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# Appendix 6: Insurance

## Insurance Considerations

The following terms explain some of the definitions given to the benefits recommended:

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| **Basic or Comprehensive:** Provides you with either the most basic cover available, or the most comprehensive cover available according to your client’s needs. |
| **Stepped or Level:** Stepped premiums means that the premium increases with the life insured’s age therefore as you get older and become a higher risk to the insurance company your premiums increase to reflect this. Level premiums means that the premiums remain the same up to age 65, after this time they revert to a stepped style premium. Initially level premiums will be higher than stepped premiums in the early years of the policy but over the long-term it will be cheaper. The big advantage of a level premium is that you know in advance what the premiums will be and don’t find out later you can’t afford the cover when you need it most. |
| **Agreed Value or Indemnity:** With agreed value, you are paid a monthly sum settled at the time you take out insurance. Indemnity cover is cheaper than agreed value, but it's also proportionately riskier, particularly if you are self-employed. With indemnity cover, the income paid is determined at the time the claim is made. This could work in your favour, but it can equally work against you. If your health has been steadily declining and your customers – and in turn your income – have been declining too, you will only be paid on your reduced income. |
| **Buy Back:** This feature allows the policyholder to buy back, after a certain period of time, the life cover that is reduced following a trauma claim at standard rates. By selecting this option, you will automatically ‘Link’ the cover to the Life policy. |
| **Buy Back Period:** Applicable where TPD and/or Trauma is to be linked to life cover. This feature allows the policy holder to buy back, after a certain period of time, the life cover that is reduced following a TPD and/or Trauma claim at standard rates. |
| **Any Occupation, Own Occupation, Non-Occupation:** Own TPD definitions will typically base its assessment on the Insured’s own or usual occupation. An ‘any’ TPD definition will typically base its assessment on the Insured’s own occupation for which the Insured’s is reasonably suited by reason of education, training and experience. A ‘non occupational’ definition does not assess the Insured against their inability to ever work again; instead a claim would be assessed under a loss of limbs/sight definition or the inability to perform activities of daily living. |
| **Waiting Period:** The waiting period specifies the period of time that the Insured must be totally or partially disabled prior to becoming eligible for the monthly benefit amount. |
| **Benefit Period:** The benefit period specifies the period of time that the Insured may be entitled to receive the monthly benefit for a disability arising from the one cause or a number of related causes. |
| **Increasing Claims Benefit:** In the event of a long-term payment, the payment will be increase according to CPI. |
| **Accident Benefit:** accident benefit may waive the waiting period in the event that the Insured is totally disable due to injury. |
| **Critical Illness Benefit:** A critical illness benefit will typically provide 6 months of benefits (regardless as to whether the injured is totally disabled or not) in the event that the Insured suffers one of a specified list of trauma events.  |
| **Mental Health Exclusions:** Some policies provide the option to exclude or restrict cover for mental disorders in exchange for a premium discount. Selecting ‘yes’ for this question will apply the discount for those policies that do provide this option, while at the same time, providing the standard premium for those policies that do not offer such a feature. |
| **Funeral Advancement Benefit:** an amount payable from the aggregated insured benefit that is earmarked for the payment of insurance costs. It may not be available when policy premiums are paid from superannuation. |

## Applying for Personal Insurance

Your insurance does not commence until the insurer has completed their assessment and issued the insurance policy. The length of the process from start to finish depends on a number of factors in particular, the time it takes for the insurer to receive all the information they require to fully assess your application.

Generally, there are four steps to obtain cover:

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| --- | --- | --- | --- |
| **Step 1**Complete Personal Statement & Questionnaires | **Step 2**Blood Tests & Medical Examination (in any) | **Step 3**Insurer Receives Results | **Step 4**Insurer Assess the Information & Advises Decision |

Some insurers offer ‘interim’ cover on a limited basis between the time of your application and the eventual acceptance. This varies between products and the terms and conditions are explained in the Product Disclosure Statement.

If you are required to undertake a medical examination, this is usually at the cost of the insurance provider. This is not an additional expense charged to you.

