

An essential part of every financial plan is having personal insurance. But it's also important to make sure you purchase it in a cost-effective way.

Benefit from up-front tax concessions

Buying personal insurances such as life and total and permanent disability cover through super makes super sense.

This is because you may be able to take advantage of a range of 'up-front' tax concessions that are generally¹ not available when insuring outside super.

For example:

- if you're an employee and are eligible to make salary sacrifice contributions, you may be able to buy insurance through a super fund with pre-tax dollars

- if you're self-employed² or unsupported³, you can generally claim your super contributions as a tax deduction – regardless of whether they're used by the super fund to purchase investments or insurance.

These concessions can make it cheaper to insure through a super fund, or enable you to purchase a higher level of cover.

- ¹ If you purchase Income Protection insurance outside a super fund, you may be eligible to claim the premiums as a tax deduction.
- ² To qualify as self-employed you must earn less than 10% of your assessable income plus reportable fringe benefits from eligible employment.
- ³ To qualify as unsupported you cannot receive (or be eligible to receive) super contributions from an employer.



Pay for insurance without reducing your cashflow

Another benefit of insuring through super is you can get cover for you and your family without reducing your cashflow.

This is done by arranging to have the insurance premiums deducted from your existing account balance without making additional contribution to cover the cost.

Without insurance, your family could run down your savings very quickly and face financial difficulty well before your intended retirement date.



Life and total & permanent disability insurance

Now that Reasonable Benefit Limits have been abolished, if you purchase life cover through a super fund, your dependants (such as your spouse, or young children) can receive unlimited tax-free lump sum payments in the event of your death.

This change, which took effect on 1 July 2007, has made it more attractive to hold larger insurance policies within the superannuation system.

Insurance can also be purchased through super to provide a lump sum payment to:

- certain non-dependants, such as adult children, in the event of your death, or
- yourself if you suffer a total and permanent disability.

In both these cases, tax may be payable on some (or all) of the insurance proceeds. However, to compensate for the potential tax liability, you could think about taking out a higher level of insurance cover.

While this will generally increase your premiums, the after-tax cost may still be lower than insuring outside super when you take into account the 'up-front' tax concessions outlined earlier.

Income protection insurance

Income protection insurance can replace up to 75% of your income if you're temporarily unable to work due to illness or injury.

If you take out the insurance in a super fund, you can arrange to have the premium deducted from your existing superannuation account balance, without making additional contribution to cover the cost.

This can enable you to buy income protection insurance in situations where you don't have sufficient cashflow to fund the premiums outside super.

These cashflow benefits can also arise when holding life cover and total and permanent disability insurance within a super fund.

But before you arrange any type of personal insurance, you should consider a range of issues including the tax implications.