How to Make Insurance More Affordable

Providing financial protection for your client and their family could be more affordable than you think. Here are some smart ways to help.

Insurance in super

By using this strategy, your client could:

- reduce the premium costs, and
- enable certain beneficiaries to receive the Death or Total and Permanent Disability (TPD) benefit as a tax-effective income stream.

If your client buys Life and TPD insurances in a super fund, they may be able to take advantage of a range of upfront tax concessions generally not available when insuring outside super.

For example:

- if they're eligible to make salary sacrifice contributions, they may be able to purchase insurance through a super fund with pre-tax dollars (see case study, overleaf)
- if they earn less than $50,454[1] each year and they make personal after-tax super contributions, they may be eligible to receive a Government co-contribution[1] that could help them cover the cost of future insurance premiums
- if they make super contributions on behalf of a spouse on a low-income, they may be able to claim a tax offset of up to $540 each year that could be put towards insurance premiums for them or their spouse, and
- if they earn less than 10% of their income[2] from eligible employment (eg they're self-employed or not employed), they can generally claim their super contributions as a tax deduction—regardless of whether they are used in the fund to purchase investments or insurance.

These ideas can make it cheaper[3] for your client to take out Life and TPD insurances in a super fund.

They can also help your client get a level of insurance that otherwise, might not have been affordable.

Other smart ideas

- Another benefit of insuring inside super is your client can have the premiums deducted from their investment balance, without making additional contributions to cover the cost. This can free up cashflow to help them to take out other important insurances such as Critical Illness[4].
- If they have an Income Protection insurance policy held in their name (outside of super), and pre-pay 12 months of premiums, they can potentially claim a larger deduction in this financial year and reduce their tax bill.

  Please note: If your client is paying premiums on a monthly basis they can't pre-pay their premiums; however they can pre-pay if they move to yearly or half yearly.
- When taking out Critical Illness insurance[4] outside super, they may be able to reduce the premium costs if they 'connect' the cover to Life and TPD insurances held in their super fund.
- It's important that your clients do not erode their super balance as a result of having premiums deducted from their super. This can be prevented by ensuring sufficient contributions are made to cover premium deductions.

1 Includes assessable income, reportable fringe benefits and reportable employer super contributions (of which at least 10% must be from eligible employment or carrying on a business).

2 Includes assessable income, reportable fringe benefits and reportable employer super contributions.

3 This will usually also be the case if the sum insured is increased to make a provision for any lump sum tax that may be payable on TPD and death benefits in certain circumstances.

4 Critical Illness insurance can generally only be purchased in your client's own name (outside super).

Case study

Jack, aged 44, is married to Claire, aged 41. Claire is taking a break from the workforce while she looks after their young children. Jack works full-time, earns an annual salary of $100,000 and they have a mortgage.

After assessing their goals and financial situation, their adviser recommends Jack take out $700,000 in Life & TPD insurance so Claire can pay off their debts (ie mortgage, school fees, bills etc) and maintain the family's financial position should he die or become total or permanently disabled. The premium for this insurance is $1,046[1] in year one.

Their adviser also explains it will be more cost-effective if he takes out the insurance through his MLC Wrap Super account. This is because if he arranges with his employer to salary sacrifice the insurance premium into his super account, he'll be able to pay the premiums with pre-tax dollars[2].

On the other hand, if he purchases the cover outside super:

- he'll need to pay the full premium of $1,046[1] from his after-tax salary and
- he will also pay income tax of $669 (after taking into account his marginal rate of 39%[3]), on the part of his income required to fund the insurance premium.

By insuring in super he could make a total effective saving of $377 on his first year's premium.

Tax savings

	Insurance purchased within MLC Wrap Super account (via salary sacrifice)	Insurance purchased outside super (with after tax salary)
Premium	$1,046 yearly premium	$1,046 yearly premium
Plus tax at marginal rate of 39%[3]	N/A	$669
Pre-tax salary received or sacrificed	$1,046	$1,715 (salary received)
Tax saving	$669	N/A
Total saving	$377	N/A

1 This premium is indicative for illustration purposes only.

2 Super funds generally receive a tax deduction for death and disability premiums. This assumes that a full deduction is available that will fully offset any tax on contributions that applies to the salary sacrifice contribution.

3 Applies in the 2015/16 financial year and includes medicare levy of 2%.

Calculation of pre-tax income required to fund insurance premium:

A. Pre-tax part of income for funding premium = $1715

B. Tax on (A) is (A) x marginal tax rate $1715 x 39% = $669

C. Post tax part of income for funding premium (A)–(B)= $1715 – $669 = $1046

D. A TPD payment may be subject to tax.

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