Insurance – Term life insurance

Term Life insurance protects your family and dependants by paying a lump sum if you die, or in some cases, the benefit can be paid earlier if you are diagnosed as being terminally ill.

Benefits

It is important to work out individually what you need to protect and how much cover you need. But the lump sum payment can be used for goals such as:

- cover the cost of funeral expenses
- repay your mortgage, credit card and other debts so you can pass on the full value of assets to your dependants
- generate an ongoing income stream to help your family to meet their future living expenses and maintain their lifestyle
- set money aside for future education costs for your children or grandchildren
- enable your estate to treat your beneficiaries equitably without the need to sell particular assets
- cover other expenses such as childcare and housekeeping.

Without insurance, your family or dependants may need to run down their savings, sell assets, and/or rely on family or the Department of Human Services for assistance. They may also find it difficult to maintain their standard of living.

How it works

Life insurance can be owned either in your own name or within your superannuation fund.

Self ownership

Owning your life insurance in your own name means you pay the premium from your cash flow and the proceeds are paid to your nominated beneficiary or to your estate. Self ownership gives you control over the policy, the right to nominate who receives the proceeds and the right to cancel if the need arises. The premiums for self owned life insurance are not tax deductible and the benefits paid are tax-free.

This may be suitable for you if you have the cash flow available to pay the premium and you want to ensure the proceeds will be tax-free.

Superannuation ownership

Alternatively you can apply for cover within your superannuation fund. This allows the premium to be paid by making contributions to superannuation or simply be deducted from your superannuation account balance so it does not affect your cash flow. The premium is a deductible expense to your superannuation fund and can reduce the tax payable on contributions and investment income. The benefit to you will depend on your superannuation fund.

In the event of your death, the insurance proceeds will be paid into your superannuation fund and form part of your account balance. The trustees of your fund will then pay a death benefit to your beneficiaries or estate. You may be able to make a binding nomination to ensure the trustees pay in accordance with your wishes. However, restrictions do apply as to who can be nominated as a beneficiary. Also, tax may be payable on the death benefit depending on how the benefit is paid (lump sum or pension), who the beneficiary is and the age of the beneficiary. This can make superannuation ownership a less tax-effective method of policy ownership.

This may be suitable for you if you do not have the cash flow to make the premium payments, receive contributions from an employer into superannuation, are eligible to make salary sacrifice contributions, have a spouse on a low income or are eligible for co-contributions, or are self-employed. Tax concessions can reduce the cost of insurance and may enable certain beneficiaries to receive all or some of the death benefit as a tax-effective income stream. If additional contributions are made into superannuation to cover premiums it is important to ensure you do not exceed the limits on how much can be contributed.

The total amount of superannuation monies used to start pensions will be capped at $1.6 million. A greater amount may be transferred where you have more than one beneficiary eligible to receive your benefit in the form of a pension. All superannuation income streams are assessed against the transfer balance cap regardless of when it first commenced

Risks and Consequences

- For self owned life cover, if you do not nominate a beneficiary, the proceeds will form part of your estate and will be distributed in accordance with your Will. Directing proceeds to your estate may provide the opportunity to use one or more testamentary trusts to provide a tax-effective future income for dependants particularly if you have young children or grandchildren.
- Funding the premiums from your superannuation balance will reduce the growth of your retirement savings unless you make additional contributions to offset the premiums. These contributions will count towards your contribution caps.
- Where your sum insured is large, not all of the benefit may be able to be taken as a tax-effective income stream by your beneficiaries.
- No death benefit will be paid if death is due to suicide in the first 13 months or if you do not fully disclose all required information.
- To be eligible for payment as ‘terminally ill’ a doctor must certify you have less than a set number of months to live, usually 12 or 24 months.
- It’s important to seek professional legal advice and consider your overall estate planning position to ensure your wishes are carried out upon your death.
- You should always carefully read the Product Disclosure Statement (PDS) and policy document for your selected insurance policy and keep these documents in a safe place.

Version: 1.08