Insurance via superannuation

FACT SHEET

Insurance through superannuation can be an effective way to help meet your insurance needs

Mr Insured:	"Did you hear about what happened to Brian?"
Mr Underinsured:	"Yeah, that's a real shame. Lucky he had life insurance."
Mr Insured:	"I know. Are you covered?"
Mr Underinsured:	"I started a new job last week and on my super statement I saw something about insurance. So I'll be right."

This probably sounds familiar to most of us, but what Mr Underinsured doesn't know, is his insurance may only last him two years if he becomes disabled. How would his young family cope if the money runs out?

Like Mr Underinsured, many of us feel we don't need to worry about life insurance – if we have it as a part of our super, it's a bonus. Yet the sad reality is six in 10 parents with dependent children lack enough life insurance to look after their loved ones for more than a year if they die.[1]

To ensure you and your family are protected, you should check how much insurance you have and compare that with how much you need.

If you're like most Australians, your only insurance cover is through your super. So this means looking at your superannuation account to determine if it meets your insurance needs.

Research shows that almost half of industry super fund members are underinsured by $100,000 for life cover and by $1,000 per month for income protection cover – frightening statistics when many Australians hold their only insurance through their super.[2]

When checking your insurance cover, it's important you investigate your:

1. **level of life insurance** – check the amount you are insured for. RiceWalker Actuaries recommended average Australian parents have 10 to 13 times their annual pre-tax income.[1]
2. **type of insurance** – some funds may only provide you with the minimum life cover, but what would happen if you were unable to work due to a disability? Life cover would not provide any benefits. Also, you may not have access to specific types of insurance like trauma, which is generally only available outside super.
3. **Premium.** If you didn't realise you had insurance within super, it's likely you didn't know you were paying for it too. Checking how much you're paying and shopping around may save you money down the track.

After assessing how much life insurance is in your superannuation account, you may be surprised how small the amount of cover is actually for. Studies conducted by Rice Walker Actuaries estimate the average insurance amount payable from superannuation is approximately $70,000.[1]

You may need to consider additional and separate cover to your superannuation life cover to meet your insurance needs.

Your ANZ Financial Planner can help you accurately identify how much insurance you have and how much you need. They will be able to look at your overall financial situation, and help you make the right life insurance decisions.

1. RiceWalker Actuaries, Analysis of Insurance Needs, May 2005
2. Sweeny Research, a joint report by The Australian Institute of Superannuation Trustees (AIST) and Industry Funds Forum (IFF), 2008

Benefits of insurance through superannuation

Because super is often the primary source of retirement income for most Australians, the Government has given it a number of tax breaks. This includes tax effective options for purchasing total and permanent disability (TPD), income protection and life insurance through it. So if you hold your insurance through super, you can use your super contributions to pay for the premiums instead of having a policy outside of super and using the after-tax contributions to pay for the premiums.

How you can benefit

- you may not have to dig into your pockets to pay for your premiums because these can be paid from your super account balance
- tax concessions on premiums mean insurance cover arranged through super can effectively be funded with your pre-tax income (if contributions to super are salary sacrificed or personal deductible contributions)
- given the savings, you may be able to top up your stand-alone insurance policies (those you hold outside of super) and increase your overall coverage
- your qualifying dependants can receive unlimited tax-free lump sum payments if you, the insured, pass away
- an income stream may be payable from the fund, which can be a tax effective way to provide for death or disability
- premiums via group super plans are often cheaper because the super fund is buying the insurance 'in bulk'
- you may be able to obtain cover without having a medical examination
- you may qualify for a Government co-contribution if you fund the cover by making after-tax contributions
- you may qualify for a spouse contributions tax offset if you fund the cover by making after-tax contributions on behalf of your spouse

Insurance via superannuation may be a tax and cost effective way to protect yourself and your family, but there are some things you should consider:

Is it enough?

The level of cover provided by superannuation funds is often a conservative estimate based on your salary and not on how much you actually need.

Is the structure right?

Make sure the waiting and benefit periods on any salary continuance cover are right for you. Also consider other features and options that may be only available through stand-alone insurance e.g. future insurability benefits and funeral advancement benefits.

Will benefits be taxed?

Claim benefits may be subject to tax, depending on the level and type of cover and who benefits are paid to.

Is there a continuation option available?

Make sure if you leave your employer you have the option to take your insurance with you.

Does the insurance complement the intentions of your will?

Life insurance benefits are paid to a fund's trustees who can then use beneficiary nominations, your will or their own discretion to determine who benefits should be paid to. Make sure you ask your fund about their trustee's order of payment.

Understand the role of the trustee

The insurance you purchase through super is owned by the trustee who oversees the process when it is time to claim a benefit. This can make the process lengthy and subject to trustee discretion. Also, under supperannuation law the trustee may only release a benefit (including proceeds of insurance) where a condition of release has been met.

Insurance through super can be complex, so you should seek advice from your ANZ Financial Planner who can help determine whether it's the right option for you.

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