Insurance – Total and Permanent Disablement (TPD) Insurance

TPD insurance protects you and your family by paying a lump sum payment if you suffer a total and permanent disability and are permanently unable to work.

Benefits

It is important to work out individually what you need to protect and how much cover you need. But the lump sum payment can be used for goals such as:

- reduce or clear your home loan and other debts
- cover medical and rehabilitation expenses
- generate on ongoing income stream to help you to meet your future living expenses
- employ paid carers
- pay for modifications to your home or vehicle
- set money aside for future education costs for your children
- protect your long term wealth accumulation strategy.

Without insurance, you and your family or dependants may need to run down savings, sell assets, and/or rely on family or the Department of Human Services for assistance. You may find it difficult to maintain your standard of living or pay for the care and medical assistance you need. This can place extra stress on you.

How it works

To receive a TPD payment, you must meet the definition in the insurance policy you select. Some policies require that you are unlikely or unable to work in any occupation for which you are 'reasonably suited by training, education or experience' while other policies may provide cover if you are permanently unable to work in your own occupation.

Generally policy definitions relate to your inability to work, but you may also obtain policies that cover other modified definitions. These might trigger payment if you lose limbs or your sight or are unable to undertake activities of daily living unassisted. This may provide cover for homemakers or others who are not working.

TPD cover under an 'any' occupation definition is less expensive than cover under an 'own' occupation policy but it could be more difficult to meet the requirements for a successful payment because the insurer may take into account other training and experience you may have when determining the extent of your inability to work.

The 'any' occupation definition may be suitable for you if you want to own the cover within your superannuation fund, you have only ever worked in the one occupation or you want the less expensive option.

The 'own' occupation option may be suitable for you if you have the cash flow to afford the higher premium and want the more flexible definition, or you have had a varied occupation history.

Stand-alone TPD Cover

You can buy TPD insurance as a stand-alone policy that includes just TPD cover and no death cover.

Linked TPD Cover

You can also purchase your cover so that it is 'linked' to your Term Life or Trauma Insurance. With 'linked' covers, if you make a TPD (or Trauma) claim and the claim is paid, the other two cover levels may reduce by this amount. Linking your covers in this way can reduce the cost of your TPD insurance. Most policies include 'buy-back' options to regain the reduced cover amount after a period of time has elapsed.

Policy Ownership

TPD insurance can be owned either in your own name or within your superannuation fund.

Self ownership
Owning your TPD insurance in your own name means you pay the premium from your cash flow. The premiums for self owned TPD insurance are not tax deductible. In the event of a successful claim, the proceeds will be paid to you as a tax-free lump sum.

This may be suitable if you have the cash flow available to pay the premium, you want the 'own' occupation TPD definition, or you want to ensure the proceeds will be a tax-free lump sum.

Superannuation ownership
Alternatively you can apply for cover within your superannuation fund. This allows the premium to be paid by making contributions to superannuation or simply be deducted from your superannuation account balance so it does not affect your cash flow. The premium is a deductible expense to your superannuation fund and can reduce the tax payable on contributions and investment income.

In the event of your total and permanent disablement, the insurance proceeds will be paid into your superannuation fund and form part of your account balance. You will need to meet the superannuation condition of release ('permanent incapacity') to access the proceeds. This may restrict access to your benefits compared to a self-owned policy. If you are under age 60 tax may be payable on amounts you take out of superannuation.

Superannuation ownership may be suitable for you if you:

- do not have the cash flow to make the premium payments,
- receive contributions from an employer into superannuation,
- are eligible to make salary sacrifice contributions,
- are eligible to make personal deductible contributions, or
- are eligible for co-contributions.

Importantly, only 'any occupation' cover is available in superannuation.

Tax concessions can reduce the cost of insurance. If additional contributions are made into superannuation to cover premiums it is important to ensure you do not exceed the limits on how much can be contributed.

The total amount of superannuation monies used to start pensions will be capped at $1.6 million. You can retain excess amounts in your accumulation accounts where tax of up to 15% continues to apply.

Risks and Consequences

- Funding the premiums from your superannuation balance will reduce the growth of your retirement savings unless you make additional contributions to offset the premiums. These contributions will count towards your contribution caps.
- If your policy is held within your superannuation fund you may not be able to transfer all of the benefit to a tax-effective income stream.
- Benefit payment is usually excluded if you become totally and permanently disabled as a result of war (or act of war) or a self-inflicted act.
- You should always carefully read the Product Disclosure Statement (PDS) and policy document for your selected insurance policy and keep these documents in a safe place.

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