

Understanding insurance

Managing your finances to meet your day to day requirements as well as your long-term goals can be a complex task.



Personal insurance

How death, disability or illness affects your ability (or your family's ability) to realise your lifestyle goals and objectives depends on the wealth protection strategy you have in place. By taking out insurance, you can provide some financial protection for your family's personal needs. Insurance can be structured to provide for such things as the repayment of your debts upon death or disability, financial assistance for dependants and protection against the loss of income.

Regardless of the type of insurance, you should ensure your insurance cover is adequate for your needs as under insurance could result in serious financial difficulty. Changes in your personal circumstances can also necessitate higher insurance levels.

Income protection insurance

This is designed to provide a regular income in the event you are unable to work due to sickness or injury. Generally, income protection insurance provides a regular income during a period of disablement for up to a predetermined and agreed benefit period with the amount payable a predetermined percentage of your income.

Most income protection policies offer a range of waiting periods before you start receiving your insurance benefit and you can choose from a range of benefit payment periods, with maximum cover generally available up to age 65.

Life insurance

This can be critical for a secure financial future. In simple terms, you insure yourself for a particular amount and in the unfortunate event you die, the insurer pays that amount.

The lump sum payment can be used to help with the repayment of debts, the covering of future needs and providing funds for investment to generate an income or to keep your business afloat.

Be aware death benefits received via a superannuation policy may be taxed.

Total and Permanent Disability (TDP) insurance

TPD provides a lump sum payment should you suffer an illness or injury which totally and permanently prevents you from working again. There are broadly two main definitions of TDP: own occupation and any occupation.

For the first, the insured must show they have a total and permanent disability that prevents them from working in their own occupation which they disclosed when applying for this cover.

"Own occupation" is a more liberal definition of disability, because even if you can work in another occupation, you may still be eligible to receive disability benefits. Because it is relatively easy to qualify for benefits under this definition of disability, insurance companies are limiting the availability of this type of cover.

For any occupation, the insured must show they are totally and permanently disabled and unable to work in their usual or any other occupation for which they are reasonably suited by their education, training or experience.

Be aware there may be taxation consequences where a disability lump sum superannuation payout is made.

Critical Illness insurance

This provides a lump sum benefit in the event the life insured suffers a “critical condition” as defined by the insurance provider. Critical illness cover is designed to help you financially recover from a trauma or crisis, such as a heart attack, stroke, cancer or other life threatening conditions.

Be aware critical illness cover is generally not held within superannuation. However this insurance type may be connected with other insurances that are held in superannuation, which can reduce the administration and costs of implementing the insurances via separate policies.

Endowment policies

These provide a specific amount of life insurance cover and usually have an investment component. The benefit payable from an Endowment policy is the sum insured plus any accumulated bonuses. The policy proceeds become payable on a specified maturity date or upon the death of the life insured prior to maturity.

Whole of Life policies

These provide a specific amount of life cover plus an investment component. The benefit payable is the sum insured plus accumulated bonuses. The sum insured plus bonuses are payable at the earlier of the death of the individual insured; or the individual insured attaining the age specified in the policy (being at least the age of 85).

Stepped vs level insurance premiums

When taking out insurance, there are generally two ways you can pay your premium. Stepped premium where your premium increases every year with your age; or Level premium where your premium generally does not change and is based on your age when the policy commences.

While stepped premiums are usually lower in the early years, level premiums can be a more cost effective option if you retain the insurance over a longer period.

Combining stepped and level premiums

Just as you can opt for a combination of fixed and variable rate home loans, you may want to take out part of your insurance using stepped premiums and use level premiums for the rest. This way, the premium in the earlier years will be lower than if you opt entirely for level premiums.

Over time, you can reduce your stepped premium cover as you build up more assets and potentially need less insurance.

Be aware level premiums can make budgeting easier because you know with greater certainty what your insurance is going to cost; and the maximum age you can start a policy with level premiums is generally lower than for stepped premiums

Tax deductibility of insurance premiums

The premiums payable on income protection policies are generally tax deductible however, the income payments received are considered assessable income and are taxed at your marginal tax rate.

Generally, when insurance is held for the purpose of family and personal protection, life, critical illness and TPD insurance premiums paid are not tax deductible but when a claim is paid, the benefits are not subject to tax.

Insurance in superannuation

It can also be beneficial to hold insurance via superannuation. Insurance held via superannuation is owned by the trustee of the superannuation fund for the benefit of the insured member. The trustee deducts the insurance premiums from either ongoing contributions or the member’s account balance.

Generally, life, TPD and income protection can be held in the superannuation environment (but not critical illness cover). The premiums for life and income protection insurances purchased through a superannuation fund are completely tax deductible to the fund. The premiums for TPD cover may be either fully or partially deductible to the fund, depending on the characteristics of the policy.

You may be able to fund the insurance premiums via employer or salary sacrifice contributions made to your superannuation fund or a tax deductible superannuation contribution if you are self employed. Note the tax treatment of insurance premiums should never be the primary reason for holding an insurance policy under a particular structure.

Insurance benefits can be paid out as either lump sums or pensions (or a combination of both) based on your (or your beneficiary’s) circumstances at the time.

Generally, money in a superannuation fund is ‘preserved’ until you meet a condition of release (such as retiring from the workforce). The preservation age is now 60 for everyone, regardless of date of birth.

Conditions of release that may apply prior to preservation age include permanent incapacity, terminal illness and death.

In the event of your death, the policy proceeds are paid into your superannuation account.

The proceeds together with your accumulated superannuation balance are paid tax-free to your nominated beneficiary(ies) either directly or via the estate.

If your superannuation is paid to a non dependent beneficiary on your death, it is anticipated tax will apply.

If you do not make a valid nomination, the rules of the superannuation fund determine how your death benefit is paid. You should ensure your Will is up to date to address the payment of superannuation death benefits if paid to your estate.

Insurance within a Self Managed Super Fund (SMSF)

Insuring via superannuation can also be done within an SMSF. The insurance held via an SMSF is not owned personally by you but is owned by the trustees of your superannuation fund. You may fund the insurance premiums by contributing to superannuation or by paying the premiums from the balance of your SMSF.

Critical illness insurance is generally not held within an SMSF as there is no specific condition of release for critical illness trigger events. Therefore when a benefit is paid to the fund, you may not be able to access the proceeds of the payment.

If you do not meet a condition of release, you may have to wait until you reach preservation age and retire (or meet another condition of release) to receive the benefit; and any premiums paid for critical illness cannot be claimed as a tax deduction by the fund.

General insurance

All Australian citizens currently have a level of medical cover through the Medicare system. Under Medicare, the Commonwealth Government covers your accommodation and medical expenses in a public hospital. However, you do not have your choice of doctors and where your condition is not life threatening, you may experience lengthy waiting periods.



Private health insurance gives you the opportunity to choose your doctor and hospital and can ensure you avoid waiting periods for elective surgery. Depending on the policy, private health insurance may also cover expenses relating to dental, physiotherapy, pharmacy and optical needs.

With burglaries and natural disasters a regular occurrence, home and contents insurance is important. Home insurance alone covers your home from damage. You can also structure this type of insurance to protect the contents within and around your home.

Each day, cars are involved in accidents or stolen. You can minimise the impact of such events by putting in place car insurance. Car insurance cover can include comprehensive, third party property damage, fire and theft.

Investing in a property can provide substantial rewards through rental income and capital gains. This type of insurance protects both the property's income as well as the property itself.

Further information

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