If your health has changed since you took out your original cover, then it may be more difficult to get new cover or the premium may be higher. In any event, it is important that you do not cancel any existing insurance policies until your new policy is in place.

Life Insurance/Death Cover

Term life insurance is the most common form of life insurance policy. It pays a tax-free lump sum to a nominated beneficiary in the event of death or terminal illness. Term life insurance is necessary to ensure that in the event of death sufficient funds are available to support your family and to ensure a desired standard of living can be maintained.

Your sum insured should be adequate to cover outstanding debts and provide an adequate lump sum to cover your dependants’ income needs for the remainder of their lives. Over time, as one moves from building wealth to maintaining wealth, the required level of insurance cover decreases.

Generally, it is most cost effective to hold your death cover within your superannuation fund. However, the tax treatment of a pay-out in superannuation may be quite different, compared to direct ownership, in the hands of the final recipient.

## Total & Permanent Disablement (TPD) Insurance

TPD insurance provides a lump sum if the life insured suffers an illness or injury which totally and permanently incapacitates them from working. It is usually offered as an option on a term life policy; however, it can also be offered as a stand-alone policy.

Your sum insured should be adequate to cover outstanding debts and provide an adequate lump sum to cover:

|  |
| --- |
| Your dependants’ income needs; and |
| The higher medical, rehabilitation, home/car modification and care costs associated with the insured’s permanent incapacity. |

Traditionally the waiting period is six months before a claim can start to be assessed.

**TPD ‘Occupation’ Definitions**

TPD will normally be paid in the event that the insured is unable to ever work again in ‘any’ occupation for which they are reasonably suited by education, training or experience.

However, TPD can also be based on an ‘own’ occupation definition. This means a benefit will be paid even if the insured is still able to work in some capacity but can never again work in their particular occupation:

|  |
| --- |
| ‘Any Occupation’ – it is a requirement that you are totally and permanently disabled, never to be able to work in *any* occupation for which you are reasonably suited by your experience or education (at the insurer’s discretion). |
| ‘Own Occupation’ - you are totally and permanently disabled from your *own* occupation. |
| ‘Home Duties’ – you have to be incapacitated to the extent that you are unlikely ever to be able to perform normal domestic duties, and work in any occupation for which you are reasonably suited by education, training or experience in order to be classed as being disabled. |

* ‘Non-Working’ – payable on the loss of multiple limbs and/or eyesight, unable to manage oneself independently, severe cognitive loss

The own occupation definition is more generous in that it is easier to meet. However, the option may be subject to certain criteria and only available for individuals in certain job roles or professions. In addition, the premium payable is higher for ‘own occupation’ cover.

## Trauma Insurance

Trauma insurance (also known as Critical Illness insurance) pays a tax-free lump sum on the diagnosis of a defined medical illness to the insured. Examples of such medical illnesses are heart attack, cancer, stroke or by-pass surgery.

Trauma cover may be regarded as the most expensive type of personal insurance – with good reason, because it covers the most likely events to occur, and some policies are very broad in their coverage of events.

The benefit of trauma cover is that a lump sum cash payment in the event of diagnosis can provide a financial resource for a period of time. This can cover medical costs and/or allow a partner to stop working and care for the ill partner.

## Income Protection Insurance/Salary Continuance Cover

Income Protection insurance provides you with a regular (usually monthly) taxable income in the event that you become sick or injured. You can typically insure up to 75% of your current income. This insurance can provide you with protection until you retire.

Income protection cover ensures that your assets aren’t sold or spent to replace lost income. It also enables you and your family to continue to enjoy the lifestyle you have worked hard to build.

Also, as we have established an investment program to meet your lifestyle and financial goals, this insurance also ensures the ongoing risk management of your strategy.

Income protection insurance is tax deductible to the individual in their annual tax return. So, for a taxpayer on the top marginal rate, the cost is effectively half the annual premium.

## Business Expenses Insurance

Business expenses insurance is available to small business owners to meet expenses should the insured be unable to work because of illness or injury. The insurance would provide funding for ongoing expenses such as loan repayments, insurance premiums, rent, advertising costs, leasing costs etc. to maintain your business liabilities.

