



## ***What You Need To Know About Income Protection Insurance In Superannuation***

*Income protection insurance is available as a part of many superannuation funds. In fact, more than 70% of Australians have income protection insurance through their superannuation! It pays to understand what and how you are covered, as many insurance policies may not fully cover you to the extent you think.*

### **How It Works**

Your insurance premiums are paid from the money in your super account. Usually these insurances are cheap compared to other plans you may take out individually and are offered through your employer, making it an affordable option for many people. Because these funds are paid in bulk, the premiums are lower and there is no need for underwriting.

Warning: If you've left your employment, and your superannuation fund, fees may still be taken out which will erode your balance. On 1 April 2020, updates to super laws aimed to protect certain super accounts from being eroded, were introduced. As a result, to be eligible to receive default insurance with your employer super plan, you must be over 25 and over, have a balance of at least \$6,000 and not have an inactive super account.

Superannuation funds will automatically cancel insurance fees on those funds that have been inactive for at least 16 months. Insurance funds have their own rules on accounts with low balances.

**Pro Tax Tip:** It pays to be aware of how many superannuation accounts you have and to roll your cover into one. This will save fee repetition and will also impact your overall superannuation savings.

If you're under 25, insurance will not be provided to you if you're a new fund member unless you write to your fund to request cover or you work in a dangerous job.

### **Types Of Super Cover**

Typically, there are three types of insurance offered through superannuation accounts:

- Life Cover – also known as death cover which pays a lump sum to your beneficiaries when you die or if you have a terminal illness
- TPD Insurance – paid to you if you become seriously disabled and are unlikely to work again
- Income Protection Insurance – pays up to 75% of your pre-tax income for a period of 2 or 5 years or up to a certain age.

### **Pros and Cons**

It's good to be aware that although there are certain benefits to insurance policies available through your super, they might not be what they seem to be when it comes down to crunch time. Many Australians have been caught out as they simply didn't understand what they were and were not covered for.

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PROS	CONS
<b>Convenience</b>	
Having insurance already available in your superannuation account is extremely convenient. It saves you time, money and effort setting up your insurance policies.	Setting up Insurance and disability cover is performed on age, level of income, your health, marital status and lifestyle choices. As these insurances are individual in nature, they require underwriting that is specific to you and takes time and effort to set them up.
<b>Cost</b>	
Insurance cover through superannuation is bought in bulk, which lowers the cost of the premium. The premiums are usually lower than individual policies and they are taken directly from your superannuation fund so you don't notice the cost.	Individual insurance policy premiums are higher in cost and you will have to pay them out of your own pocket. To mitigate the cost, you will be able to extend your waiting period and claim benefits in a later period to make the costs more affordable.  You might also need to pay a loading on your premium, for example if you are in a high risk job, have a pre-existing medical condition or are a smoker.
<b>Health Check</b>	
You will not need to undertake a health check or answer questions for this cover to be available for you. This can be useful if you work in a high risk job or have health conditions that can make it difficult to get insurance outside of super.	You'll be asked in depth questions about your health and lifestyle choices which will impact your cover and your premium cost.
<b>Tax</b>	
Your employer's super contributions and salary sacrifice contributions are taxed at 15%. This is lower than the marginal tax rate for most people, making paying for insurance through super tax-effective.  Insurance premiums paid to an individual insurance company instead of your super fund can be claimed as a tax deduction and can lower your overall tax.	The insurance fees cannot be claimed at tax time if paid through your super fund. Any fee taken out of your super fund lowers your overall super.
<b>Features</b>	
Generally, those policies bought out of pocket offer more features, from the amount you will receive and waiting period to receive your benefits. Often there are discount perks if you use the same insurer. Individual cover can last as long as you continue to pay your premiums.  The maximum amount you can apply for is \$30,000 a month or 85% of your salary, whichever is lower. Up to 75% is paid to you and up to 10% to your super.	The level of cover may not suit your needs. Often there is a long waiting period to receive your benefits, shorter pay out time and less paid out income levels. You also don't have the flexibility to change your cover should you need to take into account spouse and children. The cover might also end at age 65 or 70.

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**Pro Tax Tip:** If you're not sure of your cover, a chat with a friendly ITP Tax Accountant will help you understand your cover and what will work for your circumstances.

## **Read The PDS**

Tax time is a great time to make sure you're on track financially. Take this opportunity to phone your insurer, or access them online, to check out your super fund's annual statement and the PDS. You'll be able to see what type of cover you have, how much you are covered for and the cost of your fund. Don't forget to check the terms and conditions of making a claim should there come a time you need to.

## **Don't pay more than you have to!**

*That's the same for tax, bills – and your insurance policies whether it be a part of your superannuation fund or a personal premium. ITP offers a range of insurances and can tailor a fund that will suit your needs and pocket. Call 1800 367 487 today and chat with one of our friendly consultants for no-obligation advice.*

*ITP The Income Tax Professionals are more than tax agents. They have been helping Australian individuals and businesses with their business accounting and advice for 50 years and offer a wealth of knowledge. Speak to a Professional today and see how your business can be more profitable.*



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