finspective

Insurance through super

Fact sheet - May 2021

Purchase insurance through your super and gain a tax benefit.

Insurance through super

Purchasing Life Insurance, Income Protection and Total and Permanent Disability (TPD) insurance through super may be tax effective and also provide you with peace of mind.

Superannuation tax concessions often make it more tax effective for you to pay for your insurance premiums with your superannuation, rather than purchasing insurance outside of superannuation. Also, as premiums are deducted from your superannuation account, insurance cover does not affect your back pocket. However, it will reduce your superannuation savings, so you should speak with your financial adviser to help decide if this is the right strategy for you.

What's in it for me?

- In some cases you can effectively pay premiums from your pre-tax income.
- Premiums via group super plans are often cheaper because the super fund is buying the insurance 'in bulk'.
- Your qualifying dependants can receive tax-free lump sum payments if you, the insured, pass away.
- You may be able to obtain cover without having a medical examination.
- You may qualify for a government co-contribution if you fund the cover by making after-tax contributions.
- You may be able to top up your stand-alone insurance policies (those you hold outside super) using the savings.
- Most importantly, you and your family will be looked after if you incur an unexpected life event.
- Tax free superannuation income stream payments to members aged 60 or over, dependants aged 60 or over, or dependants aged under 60 if the member died age 60 or over.
- 15% tax offset on a taxable component of a disability superannuation income stream for members under age 60; or death income stream where the member died under age 60 and the dependant is under age 60.

Who can this strategy work for?

Generally insurance through super may be suitable if you:

- want to save tax and pay premiums from your pre-tax income
- want your qualifying dependants to receive tax-free lump sums if you pass away, or
- have restricted cash flow and want to use your accumulated super balance to pay for premiums.

There may be additional tax on benefits paid out from super, additional complexities with certain types of cover and potentially reduced retirement savings. It is important to seek financial advice to ensure this strategy is right for you.

How does it work?

Insurance cover is provided through an insurance policy which is issued by a life insurance company. The trustee of the super fund is the owner of the insurance policy and therefore claims are paid into the super fund.

Depending on your circumstances, you can purchase insurance through a super fund with:

- your existing super savings
- super contributions, such as:
  - your employer's Super Guarantee contributions
  - personal tax deductible contributions
  - personal after-tax contributions
  - contributions made by your spouse
  - salary sacrifice contributions using your pre-tax income.

Case study 1 – meet Tim

Tim is 37 years old and his salary is $150,000 p.a. He would like to establish life insurance cover for the benefit of his spouse, Anita, who is listed as the sole beneficiary.

Anita meets the requirements to receive a tax free lump sum payment in the event of Tim's death.

Based on Tim's personal details and the recommended sum insured, the annual premium for the required level of insurance cover is $1,200.

Let's compare paying for Tim's insurance premium outside super versus inside super:

	Outside super	Inside super
Pre-tax income needed	$1,967	$1,200
Post-tax income needed (39% marginal tax rate)	$1,200	$732

If Tim paid the insurance premium outside super, he would need $1,967 in pre-tax income to cover the cost of the premium.

The benefit of the insurance through super strategy means that Tim only needs $1,200 in pre-tax income to cover the cost of the premium. This effectively means he only ends up paying $732 in post-tax money to achieve the same outcome.

The difference is that Tim saves $468 on his annual premium cost ($1,200 outside super minus $732 inside super).

Case study 2 – meet Natalie

Natalie is 49 years of age. She has a casual job and earns $25,000 p.a. She is looking to provide financial security for her family and would like to acquire life insurance cover within her super fund.

The premium for her desired level of cover is $1,000. Natalie can have the premium funded from her employer Super Guarantee contributions reducing her future super entitlements. However, she could make a personal contribution from after-tax money and claim the government co-contribution.

This will not only help fund the premium and provide the required level of insurance cover, but may also increase her future super entitlements.

For example, if Natalie made an after-tax contribution of $1,000, she would be eligible for the maximum government co-contribution payment of $500 2020/21.

This means Natalie has ended up with her required life insurance cover, with the Government effectively paying half ($500) of her premium ($1,000).

Need more information?

If you would like to discuss this further or how it might impact you, call your financial adviser.

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