Protecting your wealth

Insurance in plain English

What is insurance?

Insurance is a form of protection – a way to protect yourself, your family and the things you own if something goes wrong. It enables you to replace or repair your assets, whether those assets are your belongings or your capacity to earn income.

Everybody's circumstances are different, but insurance is important for everybody. Your need for insurance will change as you move through the different stages of your life.

There are many different types of insurance, and we can help you find the right level of protection for your needs.

What types of insurance are there?

There are many types of insurance. Car or home/contents insurance allows you to insure your belongings. Personal insurance policies enable you to insure yourself and your ongoing wellbeing.

Personal insurance provides protection against sickness, injury and death, and includes:

- Life insurance
- Total and Permanent Disability (TPD) insurance
- Trauma insurance, and
- Income protection.

While insurance doesn't remove the risk of something going wrong, it provides you and your family with protection and financial security if something does happen.

The amount of insurance you need is affected by:

- how much you earn
- your cost of living
- your assets
- your liabilities
- your relationship status (whether you are married, in a de facto relationship or single), and
- how many dependants you have.

Life insurance

Life insurance protects your family by paying a lump sum if you die. Most people think that life insurance is only for the main income earner, but the person who takes care of the family is also a large contributor to the home and can be insured.

Life insurance	
Can be purchased inside or outside of superannuation	Many super funds provide life insurance. Premiums can be paid from contributions made to your fund by your employer, by you personally or simply deducted from your account balance in the fund.
Tax treatment	**Outside super** • Premiums are generally not tax deductible. • The benefit payment is tax free. • Broad range of potential beneficiaries. **Inside super** • Premiums are tax deductible for the super fund. • The benefit payment may be taxed, depending on who receives it. • Limited range of potential beneficiaries. • Superannuation contributions made to fund premiums may attract various tax concessions.

Total and Permanent Disability insurance

TPD cover provides a lump sum payment if you suffer a disability before retirement and can't work again, or can't work in your usual occupation or chosen field of employment.

TPD insurance	
Can be purchased as an add on, or as a stand alone policy	You can buy TPD as an add on to term life insurance, or as a stand alone product. You can also get TPD as an extra benefit from your super fund or as part of a trauma insurance product.
Tax treatment	**Outside super** • Premiums are not tax deductible. • The benefit payment is tax free if paid to the injured person or their relative. **Inside super** • Premiums are generally tax deductible for the super fund. • Superannuation contributions made to fund premiums may attract various tax concessions. • The benefit payment you receive may be taxed. • Limits apply to the types of policy available inside super.

Trauma insurance

Trauma (or critical illness) insurance provides a cash lump sum if you suffer a specified illness or injury such as heart attack or stroke. Advances in medical treatment have increased the need for trauma insurance. The improved chance of survival means that although you are more likely to survive, you are also more likely to have substantial medical bills to pay.

Trauma insurance	
Stand alone policy or additional options	Trauma insurance is usually purchased as a stand alone policy, but can be purchased with additional options, such as a TPD benefit. Trauma insurance is generally not available through superannuation.
Cost	Trauma cover is relatively more expensive than other forms of life insurance because of the greater probability of a trauma event occurring.
Tax treatment	• Benefits are tax free. • There is no restriction on how you use the payments. • Premiums are not tax deductible

Income protection

Income protection insurance (also known as salary continuance or income replacement) provides a monthly payment to replace lost income if you are unable to work due to injury or sickness.

Income protection	
Level of cover	The maximum allowable cover is generally 75 per cent of your gross wage.
Benefit period	The longer the benefit period, the higher the premium.
Can be purchased inside or outside of superannuation	Income protection is available through your super fund or can be purchased as a stand alone policy outside of super.
Tax treatment	• Premiums are generally tax deductible. • The payments received are considered income and are subject to tax.

Insurance as part of your superannuation

Life, TPD and income protection insurances are all offered within superannuation. If your insurance is held within superannuation, the cost of the premiums is withdrawn from your superannuation balance.

It is important to work out the best way to structure your insurance, whether inside or outside superannuation, or a combination of the two.

Benefits to having insurance in your superannuation may include:

- automatic acceptance – there's generally no need to complete medical checks
- cheaper cover – from the bulk discount typically available to superannuation funds, and
- tax concessions for super contributions – super contributions may attract various concessions including tax deductibility, tax offsets, or Government co-contributions. So you may be able to pay your premiums by making tax advantaged super contributions.
- In the event of a claim, you or your dependant may be able to receive the benefit as a tax effective income stream.

Disadvantages of having insurance in your superannuation include:

- limitations on the types of cover available
- potential delays in the payment of benefits in the event of death, and
- Potentially higher tax rates on receipt of insurance proceeds – for example, superannuation death benefits paid to a non-dependant may be taxed at up to 32 per cent.

Keep your insurance up to date

Insurance is not static, and your need for cover will change as you move through different stages in your life. As part of the financial advice process, we regularly review your insurances to make sure that you are adequately protected if your circumstances change.

This information is current as at May 2019

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