

How to make your insurance more affordable



Insurance could be more affordable than you think

Research has shown Australians are worryingly underinsured.¹

One reason is many people under-estimate the financial impact their death, illness or injury could have on them and their family.

Others are aware of the risks, but don't think they can afford additional insurance.

But that doesn't have to be the case.

There are a range of things you could do to make insurance more affordable and get the level of protection you need for yourself and your loved ones.

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Strategies at a glance

Strategy	Suitable for	Key benefits
1 Pay for insurance without reducing your cashflow.	People who want to purchase insurance but don't have enough cashflow to pay the premiums.	<ul style="list-style-type: none">• Get the cover you need.• Use your cashflow for other purposes.
2 Protect your family tax-effectively.	People with sufficient cashflow to pay insurance premiums who are looking for a tax-effective way to go about it.	<ul style="list-style-type: none">• Make the premiums more affordable.• Get the cover you might otherwise not have been able to afford.
3 Protect your income cost-effectively.	People wanting to protect their income in a cost-effective manner.	<ul style="list-style-type: none">• Make the premiums more affordable.
4 Reduce the long-term cost of your insurance.	All people wanting to take out additional insurances.	<ul style="list-style-type: none">• Pay a lower average premium.• Make your cover more affordable when you get older.

Strategy 1

Pay for insurance without reducing your cashflow

If you're like most people and need to take out additional insurances, there's a way you can do it without reducing your cashflow. It involves:

- buying Life, Total and Permanent Disability (TPD) or Income Protection insurance inside a super fund, and
- arranging to have the premiums deducted from your existing account balance without making additional contributions to cover the cost.

This strategy can help you afford insurance if you don't have enough cashflow to pay for it outside super.

It could also free-up cashflow so you can take out other important insurances such as Critical Illness, which can generally only be purchased outside super.

The trade-off is that you'll use up some of the money that could otherwise meet your living expenses in retirement.

While this could impact your lifestyle when you're no longer working, think of what could happen to your family's lifestyle in the interim if the unthinkable was to happen.

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



Tips and traps

- If you don't want to erode your retirement savings, you may want to buy Life and TPD insurance in super and make additional contributions to cover the cost. This could be more tax-effective than buying the insurance outside super—see page 8.
- You may be able to reduce the cost of Critical Illness insurance if you 'connect' (link) the cover to Life and TPD insurance held in super.

Strategy 2

Protect your family tax-effectively

If you have enough cashflow to pay for Life and Total and Permanent Disability (TPD) insurance, you may want to arrange the cover in your super fund and make additional contributions² to cover the cost.

By using this strategy, you could take advantage of a range of tax concessions generally not available when insuring outside super.

For example:

- **If you're an employee** and you're eligible to make salary sacrifice contributions, you may be able to buy insurance through a super fund with pre-tax dollars.
- **If you earn³ less than 10% of your income from employment** (because you're either self-employed or not employed), you can generally claim your super contributions as a tax deduction. This is regardless of whether your contributions are used to buy investments or insurance.
- **If you earn³ less than \$61,920 pa and you make personal after-tax super contributions**, you may be eligible for a Government co-contribution of up to \$1,000 that could help you cover the cost of future insurance premiums.
- **If you have a spouse who earns³ less than \$13,800 pa and you make after-tax super contributions on their behalf**, you may be able to claim a tax offset of up to \$540 that could be put towards future insurance premiums for yourself or your spouse.

These concessions can make it cheaper⁴ for you to take out Life and TPD insurance in a super fund, or help you get a level of insurance that, otherwise, might not have been affordable.

Tips and traps

- If your spouse isn't working, you may want to:
 - make salary sacrifice or personal deductible contributions into your super fund
 - split some of these contributions into your spouse's super account, and
 - arrange for your spouse to purchase insurance in their super account.
- By doing this, you could make some significant tax savings that could help reduce the cost of insurance for your spouse.
- While the tax concessions outlined above will generally also apply when taking out Income Protection inside super, you may be better off buying this insurance outside super—see Strategy 3.

Strategy 3

Protect your income cost-effectively

If you want to protect your income in the event of illness or injury, there are a number of cost-effective ways you can do this.

For example, if you take out Income Protection insurance inside super, you could:

- have the premiums deducted from your account balance without making additional contributions to cover the cost (see Strategy 1), or
- fund the premiums by making additional super contributions², where you could benefit from a range of tax concessions (see Strategy 2).

Another option is to purchase Income Protection insurance outside super, where you'll have to pay the premiums from your own pocket, but can generally claim the premiums as a tax deduction.

The best approach for you will depend on a range of factors; including your income and cashflow position.

Tips and traps

- When taking out Income Protection insurance outside super, you may want to pre-pay 12 months of premiums⁵. By doing this you could claim a larger deduction this financial year and reduce your tax bill.
- Regardless of whether you purchase Income Protection inside or outside super, you could reduce the premium cost by selecting a longer waiting period (until the benefits become payable) and/or a shorter benefit payment period.

