

Insurance via superannuation

When starting a new job or superannuation account, one of the key benefits most of us overlook is insurance. That is, what insurance do we have and is it enough to meet our needs?

- Mr Insured:** “Did you hear about what happened to Brian?”
- Mr Underinsured:** “Yeah, that’s a real shame. Lucky he had life insurance.”
- Mr Insured:** “I know. Are you covered?”
- Mr Underinsured:** “I started a new job last week and on my super statement I saw something about insurance. So I’ll be right.”

This probably sounds familiar to most of us, but what Mr Underinsured doesn’t know, is his insurance could only last him two years if he became disabled. How would his young family cope if the money runs out?

Like Mr Underinsured, many of us feel we don’t need to worry about life insurance. If we have it as a part of our super, it’s a bonus. Yet the sad reality is six in 10 parents with dependant children lack enough life insurance to look after their loved ones for more than a year if they died¹.

To ensure you and your family are protected, it’s vital you know how much insurance you have and compare that with how much you need. If you’re like most Australians, your only insurance cover is through your super. So this means looking at your superannuation account to determine if it meets your insurance needs.

Uncovering super cover

Overall, when it comes to insurance within superannuation, there can be significant differences in the costs and cover available. When looked at closely, these differences can cost you hundreds of dollars each year and may include hidden catches that can leave you exposed.

For those with average levels of superannuation death cover only, the cover held represents less than 20% of average needs¹.

What’s included?

Choice of fund legislation introduced on 1 July 2005 made it compulsory for employers to offer their employees a default fund with a minimum level of death only insurance cover. The aim of this legislation was to protect and benefit super members.

When you begin your superannuation account, you are automatically given your fund’s default coverage. The types of insurance that can be held in a super fund may include:

- › Death cover – provides a benefit upon your death to help keep your dependants financially secure.

- › Total and permanent disability insurance – provides a benefit if you become totally and permanently disabled and are unable to work.
- › Salary continuance/income protection insurance – provides a regular income payment of up to 75% of your current income if an illness or injury prevents you from working.

When checking your insurance cover, it’s important you investigate your:

1. **Level of insurance.** Check the amount you are insured for. RiceWalker Acturics recommended average Australians have 10 to 13 times their annual pre-tax income¹.
2. **Type of insurance.** Some funds may only provide you with the minimum death cover, but what would happen if you were unable to work due to a disability? Death cover would not provide any benefits. Also, you may not have access to specific types of insurance like trauma insurance (see definition below) or long-term income protection, which is generally only available through stand-alone insurance cover.
3. **Premium.** If you didn’t realise you had insurance within super, it’s likely you didn’t know you were paying for it too. Checking how much you’re paying and shopping around may save you money down the track.

After assessing how much life insurance is in your superannuation account, you may be surprised how small the amount of cover is actually for. Studies conducted by Rice Walker Acturics estimate the average insurance amount payable from superannuation is approximately \$70,000¹.

You may need to consider additional and separate cover to your superannuation life cover to meet your insurance needs.

¹RiceWalker Acturics, Analysis of Insurance Needs, May 2005

What is trauma insurance?

Trauma insurance provides a lump-sum benefit or equivalent instalments if you’re diagnosed with a specific illness or injury covered by the policy (such as cancer, stroke, blindness, severe burns, loss of speech or deafness). The benefit amount, chosen by you, can be used to reduce debts, pay for medical expenses and fund your lifestyle whilst you recover.

Insurance via super can be a tax and cost effective way to protect yourself and your family, but there are some things you need to consider.

Is it enough?

The level of cover provided by superannuation funds is often a conservative estimate based on your salary and not on how much you actually may need.

Is the structure right?

Make sure the waiting periods and benefits periods on any salary continuance cover are right for you. Also consider other features and options that may be available through stand-alone insurance e.g. future insurability benefits and funeral advancement benefits.

Will benefits be taxed?

The level of cover, the cover type, and who benefits are paid to, will determine whether benefits are subject to tax.

Is there a continuation option available?

Make sure that if you leave your employer you have the option to take your insurance with you.

Does the insurance complement the intentions of your Will?

Life insurance benefits are paid to a fund's trustees who can then use beneficiary nominations, your Will or their own discretion to determine who benefits should be paid to. Make sure you ask your fund about their trustee's order of payment.

Seek advice from your ANZ Financial Planner who can accurately help you identify how much insurance you have and how much you need. They will be able to look at your overall financial situation, and help you make the right life insurance decisions.