Super strategies

Make insurance more affordable

It may be more affordable to take out life and total and permanent disability (TPD) insurance in a super fund rather than outside super.

How does the strategy work?

If you buy life and TPD insurances in a super fund, you may be able to take advantage of a range of concessions not available when insuring outside super. For example, in the 2018/19 financial year:

- **If you're eligible to make salary sacrifice contributions,** you may be able to purchase insurance in a super fund with pre-tax dollars (see Case study on opposite page).
- **If you make personal super contributions,** you may be able to claim the contributions as a tax deduction—regardless of whether they are used in the fund to purchase investments or insurance.
- **If you earn less than $52,697[1] pa and you make personal after-tax super contributions,** you may be eligible to receive a Government co-contribution of up to $500 that could help you cover the cost of future insurance premiums.

These concessions can make it cheaper to insure through super, or help you get a level of cover that might otherwise not have been affordable.

Another benefit of insuring in super is that you can usually arrange for the premiums to be deducted from your account balance without making additional contributions to cover the cost.

This can make insurance affordable if you don't have sufficient cashflow to pay the premiums outside super.

The trade-off, however, is that you will use up some of your superannuation savings that could otherwise meet your living expenses in retirement.

Other key issues to consider

- Lump sum tax may be payable when a death or TPD benefit is paid from a super fund in certain circumstances.
- You (or your eligible dependants) may be able to receive a TPD (or death) benefit from super as an income stream. Where this is done:
  - lump sum tax won't be payable when the income stream is commenced[2], and
  - the income payments will be concessionally taxed.
- Any contributions made to a super fund including contributions made to cover the cost of insurance premiums, will count towards the contribution caps. If these caps are exceeded, significant tax penalties may apply.

Seek advice

A financial adviser can help you determine whether holding insurance in super suits your needs and circumstances.

[1] Includes assessable income, reportable fringe benefits and reportable employer super contributions (of which at least 10% must be from eligible employment or carrying on a business).

[2] The maximum amount that you can transfer to pension phase in your lifetime is $1.6 million. This amount is indexed periodically.

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Case study

Justin, aged 44, is married to Alison, aged 41. Alison is taking a break from the workforce while she looks after their young children. Justin works full-time, earns a salary of $150,000 pa and they have a mortgage.

After assessing their goals and financial situation, their adviser recommends Justin take out $1.5 million in Life and TPD insurance so Alison can pay off their debts and replace his income if he dies or becomes totally and permanently disabled. The premium for this insurance is $2,200 in year one.

Their adviser also explains it will be more cost-effective if he takes out the insurance in super.

This is because if he arranges with his employer to sacrifice $2,200 of his salary into his super fund, he'll be able to pay the premiums with pre-tax dollars[3]. Conversely, if he purchases the cover outside super:

- he'll need to pay the premium of $2,200 from his after-tax salary, and
- after taking into account his marginal rate of 39%[4], the pre-tax cost would be $3,607[5].

By insuring in super he could make a pre-tax saving of $1,407 on the first year's premium and an after-tax saving of $858, after taking into account his marginal rate of 39%.

	Insurance purchased outside super (with after-tax salary)	Insurance purchased in super (via salary sacrifice)
Premium	$2,200	$2,200
Plus tax at marginal rate of 39%[4]	$1,407	N/A
Pre-tax salary received or sacrificed	$3,607	$2,200
Pre-tax saving	N/A	$1,407
After-tax saving	N/A	$858

[3] Because super funds generally receive a tax deduction for death and disability premiums and pass this deduction back to the member, no tax is deducted from salary sacrifice super contributions. If an individual earns more than $250,000 in 2018/19, they'll incur an extra 15% tax on some or all of their concessional contributions.

[4] Includes Medicare levy.

[5] $3,607 less tax at 39% ($1,407) equals $2,200.

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