, a risk management plan can protect you, your lifestyle and your loved ones from the financial consequences such events can bring. Insurance is a cost effective way to manage these very real risks.

Two of the more common types of insurance that can be used to provide financial protection for you and your family are Life and Total and Permanent Disability (TPD) insurance.

Life insurance pays a lump sum in the event of your death. These funds can be used to clear debts, enable your family to meet their ongoing living expenses and maintain their lifestyle.

TPD cover pays a lump sum in the event that you can't work in your current job or any other job again. The money can be used to pay your medical expenses, clear debts and to make modifications to your home. The money may also enable your spouse to take time off work so that he/she can take care of you.

These insurances can be held either inside or outside superannuation. If you hold life and TPD insurances in a super fund, you may be able to take advantage of a range of upfront tax concessions generally not available when insuring outside super.

For example:

- If you're eligible to make salary sacrifice contributions, you may be able to purchase insurance through a super fund with pre-tax dollars.
- If you earn less than $61,920 pa and you make personal after-tax super contributions, you may be eligible to receive a Government co contribution that could help you cover the cost of future insurance premiums.
- If you earn less than 10% of your income from eligible employment (e.g. you're self-employed or not employed), you can generally claim your super contributions as a tax deduction - regardless of whether they are used in the fund to purchase investments or insurance.

Case Study

Jack is 42 and works full-time and earns a salary of $100,000 p.a. After seeking financial advice Jack takes out $700,000 in Life and TPD insurance so his family can pay off their debts and replace his income if anything should happen to him. The premium for this insurance is $827 p.a. in the first year.

The table below compares the funding of this insurance premium both inside and outside the superannuation environment.

	Outside Super	Inside Super
Gross Income	$ 100,000	$ 100,000
Salary Sacrifice	–	$827
Total Assessable Income	$100,000	$99,173
Tax Payable	$26,947	$26,624
After Tax Income	$73,053	$72,549
Less: Insurance Premium	$827	–
Net Lifestyle Income	$72,226	$72,549
Annual Saving		**$323**

As can be seen, an annual saving of $323 is generated just by holding the cover inside the superannuation environment.

We can certainly assist you with determining the right level of cover, whether you could benefit from insuring inside the superannuation environment and making sure you remain suitably covered.

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