INSIDE

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FINANCIAL MATTERS AFFECTING YOUR LIFESTYLE

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Insurance: Inside or Outside Super?

Most people insure their personal assets, such as their house, contents, and car, but when it comes to personal insurance, many overlook the importance of protecting their wealth because personal insurance is often seen as unnecessary, a luxury and an additional cost to pay for.

Unfortunately, we don't know what's around the corner but having the right level of protection in place will assist you and your family through sickness and injury and protect you and your family's lifestyle when times get tough.

Depending on your needs, insurance can be structured either inside or outside superannuation, with most superannuation funds offering insurance for their members.

Superannuation funds generally offer three types of life insurance for their members, including life insurance, total and permanent disablement (TPD) insurance and income protection insurance. This article briefly summarises these insurances and covers some common benefits and considerations when owning insurance in superannuation.

LIFE INSURANCE

Life insurance, also known as death cover, is a lump sum amount paid to your beneficiaries on top of the balance that's already in your superannuation account if you pass away. It may also be paid if you have a terminal illness.

TPD INSURANCE

Total and permanent disablement (or TPD) cover pays you a benefit if you become seriously disabled or are too sick to ever work again.

In addition to meeting the insurance policy definition of incapacity, you must also meet the permanent incapacity condition of release definition under superannuation law before the trustee can pay the TPD benefit to you.

Superannuation law defines permanent incapacity to mean:

"Ill health (whether physical or mental), where the trustee is reasonably satisfied that the member is unlikely, because of the ill health, to engage in gainful employment for which the member is reasonably qualified by education, training or experience".

To be 'reasonably satisfied', a superannuation fund trustee will usually request medical evidence in the form of two doctor's certificates to that effect. This is to also satisfy the requirement for the payment of a disability superannuation benefit.

It is also worth noting that the superannuation law definition of permanent incapacity is generally referred to as an 'any occupation' definition of permanent incapacity because it relates to gainful employment 'for which the member is reasonably qualified by education, training or experience'.

INCOME PROTECTION

Income protection (also called salary continuance insurance) helps replace your income if you can't work due to a temporary disability or illness. If your claim is approved, your superannuation fund will pay you a regular income as a percentage of your salary for a specified period of time (i.e, the benefit period could be for 2 years, 5 years or up to a certain age, such as age 65).

WHAT ABOUT TRAUMA COVER?

Trauma cover (also known as critical illness cover) pays you a lump sum amount if you are diagnosed with a critical illness or injury as specified in the policy, such as cancer, stroke, coronary bypass or heart attack.

However due to changes in the law that came into effect on 1 July 2014, it is no longer possible to take out trauma insurance through your superannuation fund.

FACTORS TO CONSIDER

The key benefits of insurance inside superannuation include:

- Premiums can be funded from your existing superannuation account balance, which can assist in managing your cashflow and affordability of premiums.
- You may benefit from income tax savings if you claim a tax deduction for personal contributions or if you contribute via a salary sacrifice arrangement using pre-tax salary which may provide cost savings on premiums.
- Insurance in employer superannuation plans may be cheaper than insurance outside superannuation as superannuation funds purchase insurance policies in bulk.
- After joining your employer's default superannuation plan, you may be able to obtain automatic acceptance up to a set level of cover with no medicals required.

On the other hand, potential downsides of insurance inside superannuation include:

- The amount of cover you can get inside superannuation is often lower than the cover you can get outside superannuation. Further default insurance through superannuation isn't specific to your circumstances and some eligibility requirements may apply. To avoid this risk, you can purchase a retail insurance policy through superannuation (or personally outside of superannuation).

  While retail cover requires a more detailed application process, underwriting your personal history and generally higher premiums than a default group cover, retail cover can provide you with better quality cover and greater confidence that a payment is likely to be made at claim time.
- Premiums can erode your retirement savings if you do not make extra contributions to reverse the premium cost.
- Contributions made to fund premiums count towards the contribution caps.
- If you consolidate your superannuation accounts, you may lose any cover you have with the superannuation fund you close. Therefore, you should always check that the new superannuation fund you're choosing can cover you for the equivalent (or more) insurance cover.
- Unless you actively opt-in to maintain your insurance, your cover may be cancelled if your superannuation fund becomes inactive for 16 months or more, the fund balance falls below $6,000 or you are under age of 25. Source: Butler Settineri

8 indicators you may not be ready to retire

Your next life stage requires careful planning. Here are eight key things you should consider before entering retirement.

Retirement is a period of life that many people spend years dreaming about: the chance to finally leave work behind and enjoy much-needed time with family and friends. While it's natural to be excited about retirement, it's worth getting all your ducks in a row before you say goodbye to work – and a regular income – forever.

If you're edging towards retirement age, here are eight signs that you might not be ready to sail off into the sunset just yet.

1 You don't have a clear idea of your personal finances – You wouldn't venture into an unknown city without a map and expect to have control over where you end up. When it comes to your retirement plan, you shouldn't be navigating without direction.

"Understanding your finances means you hopefully won't encounter any surprises". "Although we can at times put our heads in the sand, we need to remember we do have control to make change – however difficult or challenging it might feel. If the financial side of your life is on track, it puts you in a really good position to be able to handle other life events that might come your way".

Areas that are good to understand in detail include a well-rounded view of your super – how it's invested, the fee structure and how well it's performing. It may also be helpful to have an idea of how much super you'll need for retirement and what you expect your living expenses to be over the next 30 years or so.

