TOTAL AND PERMANENT DISABILITY (TPD) INSURANCE

TPD insurance provides a safeguard for you and your loved ones by offering a one-time lump sum payout in the event of a total and permanent disability that renders you permanently incapable of working.

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Benefits

Determining your individual protection needs and the required coverage is crucial. The lump sum payout from TPD insurance can be allocated for various purposes, including:

- Clearing or reducing your home loan and other debts.
- Covering medical and rehabilitation expenses.
- Creating an ongoing income source to meet future living costs.
- Hiring paid caregivers.
- Financing home or vehicle modifications.
- Setting aside funds for your children's future education expenses.
- Safeguarding your long-term wealth accumulation strategy.

Without insurance, you and your family or dependents may have to deplete savings, sell assets, or rely on family or government assistance (such as Centrelink). This can impose additional stress and make it challenging to maintain your standard of living or cover necessary care and medical expenses.

How it works

To qualify for a TPD payment, you must meet the criteria outlined in your chosen insurance policy. Some policies necessitate that you are unable to work in any occupation for which you are "reasonably suited by training, education, or experience," while others may provide coverage if you are permanently unable to work in your own occupation.

Typically, you need to be employed, but there are policies available with alternative definitions. These may trigger a payment if you lose limbs, sight, or the ability to perform daily activities unassisted. Such policies can provide coverage for homemakers or individuals who are not currently working.

While TPD coverage with an "any" occupation definition is more affordable, meeting the requirements for a successful claim may be more challenging because the insurer might consider your other training and experience when assessing the extent of your disability. The "own" occupation definition might be preferable if you have the financial means to afford higher premiums and desire a more flexible definition, or if your occupation history has been diverse or specialised.

Stand-Alone TPD cover

You can purchase TPD insurance as a standalone policy that exclusively offers TPD coverage without death coverage.

Linked TPD Cover

Alternatively, you can choose to link your TPD coverage to your Term Life or Trauma Insurance. With linked policies, if a TPD (or Trauma) claim is approved and paid, the coverage amounts for the other two categories may decrease by that amount. Linking your coverage in this manner can reduce the cost of your TPD insurance. Most policies include "buy-back" options to restore the reduced coverage amount after a specified period.

Policy Ownership

You can own TPD insurance in your name, your business, a trust, or within your superannuation fund.

Self-Ownership:
Self-owning your TPD insurance means you pay the premiums directly from your cash flow. Premiums for self-owned TPD insurance are not tax-deductible. In the event of a successful claim, the benefits are paid to you as a tax-free lump sum. This option may be suitable if you have the financial means to pay the premiums, prefer the "own" occupation TPD definition, or want to ensure the benefits are tax-free lump sums.

Superannuation Ownership:
Alternatively, you can obtain TPD coverage within your superannuation fund. This allows the premiums to be funded through superannuation contributions or deducted from your superannuation account balance, thus not affecting your cash flow. Premiums are a deductible expense for your superannuation fund, potentially reducing the tax liability on contributions and investment income. The benefits are paid into your superannuation fund and form part of your account balance in the event of total and permanent disability. You must meet a superannuation condition of release (such as permanent incapacity) to access these benefits, which may limit access compared to a self-owned policy. If you are under 60 years old, taxes may apply to amounts withdrawn from superannuation.
This option may be suitable if you lack the cash flow to pay premiums, receive employer contributions to superannuation, are eligible for salary sacrifice contributions, qualify for co-contributions, or are self-employed. Tax concessions can reduce the cost of insurance, but it's

essential to ensure that you don't exceed contribution limits if additional contributions are made to cover premiums.

Key Considerations

Funding premiums from your superannuation balance may reduce your retirement savings' growth unless you make additional contributions to offset these premiums, which will count towards contribution caps. Benefit payments are typically excluded if total and permanent disability results from war or self-inflicted acts.

Always carefully review the Product Disclosure Statement (PDS) and policy document for your chosen insurance policy and keep these documents in a secure location.

References

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

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

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