LIFE INSURANCE IN OR OUT OF SUPER?

Advantages of Life Insurance in Super:

1. **Cashflow**

- having the insurance policy owned by your SMSF, means that the fund pays the premiums using money that it already holds, without impacting on your hip-pocket

2. **Tax Deductible**

- all superannuation funds are generally able to claim insurance premiums as a tax deduction for the fund depending on the type of cover

3. **Tax Effective**

- e.g. assume your annual insurance premium is $5,000. If you are on the 46.5% marginal tax rate, and own this insurance policy in your own name, you will have to pay the premium using after-tax income. If the superannuation fund makes the payment the same insurance cover will effectively only cost you $2,675. Similarly, if you are on the 38.5% tax rate the cost reduces to $3,075

However, there are disadvantages that you need to be aware of:

1. **ONLY the followingTypes of Insurance are available to be held from 1 July 2014**:

   - death
   - terminal medical condition
   - permanent incapacity (causing the member to permanently cease working) or
   - temporary incapacity (causing the member to temporarily cease working)

2. **Premiums can be higher than group insurance rates**

3. **Contributions to pay insurance premiums count towards Super Cap**

If you increase super contributions to your Superannuation Fund to cover your insurance premium payments you need to ensure you don't exceed the age caps

4. **Tax is payable on some Life Insurance benefits**

Tax can be payable on Life Insurance payouts from super under certain circumstances

There can be delays in the payment of life insurance benefits as these go to the fund first, who then distribute them to you or your beneficiaries.

If you do not make a binding beneficiary nomination, or your fund does not offer binding nominations, the super trustee will decide who gets your benefits when you die. Usually benefits are paid to dependents, after taking your wishes into consideration however if your super recipient is not a dependant consider getting financial advice as there may be tax implications

5. <u>Reduced Investment Balance</u>

If increased contributions are not made (must stay within age caps) the fund balance will be reduced by the premium payment each year and less investment balance in which to earn a return for your retirement