Quick Facts…

Using a Super Fund to Save On Insurance Premiums

If you are self-employed, or you have a spouse who is on a low income, you can save on the cost of life insurance premiums by buying insurance cover through a superannuation fund rather than as a separate 'ordinary' policy. In some cases, this strategy can reduce your premiums by almost 50%.

Usually super funds will offer insurance to fund members against death, as well as total and permanent disability (TPD). Some funds also provide additional insurance to protect against loss of income and temporary disability.

How Does The Strategy Work?

The same tax deductions and offsets that apply to superannuation also apply to insurance purchased through a superannuation fund. If you’re self-employed, you can claim a tax deduction on your super contributions, irrespective of whether the contribution is used to purchase investments or insurance. Similarly, if you are making super contributions on behalf of a non-working or low income spouse, you may be able to claim a tax offset of up to $540 p.a.

These tax benefits can make it significantly cheaper on an after-tax basis to insure through a super fund rather than through a non-super insurance policy. All you need to do is nominate how your contributions are to be allocated between the superannuation fund and the insurance policy.

The Benefits

- The amount saved via deductions and offsets can be used to increase your level of insurance cover.
- This strategy is ideal if you have a young family and you’re looking for financial protection.

Case Study

Andrew (age 43) is a self-employed professional married to Vivien (age 40). The couple are raising a young family and Vivien also works part-time. Andrew and Vivien both have super and separate insurance policies for death and TPD insurance in their own names. Andrew is currently paying premiums of $1,337 a year, while Vivien is paying $815 a year.

To claim a tax deduction for premiums on Andrew's insurance cover and a spouse offset for the premiums on Vivien's cover, they arrange their existing insurance cover so that it is provided through their respective super funds.

Andrew's Insurance*		Vivien's Insurance*	
Cost of Ordinary	**Cost of Super**	**Cost of Ordinary**	**Cost of Super**
$1,337 pa	$689 pa	$815 pa	$668 pa
Being self-employed, Andrew can claim a tax deduction in his annual tax return **. His marginal tax rate is 46.5%.		By contributing $815 on behalf of Vivien, Andrew can claim an 18% offset in his annual tax return (Vivien is assumed to be earning less than $10,800 p.a.). (18% rebate available on a maximum contribution of $3,000)	
Premiums	$1,337	**Premiums**	$815
Less Tax Deduction#	$622	**Less Tax Offset^**	$147
Net Cost	$689	**Net Cost**	$668
# $1,337 x 46.5% = $622		^$815 x 18% = $147	

* Death and TPD cover
Cover for Andrew: age 43, non-smoker, TPD class 1
Cover for Vivien: age 40, non-smoker, TPD class 2

By changing their insurance arrangements, Andrew and Vivien have a combined saving of $795 p.a.

Tips & Traps

- Insurance cover purchased through a super fund is owned by the trustee of the super fund who is responsible for paying benefits.
- All lump sum death benefit payments made to a dependant will be tax-free.
- If you are self-employed, you can claim a tax deduction on 100% of contributions up to $50,000 (or if over 50 you can contribute up to $100,000pa over a transition period which ends 2012).
- You could also reduce the cost of life insurance via a salary sacrifice arrangement. Instead of having separate insurance and paying premiums from after-tax salary, you could have the insurance through your super and pay the premiums from pre-tax salary.
- As super funds get a tax deduction for death and disability premiums there should be no contributions tax charged on these premiums.