Should insurance be held personally, in super or both?

Holding adequate insurance cover is an important financial consideration for a number of reasons, including in situations where you may have debts, or your ability to meet your living expenses would be at risk if you were to be unable to work.

In addition, you or your partner may have dependants who are reliant on you. Without appropriate insurance cover, their future financial wellbeing may be at risk.

When determining appropriate insurance cover to meet your needs, consideration should be given to the type of cover, as well as how to structure your cover.

Two of the most common ways to structure your insurance cover are to either hold it personally or through superannuation.

Who does this suit?

Those wanting to understand the options for how insurance can be structured.

It works like this:

Holding insurance personally	Holding insurance through super
Where insurance is held personally, in the event of claim, the benefit from the policy will be paid to the policy owner or a nominated beneficiary.	Although holding your insurance cover through super may seem desirable for a number of reasons, there are a number of additional considerations to be taken into account when holding insurance in this way.
In many cases the individual insured is the policy owner, however depending on the purpose of your cover, the beneficial ownership might be held by someone else or via your superannuation fund.	

Benefits of insurance through super	Drawbacks of insurance through super
Some types of insurance may be cheaper through super due to the number of fund members holding cover, often referred to as group insurance. However, this won't always mean the insurance cover offered is suitable for your personal circumstances.	Only certain types of insurance cover can be held through super, including life insurance, some TPD policies and income protection which may also be referred to as salary continuance cover.
For many types of insurance cover, your insurance premiums may be deductible to your super fund, meaning you may be able implement strategies to fund your insurance with pre-tax dollars.	Depending on your circumstances, you or your beneficiaries may pay tax on insurance proceeds paid from your super fund.
You may be offered a certain level of automatic cover within your current super fund, often depending on your super fund and your employer, plus the industry in which you work.	When it comes to receiving payment from some insurance policies, the proceeds will usually be paid to your super fund first. From here, the trustee of your fund needs to then make a payment to you or your beneficiaries, in line with the fund's rules and super law.
You can use your accumulated super savings or the compulsory superannuation guarantee your employer pays to your super on your behalf, to help fund your insurance premiums.	Using your super to fund your insurance premiums reduces the amount you could otherwise save for your retirement.

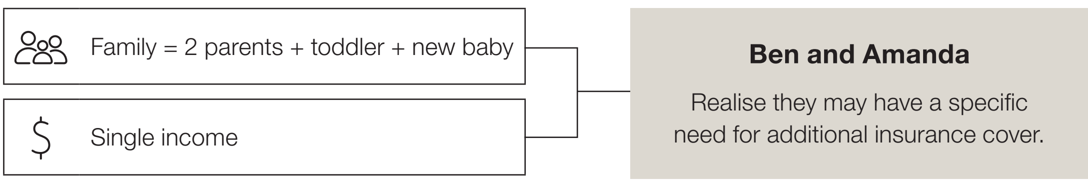
Examples

Ben and Amanda

Ben and Amanda live together with their young daughter Jasmine and new baby Lina.

With the latest addition to the family and Amanda taking time off work while the girls are still young, Ben realises his family is financially reliant on him more than ever before.

Ben and Amanda realise they may have a specific need for additional insurance cover, so they work with their financial adviser to establish a personal insurance strategy by comparing the policy terms and costs and benefits of holding their required insurance covers both inside and outside of superannuation.



Examples

Selina

Selina is a young professional who lives by herself and currently has no dependants.

She has a small mortgage on the unit where she lives, plus she has a reasonable amount of mortgage debt against two investment properties she purchased over the last few years.

Given her mortgage debt against her home and investment properties, Selina has started to consider how she would fund these repayments in the event she was sick or injured and unable to work for a period of time.

Selina decides she wouldn't want to be in a position where she has to sell her unit or any of her investments, so she works with her financial adviser to establish an insurance strategy using insurance covers held both inside and outside of her superannuation.

- No dependants
- Her unit – small mortgage
- 2 investment properties – mortgaged

Selina

She wouldn't want to be in a position where she has to sell her unit or any of her investments.

Take note

Meeting your insurance needs is an important part of any financial plan and there are a number of factors you may need to consider;

- The features and benefits of your policy,
- How much cover you will need,
- How you hold the insurance based on your personal circumstances,
- How your premiums are structured and paid,
- Who's eligible to receive your benefit and how it may be taxed.

It's important to remember that everyone's situation is different and insurance strategies that work for some, may not work for others.

Need help

For more information on assessing your insurance needs, please speak to your financial adviser.

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