2 You haven't worked out your new retirement income – One of the key factors in weighing up your financial situation at retirement is understanding what your new retirement income will be and whether you're financially ready to take this next big step. Without the regular pay cheque from your job, you may have to allocate yourself an amount you can comfortably live on for decades to come.

3 You haven't tried living on your retirement income – 'Try before you buy' is an age-old adage for a reason, and it's especially relevant when it comes to your retirement. You don't want to run out of money before you've made it to your golden years.

"It's possible to take too much at the beginning of your retirement and have it catch up with you later". "It can really be quite a challenge to get the right mix so give yourself a chance to see whether the income you've allocated to your retirement lifestyle is liveable".

And if it's not? It's a lot easier to rectify this before retirement, as opposed to when you've already said goodbye to work and bought yourself that long-coveted boat or seaside property.

4 You have too much debt - According to Dianne Charman, Managing Director of Jade Financial Group, it's not a good idea to carry any debt into retirement.

"Sometimes you may have some investment debt which might be appropriate to retain, or you borrow during your retirement, which is usually linked to investment debt as well," she says. "So, while debt is not unusual, personal debt in retirement is not ideal at all".

Your retirement strategy could include debt reduction as a key area, including paying off a mortgage or credit card debt. Taking a mortgage with you into retirement can affect you in a number of ways, so if you can, it's optimal to pay out this debt before retiring from work.

5 You haven't maximised your super – Charman says the question she's most frequently asked is: "Will I have enough super?"

"The simple answer is you won't if you don't seek knowledge and advice," she says. "You need to be proactive and learn how you can achieve your goals."

So, do you have enough retirement savings? Speak to your financial adviser about the possibility of further super contributions and what might be a realistic amount for you to contribute.

"We need to be engaged with our money to ensure we maximise what we put away for the future. Knowledge is power, so tap into those people who have more than you and are willing to share it," says Charman.

6 You haven't considered how your needs might change – The transition to retirement often mirrors your journey into old age, which is why it's important to factor additional healthcare needs into your retirement plan. Life is unpredictable at the best of times, but a financial buffer can take the sting out of any unexpected shifts, especially where your health is concerned. Consider how your healthcare needs might change over the course of your retirement, including factors such as preventative care and health insurance.

7 You haven't emotionally prepared for retirement – There's more to retirement planning than just your finances. Retirement is a huge transition, separating you from work you've spent the better part of your life involved in. For some retirees, it can be a big adjustment. Even if you're elated at leaving your working life behind, your plans for the future may have lost their sheen due to changes in the global environment. For this reason, ensuring that you're emotionally ready for retirement should also factor into your strategy.

8 You haven't spoken to your family about your plans – It may be your retirement but your choice to finally wind down your working life can have implications for more than just you and your partner.

"When telling your family about your retirement plans, be cautious. They will usually be excited for you and then, maybe say, 'Great you can help look after the grandkids' or 'Great, I need some help with my home'. And the list of opportunities your loved ones see goes on.

Expectations can be tricky thing to anticipate but they can, to some extent, be managed, especially with clear communication.

"My tip is to put in place boundaries when sharing your exciting news. Tell them what your plans are and if there is an offer to do certain things, set expectations on this, including times to review the arrangements." For more information speak to your financial adviser. Source AMP Insights

When Life Insurance Doesn't Pay Out

Life insurance is designed to provide valuable peace of mind, but you may have heard of instances where pay outs are denied. Here's our guide to avoiding unsuccessful claims.

1 Premiums were not up to date

Too often, Life insurance claims are rejected simply because the policy has lapsed – usually due to lack of payment. Life insurance works on the basis that premiums are paid regularly (the policyholder might have chosen weekly, fortnightly, or monthly billing). If the payments were not up to date when the policy holder died, it could affect the validity of the cover, resulting in no pay out. Encourage the policyholder to set up automatic payments to cover their premiums to avoid this situation from arising.

2 The insurance policy had come to term

Term life insurance is designed to cover the policyholder for a specific period. Once this has passed, the policy is no longer valid, meaning the policyholder needs to renew, extend or select a different type of insurance. A life insurance policy that has exceeded its term is not eligible for pay outs, so make sure the policyholder is aware of any terms attached to their cover.

3 The cause of death was not covered by the policy

When you sign up for life insurance, the Product Disclosure Statement contains all of the terms and conditions attached to that policy. Here you will notice that certain causes of death are not covered by life insurance. Often, these will include death caused by certain extreme sports, or which takes place in countries the Australian government has advised against travel to. In some policies, certain pre-existing illnesses are also not covered. Some life insurance offers a range of additional cover that can help to ensure your beneficiaries receive a pay out.

4 Death is caused by suicide within the first 13 months of cover

Most life insurance policies will include a suicide clause in their policies. This means they will not cover death by suicide within a set term at the beginning of the policy. If you or a loved one has been affected by suicide, call Lifeline on 13 11 14 for further support.

5 The policyholder did not disclose information about existing health conditions

When you apply for health insurance, there are often a number of questions about your occupation, health and lifestyle, including any pre-existing conditions you may have. It is always important to be honest in answering these questions. If you die due to an existing condition that was not disclosed to your insurer, your claim may be declined, and the life insurance policy voided. Please speak to your financial adviser.
Source: TAL

Should you wish to discuss any aspect of the information contained in this document, please contact your Financial Planner

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