Insurance in Superannuation

It may 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 arranges for the deduction of the insurance premiums from the member's account balance.

Generally, Life and TPD and some Income Protection policies can be held within the superannuation environment. Since 1 July 2014, Income Protection policies that provide 'extra benefits' cannot be taken out within superannuation however, policies in force prior to this date can be retained.

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 as follows:

TPD Policy Type[1]	**Deductible Portion[1]**
Any occupation	100%
Own occupation	67%
Own occupation with life cover	80%

Since 1 July 2014, 'own occupation' TPD cover is unavailable within superannuation, however policies already in force prior to this date can be retained. This is because insurance benefits must be consistent with the definition of 'permanent incapacity' under superannuation legislation.

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.

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Insurance benefits may 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. Insuring via superannuation can also assist with personal cash flow as the premiums are paid by the fund.

Preservation of superannuation

Generally, money in a superannuation fund is 'preserved' until you meet a condition of release (such as retiring from the workforce after your preservation age.

Conditions of release that may apply prior to preservation age include permanent incapacity, terminal illness and death. Other conditions of release that may apply prior to preservation age including temporary incapacity, compassionate grounds and severe financial hardship. These have 'cashing restrictions' attached to them which either limits the amount that can be paid to you or compels the fund to release benefits in the form of a pension rather than lump sum.

Death benefits - tax dependent beneficiaries

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 your Estate.

Alternatively your beneficiary/ies could choose to have some or all of your benefits paid as a tax-effective pension if they are eligible to do so at that time.

Death benefits - non-dependent beneficiaries

In the event of your death, the policy proceeds are paid into your superannuation account. The proceeds together with your accumulated superannuation balance may be paid to your nominated beneficiary/ies and/or your estate.

If your superannuation is paid to a non-dependent beneficiary on your death, it is anticipated tax will apply. The amount of tax payable will depend on the components of the superannuation benefit and whether the trustee has claimed the premium as a tax deduction.

Death benefit nominations

If you do not make a valid nomination, the rules of the superannuation fund determine how your death benefit is paid. The superannuation fund may use its discretion to determine who will receive the benefit which may be your Estate.

You should ensure your Will is up to date to address the payment of superannuation death benefits if to be paid to your Estate.

Insurance within a Self Managed Super Fund (SMSF)

Insuring via superannuation can also be done within a SMSF. The insurance held via a SMSF is not owned personally by you but is owned by the trustees of your superannuation fund. You may fund the insurance premiums from the balance of your SMSF. In most cases, tax deductions for insurance premiums paid by your SMSF are the same as other superannuation funds as detailed previously.

Trustees of a SMSF must act in accordance with the fund's trust deed and investment strategy. Some SMSF trust deeds may not allow insurances to be held and so require amendments to implement any recommended insurance. It is also important to maintain minutes detailing decisions made that affect the fund's operations. Trust deed amendments and the preparation of minutes may include:

- ensuring the purpose of the insurance policies is documented
- establishing a process for payments
- ensuring the required payment options are allowed (such as a Pension), and
- binding nominations are made (where appropriate).

If Trustees do not make valid updates to the Trust Deed to include nominations, the superannuation fund can use its discretion to determine who will receive the benefit which may be your Estate.

You should ensure your Will is up to date to address the payment of superannuation death benefits if to be paid to your Estate.

Critical Illness insurance within superannuation

Since 1 July 2014, Critical Illness insurance cannot be purchased by any superannuation fund, including SMSFs. However, policies in force via a SMSF prior to this date can be retained. As there is no specific condition of release for critical illness trigger events, when a benefit is paid to the fund, it will remain to be the case that you may not be able to access the proceeds of the payment.

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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.

Only people in a financially comfortable position and/or those who were close to reaching (or have reached) preservation age should have considered this option.

There are additional risks associated with holding critical illness within a SMSF if the purpose of the policy does not comply with the superannuation 'sole purpose test'. This could lead to your SMSF becoming non-complying. However the superannuation regulatory authorities have indicated provision of critical illness benefits is permissible if you (in your role as trustees) duly consider certain issues.

Important matters to be considered and documented include but are not limited to:

- the design and purpose of the insurance
- the manner and time in which the trustee intends to distribute any proceeds of the policy
- the ratio of the premium to contributions being made
- issues of ownership of the policy
- the superannuation benefit payment rules, and
- taxation issues.

Any premiums paid for Critical Illness can not be claimed as a tax deduction by the fund.

RJS Wealth Management

RJS Wealth Management are dedicated to making a difference to every life we touch. We have a commitment to research and education and achieving the highest professional standards of financial intelligence.

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1. https://www.ato.gov.au/Super/APRA-regulated-funds/In-detail/APRA-resources/Deductions-for-APRA-regulated-super-funds/?page=5#Deathtotalandpermanentdisabilitytermina1

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