Strategy 4

Reduce the long-term cost of your insurance

Another way to make your insurance more affordable is to choose the right premium payment option.

One option is to pay stepped premiums that are calculated each year in line with your age.

Another is to pay level premiums that are calculated each year based on your age when the cover commences.⁶

Level premiums are higher than stepped premiums at the start (as the graph on the following page reveals).

However, over time, as stepped premiums increase, level premiums end up cheaper—often at the stage in life when you need the cover most.

The premium savings in the later years can also make up for the additional payments in the earlier years, saving you money over the life of the policy.

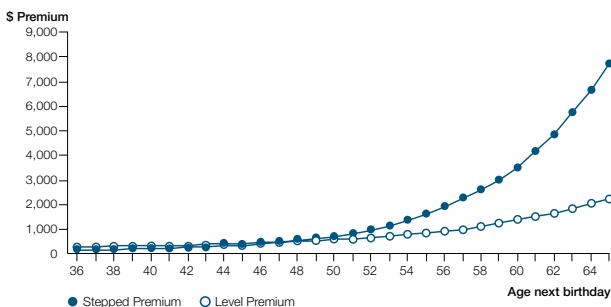
When deciding which option is best for you, you need to take into account how long you anticipate needing the cover.

A financial adviser can review your insurance needs and help you select the best strategies and premium payment option.

Strategy 4

Reduce the long-term cost of your insurance

MLC Life Cover Insurance Level vs stepped premiums



Insurance assumptions: Male, non-smoker, age 35, \$200,000 sum insured with a 3% CPI increase each year.

Tips and traps

- You may want to take out part of your insurance using stepped premiums and use level premiums for the rest. This way, the premium in the earlier years will be lower than if you opt entirely for level premiums. Over time, you can then reduce your stepped premium cover as you build up more assets and potentially need less insurance. As a result, you could end up paying level premiums on most (if not all) of your insurance in the later years, and benefit from the lower premium costs associated with level premiums at that time.
- Level premiums can make budgeting easier, because you have a greater degree of certainty regarding what your insurance is going to cost when compared to stepped premiums.

Other smart ways to save on premiums

In addition to the strategies outlined on pages 6 to 12, there are a range of other smart things you can do to save on premiums.

1. Take into account all existing covers

Before you increase your insurance, it's important to consider all the protection you currently have, including any insurance already provided by your super fund.

Many super funds provide Life and Total and Permanent Disability insurance, while others also provide Income Protection insurance.

2. Pay your premiums annually

You will generally be eligible for a discount if you pay your premiums annually, rather than more frequently (eg monthly).

3. Consolidate your insurances

Holding all your personal insurances in the one policy could enable you to save on fees. Fee savings could also be made by consolidating the insurances held by yourself, your spouse and other family members (in some cases) into one policy.

MLC's unique upgrade philosophy

Since 1986, we've looked for ways to improve and enhance our insurance offering.

And every time we find one, provided it won't affect premiums, we pass the improvement on to all new and existing clients automatically, regardless of their health status or age.

This is different to other insurance companies, which only upgrade clients in a particular policy series, new business only, or policyholders commencing cover from a certain point in time.

MLC's upgrade philosophy means you don't need to remember what has or hasn't been added—because all upgrades automatically apply.

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

With over 200 upgrades passed on in the last 20 years, we are serious about providing you with the best cover possible over the long term.

Get advice

You should seek advice before taking out insurance, or altering an existing policy.

A financial adviser can help with convenient ways to package and pay premiums as well as helping you review any existing insurance you may have.

If you don't have an adviser, contact MLC on **132 652** or visit **[mlc.com.au](https://www.mlc.com.au)**



Notes

- 1 IFSA, Securing Australians' Financial Wellbeing, 2007–2010.
- 2 Super contributions will generally count towards the concessional or non-concessional cap, regardless of whether they are used in the fund to purchase investments or insurance and penalties may apply if these caps are exceeded.
- 3 Includes assessable income, reportable fringe benefits and reportable employer super contributions. Other conditions apply.
- 4 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.
- 5 If you're paying Income Protection premiums on a monthly basis, you can't pre-pay them. However, you can pre-pay if you move to yearly or half-yearly premiums.
- 6 Choosing a level premium doesn't mean the premiums are guaranteed or won't change in the future. Level premium rates may increase due to rate increases, CPI increases and policy fee increases. However, unlike stepped premiums, level premiums (excluding CPI and the policy fee) don't go up by age-related increases.
- 7 If the insurance is held within a super fund, the benefit may also be paid in the form of an income stream.



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Insurance can help safeguard everyday life. But for most people the amount they have may not be enough to protect what they treasure in the event of an accident, sickness or death.

Lifewise will show you how taking some simple steps now can help to secure your future.

For more information go to: www.lifewise.org.au



MI registration number D-177-00032.

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MLC Insurance

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