Must Knows About Income Insurance

Yeah, yeah I know no one wants to talk about insurance and possible disasters but odds are you already have income insurance as part of your superannuation. So, I am not talking you into taking out insurance here I am talking about paying premiums that may not provide you with the cover you think you have. Yes, this blog is all about saving your money not spending it! Better now? I hope so because I need your considerable attention here to fix the problem.

Tax:

Income insurance is tax deductible in your personal tax return if you pay it direct or tax deductible to your superannuation fund if they pay it. As contributions to your superannuation fund are effectively tax deductible it is the same outcome tax wise.

The point here is there is no tax advantage in paying your income insurance premium through your superannuation.

There is a downside for people wanting to max out their $25,000 contributions cap. Don't waste it on income insurance premiums. Put the full amount into superannuation, pay the income insurance premiums out of your own pocket and claim a further tax deduction for them in your personal tax return.

In short from a tax point of view it makes no difference whether the premiums are paid by the superannuation fund or out of your pocket unless you are pushing the upper end of your $25,000 superannuation contributions cap. In this case it is better to have your income insurance policy outside of super.

Making a Claim:

Now this is where the benefit of paying the premiums out of your own pocket really kick in. You see, if the superannuation fund owns the policy then the insurance company pays the superannuation fund. Then you have to get that money out of the superannuation fund. This is easy enough if you have reached retirement age or are permanently disabled. But if you have just broken your leg and can't work for a year then you can't meet the normal conditions of release to get that payout out of your superannuation fund. You will have to throw yourself at the mercy of the hardship provisions. For example, being on sickness benefits with bills that are overdue and you can't pay. Yet you thought you paid for income insurance to make sure you never sunk that low.

Best of Both Worlds:

You can get split policies where the effectively, 2 policies run side by side. One is inside Super, the other outside. The idea is that if your claim inside Super is rejected, then there is another Policy outside Super that you own .The majority of the premium cost is still borne by the Super fund. This means that the Super fund Trustee has no say over what happens during the claims process.

This is still not the most effective policy if you are trying to maximise your $25,000 cap but if you need to utilise your employer's superannuation guarantee payment to help you meet your premiums then this is ideal.

Checklist of What to Look For:

Of course holding your income insurance policy outside of superannuation is going to allow you more options. Most superannuation funds have their own standard policy. Though if you are in an industry fund it may be competitive on price. If your occupation is risky it may also be the only option you have.

Nevertheless, I want to encourage you to be proactive about your income insurance so here are the questions you should be asking:

1) How many years will you be covered for? Most Super policies only cover you for loss of income for 2 years. You need coverage until you reach retirement age unless you have a plan B
2) Does the total and permanent disability part of the policy cover you for own occupation? If it is an any occupation policy they can force you into a call centre in your wheel chair. An own occupation policy is a lot more valuable but can only be provided outside of a superannuation fund.
3) What happens if at the time you were injured you weren't actually working? For example between jobs, shut downs, labour hire etc. Will you still get paid on the basis you can't now go out and take on your next contract?
4) What is the monthly income you are covered for? Be careful of the fine print. It will probably be for 75% of your current wage, not good if you are between jobs or have picked up temporary low paid work. Further, can you survive on 75% of your normal income. Income insurance payments are taxed the same as wages. It is possible to get income insurance with an agreed value clause.

Have we got a deal for you (no steak knives involved, sorry):

If you are not sure about your income insurance please contact our financial planning arm on 1300022682 (13000bantacs). As a free service we will give you a report on just what you are covered for.

There is more detail about our insurance service on our website https://bantacsfinancialsolutions.com.au/services/income-protection/ including our free claim processing service to protect you from the insurance companies.

Please make the most of our financial planning arm, that is what it is there for, a place our clients can go to for objective and trust worthy advice.