Insurance – inside or outside super?

How to structure your insurance tax-effectively.

Insurance through super

When you hold your insurance inside super, you may be able to save money by using your before-tax income to pay your premiums.

This strategy is particularly attractive because Death and TPD insurance premiums may be tax-deductible to the super fund. As a result, the usual 15% super contributions tax (which is deducted from your before tax super contributions) may be offset and rebated back into your account through any tax deduction claimed by the super fund.

Outside super, you have to pay your insurance premiums using your after-tax (take-home) income. While you can generally claim Income Protection premiums as a tax deduction (i.e. benefits will be treated as assessable income), Death and TPD cover are not generally tax-deductible outside super (i.e. benefits are generally not treated as assessable income).

How does it work?

Insurance cover is provided through an insurance policy which is issued by a life insurance company. The trustee of the super fund is the owner of the insurance policy and therefore claims are paid into the super fund.

Depending on your circumstances, you can purchase insurance through a super fund with:

- your existing super savings
- super contributions, such as:
  - your employer's Super Guarantee contributions
  - personal contributions
  - contributions made by your spouse
  - salary sacrifice contributions using your pre-tax income.

There are advantages and disadvantages to holding insurance inside or outside of super:

	Advantages	Disadvantages
Insurance inside super	• IP, Term Life and TPD insurance premiums are generally tax deductible to your super fund. • You can pay your premiums using accumulated super money or by making additional super contributions – which may come from your before-tax income.	• While most insurable events for IP, Term Life and TPD result in a condition of release, there are some limited situations where you may not be able to access the insurance benefits until you retire. • The tax rate payable on a death benefit to non dependants may be up to 31.5%.
Insurance outside super	• IP insurance premiums are generally tax deductible. • Trauma, Term Life and TPD benefits are generally tax free ** • Insurance benefits are paid directly to you or your nominated beneficiary.	• Trauma, Term Life and TPD insurance premiums are generally not tax deductible when paid personally.

** Life insurance proceeds will be subject to CGT if paid to someone other than the original beneficial owner and that person/entity acquired the policy for consideration. TPD and Trauma insurance is subject to CGT if the proceeds are paid to someone other than the life insured or a defined relative.

The following table summarises the tax treatment of premiums and payouts (benefits) inside and outside super:

		Inside super	Outside super
Income Protection	Are premiums tax deductible? Are benefits taxed?	Yes Yes	Yes Yes
Term Life	Are premiums tax deductible? Are benefits taxed?	Yes • Tax-free to dependants • Taxable if paid to non-dependants (with concessions)	No Generally tax free
TPD	Are premiums tax deductible? Are benefits taxed?	Yes * Taxable (with concessions)	No Generally tax free

** Deductions for own occupation cover may only be partially deductible.

We're here to help

Do you and your family have adequate insurance cover?

Did you know there is a more tax-effective way to fund your insurance premiums?

If you've got any questions, or you just want the comfort of knowing you're on the right track, why not give us a call?

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