Personal Risk Insurance

LIFE INSURANCE

Term Life insurance provides financial protection for your family and dependents by issuing a lump sum payout in the event of your death.

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Term Life insurance provides financial protection for your family and dependents by issuing a lump sum payout in the event of your death. Additionally, in certain circumstances, such as a terminal illness diagnosis, the benefit may be disbursed before your passing.

Benefits

Determining your protection needs and the required coverage individually is crucial. The lump sum payment from Term Life insurance can serve various purposes, including:

- Covering funeral expenses.
- Settling your mortgage, credit card debts, and other financial obligations to ensure that your dependents receive the full value of your assets.
- Generating a continuous income stream to support your family's future living expenses and maintain their lifestyle.
- Allocating funds for future educational expenses for your children or grandchildren.
- Facilitating equitable distribution of your estate to beneficiaries without the necessity to sell specific assets.
- Making charitable donations.
- Covering additional expenses such as childcare and housekeeping.

Without insurance, your family or dependents might need to deplete their savings, liquidate assets, and potentially rely on family support or government assistance. This could also impact their ability to maintain their current standard of living.

How it works

Life insurance can be owned either individually or within your superannuation fund.

Individual Ownership:

Individual ownership entails paying premiums from your personal finances, with the policy proceeds directed to your nominated beneficiary or estate. This approach gives you control over the policy, the ability to designate the beneficiary, and the option to cancel if needed. While premiums for self-owned life insurance are not tax-deductible, the benefits paid out are tax-free. This option may be suitable if you have the financial means to pay premiums and desire tax-free benefits or direct payout to a specific beneficiary.

Superannuation Ownership:

Alternatively, you can obtain coverage within your superannuation fund. This allows premiums to be funded through superannuation contributions or deducted from your superannuation account balance without affecting your current cashflow.

Premiums are considered deductible expenses for your superannuation fund, potentially reducing tax obligations on contributions and investment earnings. The benefits you receive will depend on your specific superannuation fund

In the event of your demise, insurance proceeds will be paid into your superannuation fund and become part of your account balance. Trustees of your fund will subsequently distribute a death benefit to your designated beneficiaries or estate. It may be possible to make a binding nomination to ensure compliance with your preferences, but certain restrictions apply regarding beneficiary selection. Tax may also be applicable to the death benefit depending on factors such as the payment method (lump sum or pension), beneficiary identity, and their age.

Superannuation ownership may, therefore, be a less tax-efficient method of policy ownership. Superannuation ownership may be suitable if you lack the financial resources for premium payments, receive employer contributions to your superannuation, qualify for salary sacrifice contributions, have a low-income spouse, are eligible for co-contributions, or are self-employed. Tax incentives can reduce insurance costs and allow certain beneficiaries to receive the death benefit as a tax-advantaged income stream. If additional contributions are made to cover premiums, it's crucial to ensure you don't exceed contribution limits

Key Considerations

There are several important factors to keep in mind:

- For self-owned life coverage, failing to designate a beneficiary will result in proceeds becoming part of your estate, distributed in accordance with your will. This may provide an opportunity to utilize a testamentary trust for tax-efficient future income for dependents, especially if you have young children or grandchildren.
- Funding premiums from your superannuation balance can impede the growth of your retirement savings unless you make extra contributions to offset premiums. These contributions will count toward contribution caps.
- No death benefit will be paid in the event of suicide within the first 13 months or if you do not fully disclose all required information.
- To qualify as 'terminally ill,' a doctor must certify that you have less than a specified number of months to live, typically around 12.
- If your life insurance is held within your superannuation account, claim proceeds will be deposited into your account, forming part of your superannuation death benefit. This may result in an untaxed portion, subject to a higher tax rate for lump sums paid to non-tax

dependents.

- Beneficiaries selecting pension payments for a superannuation death benefit will have the pension measured against their individual Transfer Balance Cap.
- Seek professional legal advice and consider your overall estate planning to ensure your wishes are honoured upon your passing.
- Always carefully review the Product Disclosure Statement (PDS) and policy documents for your selected insurance policy and store these documents securely.

References

You may wish to refer to the following websites for further information about life insurance:

- www.moneysmart.gov.au
- www.ato.gov.au

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