Payments are generally made on a monthly basis and can reimburse up to 100% of approved business expenses. The insurance only provides short term protection. Benefit periods are generally limited to 12 months. Business expenses insurance is tax deductible.

## Taxation of Superannuation Death Benefits (Insurance)

The proceeds of an insurance policy that is paid from a superannuation fund are tax-free if paid to dependants, and there is no limit on the amount that is tax-free. A dependant for these purposes is defined under taxation law as a spouse or child under 18, or a person who is financially dependent on you, or a person who is in an interdependency relationship with you at the time of your death.

A death benefit may only be validly may only be paid to:

|  |
| --- |
| Your current spouse (including a de facto), |
| Any person(s) who may be financially dependent upon you (eg. former spouse), |
| A person with whom you have an interdependency relationship, or |
| Your child if they: |
| \_ Are under age 18 |
| \_ Are under age 25 and financially dependent on you, or |
| \_Have a certain type of disability. |
| When the child reaches age 25, the balance of the account would then be commuted to a lump sum, or continue to be paid to a child if they have a disability of the kind described in the section 8(1) of the Disability Services Act 1986. |
| It is important to note that non-tax dependants will not be taxed on the ‘tax free’ component of the death benefit paid from the superannuation fund. The taxable component is broken down into two components; the taxed element in the fund and the untaxed element. |

The following table provides a brief explanation of the taxation of lump sum death benefits paid from superannuation:

|  |
| --- |
| Taxation of Superannuation Lump Sum Death Benefits |
| Recipient | Taxation |
| Tax Dependants | Tax Free |
| Non Tax Dependants | Tax Free Component | Tax Free |
| Taxable Component – Taxed Element | 15% [1] |
| Taxable Component – Untaxed Element | 30% [1] |

Notes:

|  |  |
| --- | --- |
| [1] | Plus Medicare levy of 2%. |

The following table provides a brief explanation of the taxation of death benefit income streams paid from superannuation:

|  |
| --- |
| Taxation of Superannuation Death Benefit Income Streams |
| Age of Deceased | Age of Dependant | Taxation |
| 60 or Over | Any Age | Tax Free |
| Under 60 | 60 or Over | Tax Free |
| Under 60 | Under 60 | Tax Free Component | Tax Free |
| Taxable Component | Tax at Marginal Tax Rate with a 15% Tax Rebate [1] [2] |

Notes:

|  |  |
| --- | --- |
| [1] | When the beneficiary reaches age 60, this becomes tax free. |
| [2] | Plus Medicare levy of 2%. |

## Insurances within Superannuation \_ Low Balance & Inactive Accounts/Under 25s

After 1 April 2020, any new superannuation member under 25, or any new member with a balance of less than $6,000 will not be automatically offered insurance by the superannuation provider.

For pre-existing members of the fund, existing insurance was cancelled if, between 1/11/2019 – 1/4/2020, the balance fell to or below $6,000 at any point.

Similarly, insurances were cancelled on inactive funds that had not received a contribution in the previous 16 months.

Pre-existing & new Members are able to opt to retain/apply for insurance if contributions are made within the required 16-month period; even if the balance is below $6,000.

## Income Protection Insurance \_ Post 31 March 2020

Income Protection policies, held outside of Superannuation, typically offered two broad types of Cover:

\_ Indemnity Cover \_ the insured benefit to which the claimant is entitled is only calculated at the time of claim. It is based upon ‘recent’ earnings history.

\_ Agreed Value \_ the insured benefit is calculated at the time the policy is underwritten. The claimant, depending upon any other policy provisions, is typically assured of a particular pay-out amount.

From 1 March 2020, new Income Protection policies can only offer Indemnity cover.

## Personal Insurance Policies \_ Post July 2021

The regulator APRA, has foreshadowed changes to Personal Insurance to ensure long-term stability of the industry.

Income Protection:

* Ensuring benefits do not exceed the policyholder’s income at the time of claim
* Policies with fixed terms and conditions of no more than five years with a right to renew
* Ensuring payouts do not exceed 100% of assessed income in the first 6 months and 75% thereafter; subject to a $30,000 per month cap.