SUPERANNUATION Q&A

Insurance & Self Managed Superannuation Funds

Superannuation is one of Pitcher Partners' key industry specialisations and we have one of the largest self managed superannuation fund practices in Australia. Our experience and expertise with self managed funds makes us well placed to advise on whether it is a suitable option for you, and the requirements to establish and operate your own fund.

Overview

One of the key risks if you choose to manage your own superannuation in a self managed superannuation fund is underinsurance. While members of larger superannuation funds are often provided with some form of automatic death and disability insurance cover (at a cost), automatic cover is not provided in a self managed fund.

If you are planning on establishing your own super fund you must consider your insurance position. If you transfer your entire balance from a larger super fund, you may effectively cancel all of your existing insurance cover.

Cover in a self managed fund

You can hold most types of personal insurance in a self managed fund. Life insurance, total and permanent disablement (TPD) insurance and income protection cover is available.

It is generally not advisable to hold 'own occupation TPD insurance' or trauma insurance in a super fund as there can be problems accessing benefits.

Key Advantages

Flexibility

Using your super fund can be a good way of structuring additional insurance cover, especially if you have a young family or substantial debts. You can pay premiums from your existing balance in the fund rather than personally.

Having insurance in your super fund may also reduce the likelihood of a forced sale of super fund assets on the death or disability of a member.

Tax savings

Super funds commonly qualify for tax deductions for life and TPD insurance premiums which would not be available if you held the insurance personally. In effect, holding insurance in super can reduce the overall cost of cover.

Premiums for life and 'any occupation' TPD cover are fully tax deductible within super. Income protection premiums are generally tax deductible both inside and outside super.

Holding income protection in super does not offer additional tax advantages, however you may benefit from the ability to pay premiums from your super rather than from your personal cash flow.

Care must be taken to ensure the super fund is both the owner and beneficiary of any policy.

Key Disadvantages

Possible reduction in super balance

Holding insurance inside super means the cost of cover will be funded from money that would otherwise be invested for your retirement. The level of insurance you decide to take may therefore impact on the benefits available to you on ordinary retirement.

Limitation on type of cover

It is difficult to structure certain policies in superannuation and specialist advice should be sought.

For example, you may prefer disability cover that would provide a benefit if you could no longer work in your current occupation even if you could continue to perform some form of work.

Tax on benefit payments

Any insurance proceeds paid to your spouse or minor children from the super fund will be tax free.

There can be significant tax implications however if proceeds pass to non-tax dependants, such as your adult children compared to the tax that would have been paid had the policy been held outside super.

Further information

Please ask your regular Pitcher Partners contact or any of the contacts below for further information.

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