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The information in this document is factual information, and is not financial advice. The information is objectively ascertainable information and is not tailored to your personal circumstances. You should obtain financial advice before making a decision in relation to this information. All examples are provided for illustrative purposes only.

Life risk insurance

Life insurance can provide financial security for an insured person and their family should premature death, injury or illness occur.

Needs analysis

The amount of life risk insurance cover required will depend on the financial position, circumstances, financial commitments and lifestyle expectations of an individual and their family.

A needs analysis should be conducted to determine the level and types of life risk insurance cover.

Cover can be provided for:

- Repayment of liabilities
- Medical expenses
- Income to maintain standard of living
- Income to assist with recovery
- Ongoing costs of care including outside help.

Selecting an appropriate policy requires determining the balance between affordability, policy definitions and any ancillary cover provided.

Premiums for some types of life risk insurance policies can be tax deductible if the policy is owned and structured correctly. Once cover is in force, it is important that there is a regular review to check the amount held is still adequate, and whether each policy remains appropriate and structured correctly.

Types of life risk insurance cover

Death

Death cover provides a lump sum payment to the policy owner in the event of the insured person prematurely passing away. A payment may also be received if the insured is diagnosed as terminally ill.

The lump sum payment will be received by the owner of the policy and this could be a beneficiary, the insured's superannuation account (if the cover is held within superannuation) or if self-owned, the insured person's estate.

Total & Permanent Disability

Total & Permanent Disability (TPD) cover provides a lump sum payment in the event of the insured person becoming totally & permanently disabled.

TPD cover can be held with an 'own' occupation definition which means the lump sum payment should be received if the insured is unable to work again in the job they were working in before they became totally & permanently disabled.

TPD cover can also be held with an 'any' occupation definition which means the lump sum payment should be received if the insured is unable to work again in any job suited to their education, training or experience.

The meaning of total & permanent disablement can vary and is defined in each policy document.

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Income Protection

Income protection cover provides a regular source of income in the event the insured person is unable to work for a period due to illness or injury.

Up to 70% of the insured person's income generated from personal exertion can be insured. Regular superannuation contributions, including Superannuation Guarantee (SG) can also be insured.

Income protection cover can be held with a maximum total monthly benefit of $30,000 (including any superannuation contributions).

The actual benefit paid upon a successful claim will be based on the income earned in the 12-month period prior to the claim being made up to a maximum of the sum insured.

There are a number of options available relating to waiting periods and benefit periods. Policies with long-term benefit periods may have controls in place, such as having a stricter disability definition, to limit the ongoing claim for longer benefit periods.

Trauma

Trauma cover provides a lump sum payment in the event the insured person is diagnosed with one of the specified range of critical illnesses. A partial benefit may also be payable on some specified critical illnesses.

The critical illnesses and definitions covered are dependent on the specific insurance policy wording. Some trauma benefits are subject to a ninety day qualifying period.

For a trauma claim to be paid, the diagnosis must meet the policy definition of the critical illness being claimed on.

The tax deductibility of premiums and the tax treatment of any benefit will depend on the owner of the policy and what the policy is held for. If the policy is owned by the life insured to fund their needs in the event of an insured event occurring, the premiums would not be tax deductible and any benefit would be received tax-free directly to the policy owner.

Trauma policies cannot be held within the superannuation environment as the trustee would not be able to release the benefit payment unless a condition of release is met.

Business Expenses

Business expenses cover provides a regular payment to cover the fixed costs of running a business should the insured person be unable to work due to sickness or injury for a period of 12 months.

The benefit payment is typically for the reimbursement of allowable fixed business expenses up to the monthly insured benefit. Allowable fixed business expenses differ between insurers and their policies.

Life risk insurance cover held within superannuation

Death and TPD cover can be held within the superannuation environment. The premiums are paid from superannuation benefits. This can reduce the insurance premiums required to be met from cash flow but, will reduce the superannuation benefits available to provide for retirement.

Any benefit received from a life insurance policy held within superannuation forms part of the insured person's superannuation benefits. A condition of release then needs to be met in order to receive the benefit payment from the superannuation account.

Death cover

Death cover can be held within the superannuation environment. Any death benefit paid will form part of the insured person's superannuation death benefit. The superannuation fund is able to claim a tax deduction for death cover premiums paid. Tax may be payable on the insured benefit received, depending on how and to whom the superannuation death benefit is paid.

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Split TPD cover

An 'own' occupation TPD policy is unable to be held within superannuation as the TPD condition of release reflects an 'any' occupation definition.

A split TPD policy allows for TPD cover with an 'own' occupation definition to be held, whilst using superannuation benefits to pay for part of the premium.

The policy is split, with one portion providing the benefits that could be paid from superannuation, should a successful claim be made.

Premiums attributable to this part of the policy are paid from superannuation benefits. The superannuation fund is able to claim a tax deduction for the premiums paid.

The TPD benefit received by the superannuation fund will be taxed based on how and when the benefit is paid from superannuation.

The portion of the policy providing benefits that are unable to be released from superannuation, including any ancillary benefits are paid from cash flow.

The tax deductibility of premiums and the tax treatment of any benefit received will depend on the owner of the policy and what the policy is held for. If the policy is owned by the life insured and held to fund their needs in the event of an insured event occurring, the premiums would not be tax deductible and any benefit would be received tax-free.

A split TPD policy will only pay the insured benefit once. The insured person is first assessed against an 'any' occupation definition and if that is unsuccessful, then they will be assessed against an 'own' occupation definition.

Premium structures

There are two premium structures available for insurance policies: stepped and level.

Stepped – Under a stepped premium structure the insurance premium is calculated on the insured person's age, meaning the younger you are the lower the cost. Generally, as the insured person ages the premium increases due to the additional risk taken by the insurer but, the length of time the policy may be in force until the insured reaches the maximum age could also be a factor.

Level – Under a level premium structure the insurance premium is calculated on an average premium, meaning the insured person might pay more when they are younger but will pay a lot less when they get older. The premium does not increase based on age. The only increase in the cost of the premiums will be the additional benefit applied with each annual indexation.

Initially, the stepped premium could be more cost effective but the level premium cover may provide a greater saving if the policy is held over the long-term.

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