

# Should I buy **INSURANCE** through my super?



While we all hope for good health, the reality is that some of us may struggle at times with sickness or injury. And that may affect your family's financial wellbeing.

Different types of life insurance or personal insurance can provide an income when you're unable to earn or a lump sum to protect your loved ones if the worst happens.

These insurances include income protection, life insurance, and total and permanent disability (TPD) cover. These products are available through your superannuation fund or outside the fund, directly through an insurance company. There are also other products not usually offered by super funds such as accidental death and injury insurance, critical illness or trauma cover and business expenses insurance (when a business owner suffers serious illness or injury).

In fact, most super funds provide a level of automatic cover unless you choose to opt out. Almost 10 million Australians have at least one type of insurance (life, TPD or income protection) provided through superannuation.<sup>1</sup>

## Check what your fund offers

Super funds usually provide three types of personal insurance. These include:

- **Life insurance or death cover** provides a lump sum payment to your beneficiaries in the event of your death.
- **Total and Permanent Disability (TPD)** pays a lump sum if you become totally and permanently disabled because of illness or injury and it prevents you from working.
- **Income Protection** pays a regular income for an agreed period if you are unable to work because of illness or injury.

While these insurance products can provide valuable protection, it's essential to be aware of circumstances where coverage might not apply. For example, super funds will cancel insurance on inactive super accounts that haven't received contributions for at least 16 months.<sup>2</sup> Some funds may also cancel insurance if your balance is too low, usually under \$6000.

Automatic insurance coverage will not be provided if you're a new super fund member aged under 25.

## A lesson in regular insurance review

Sarah, a 35-year-old marketing manager, was shocked to discover that her income protection policy, purchased through her super fund, would only cover her for a limited time.

The policy, part of her fund's automatic insurance coverage, gave Sarah some peace of mind that she was covered if she became ill. But when her insurance was reviewed closely, it emerged the policy would only pay \$3000 for up to two years.

As a result, Sarah opted to pay a higher premium to increase the benefit to continue paying until age 65. Sarah's decision to review her insurance protection has provided an outcome she's happy with for now. Her next review might see another change, depending on her circumstances at the time, and she may choose to pay lower premiums.



## Should you insure through super?

Using your super fund to buy personal insurance has advantages and disadvantages so it's a good idea to review how they might affect you.

### On the plus side

- **Cost-effective**

Insurance through super can be more cost-effective because the premiums are deducted from your super balance, reducing the impact on your day-to-day cash flow. It's also said that the super funds' massive buying power gives them an opportunity to be more competitive on price.

- **Automatic inclusion**

Many super funds automatically provide insurance cover without requiring medical checks or extensive paperwork.

- **Tax benefits**

Some contributions made to your super for insurance purposes may be tax-deductible, providing potential tax benefits.

### Think about possible downsides

- **Limited flexibility**

Super funds can only offer a standard set of insurance options, which may not fully align with your needs. For example, income protection insurance inside super can only offer the indemnity cover (you are required to verify your income at the time of claim) while outside super you can opt for the agreed value cover (you are required to verify your income when applying for cover and is agreed to at the start of your policy).

- **Reduced retirement savings**

Paying insurance premiums from your super balance means less money invested for your retirement, potentially impacting your final payout.

- **Coverage gaps**

Depending solely on your super fund's insurance might leave you with coverage gaps, as the default options may not cover all your unique circumstances.

- **Possible tax issues**

Be aware that some lump sum payments may be taxed at the highest marginal rate if the beneficiary isn't your dependent.

## Don't forget the life admin

Whether you decide to buy insurance through your super fund or not, it is important to regularly review your insurance coverage to make sure they reflect your current life stage. As your circumstances change with marriage, divorce, children or a new job, your insurance needs will also change.

It is also important to keep on top of your super accounts. If you have more than one fund, you may be paying additional insurance premiums. Consolidating your super accounts can help you avoid this pitfall (and save money in extra administration fees). But before you make a move, it can be beneficial to seek advice, so check with us to see that you are making the best decision.

Insurance within super can be a valuable safety net, providing crucial financial support to you and your loved ones. Understanding the types of coverage offered, the pros and cons of insuring inside super and the need for regular reviews are essential steps in making the most of this benefit. If you would like to discuss your insurance options, give us a call.

- i The future of insurance through superannuation, Deloitte and ASFA, 2022 1051554 Insurance through superannuation.indd
- ii Treasury Laws Amendment (Protecting Your Superannuation Package) Act 2019, No. 16, 2019 Treasury Laws Amendment (Protecting Your Superannuation Package) Act 2019 (legislation.gov.au)

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