WHAT IS

Total & Permanent Disability Insurance?

Total & Permanent Disability (TPD) insurance pays a lump sum if you become permanently disabled due to illness or accident.

What does it cover?

Many people carry significant financial risk should the unexpected happen. From car accidents to serious illness, these events are hard to predict. If you become permanently disabled due to illness or injury, a TPD insurance pay-out can help protect your financial wellbeing by paying for things such as:

- Medical treatment, pharmaceuticals, specialist therapies and rehabilitation costs not covered by your health fund or Medicare
- Paying down debts such as a mortgage and living expenses while you are unable to work
- Modifications to your home arising from a change to your mobility
- A carer or care support
- Additional disposable income in the event your partner needs to cease work to look after you.

Access to a lump sum can also go towards the cost of travelling interstate, or overseas, to access the best medical care.

TPD can be bought on its own or packaged with life cover. If it's packaged, your life cover will normally be reduced by any amount paid out on a TPD claim.

These descriptions are general as what's covered under an TPD insurance policy can differ between insurers. To understand what's covered under an insurance policy, read the product disclosure statement (PDS) or speak to a financial adviser.

Do you need TPD insurance?

Would your family be able to maintain their lifestyle if you suffered a serious illness and, while unable to work, faced substantial medical and rehabilitation costs?

To determine whether you need TPD insurance, you should consider:

- How much income you and your family would need if you couldn't work for some time
- If you have other types of insurance to assist with lost income

- If you have private health insurance that could help with some medical expenses
- Whether support from friends and family may be available
- Available savings and investments

How to buy TPD insurance

The two most common ways to purchase insurance are outlined below.

1. You can arrange insurance directly in your own capacity. You are responsible for contacting insurers, comparing policy features and premiums etc. You should familiarise yourself with the pros and cons of purchasing insurance inside or outside of superannuation and structure your insurance accordingly, or

2. You can work with a financial adviser who compares all the policies on offer and recommends one best suited to your circumstances. They will enquire about your finances, living situation, details about your family and more to determine cover appropriate to your needs.

   They can also assist with the application and claims process, review your insurance needs each year and keep you up to date with the latest insurance news and regulatory change that may impact your future insurance needs.

Whether you choose to arrange your insurance directly in your own capacity or work with a financial adviser, the following factors are a consideration.

For more information, refer to 'What is personal insurance' fact sheet.

Did you know...

- **The likelihood of living with disability increases with age; one quarter (26.9%) of people aged 60-64 years are living with disability. Over eight in ten people aged 90 and over (84.6%) have a disability[1].**
- **The average basic level of TPD insurance needed for a parent aged 30 is $874,000 and $499,000 if aged 50[2].**

TPD definitions are important

Most TPD insurance policies generally offer one of two definitions, either 'own occupation' or 'any occupation'. An 'own occupation' definition means your claim will be paid if you are unlikely to ever return to your own occupation, which is the one you were engaged in at the time of the injury or illness.

An 'any occupation' definition means your claim will be paid if you are unlikely to ever return to any occupation that you may be suited to by experience or education. An 'own occupation' definition is usually preferable; however, its premiums are higher, and this option is not available for all occupations.

Depending on the definition used by your insurance policy, it may also be useful to consider holding insurance both in superannuation and purchased directly from the insurer in your own name. That way, you have a chance at meeting at least 'one' of the definitions applicable.

[1]Australian Bureau of Statistics (ABS) 2019, 4430.0 - Disability, Ageing and Carers, Australia 2018, [Accessed June 2021].
[2] Rice Warner. Under Insurance in Australia 2020. Available from: https://www.ricewarner.com/new-research-shows-a-larger-underinsurance- gap/ [Accessed June 2021].

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Inside or outside of superannuation

You can hold TPD insurance in your own name, or in your superannuation fund. When it is held inside superannuation, the trustee of the superannuation fund is the policy owner. Both options have pros and cons as outlined below.

	Advantages	Disadvantages
Insurance inside superannuation	• TPD insurance premiums are generally tax deductible to your superannuation fund. You can pay your premiums using accumulated superannuation money or by making additional superannuation contributions, which may come from your before- tax income. This can be good for your budget because the cost doesn't reduce your take-home pay. • Your salary sacrifice and personal deductible contributions are taxed at 15%. This is lower than the marginal tax rate for most people and can make paying for insurance through super tax effective.	• While most insurance events for TPD insurance result in a condition of release, there are some limited situations where you may not be able to access the insurance benefits until you retire. • Funding insurance premiums from your superannuation can erode your retirement savings unless you top up your superannuation with additional contributions. • Tax may be payable when the benefit is paid (see section below).
Insurance outside superannuation	• TPD benefits are generally tax free.* • Insurance benefits are paid directly to you or your nominated beneficiary(ies).	• TPD insurance premiums are generally not tax deductible when paid personally.

Taxation of premiums and benefits

Where you hold your insurance also influences how premiums and benefits are treated as outlined below.

	Are premiums tax deductible?	Are benefits taxed?
Insurance inside superannuation	Contributions you make to super to cover premiums may be claimed as a tax deduction**.	Taxable (with concessions).
Insurance outside superannuation	No.	Generally tax free.

If insurance is purchased inside your superannuation fund, the amount received from the insurer is automatically added to your superannuation account balance.
You can choose to:

- Leave the amount in your superannuation account,
- Withdraw a lump sum,
- Start an income stream, or
- Use any combination of the above.

If you withdraw a lump sum, tax applies based on your age at time of withdrawal:

- Tax is not payable if you are aged 60 or over.
- If you haven't reached your preservation age, a formula is used to calculate a portion of the withdrawal that is tax-free, and the remainder is taxed at up to 22% (including Medicare Levy).

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If you choose to start an income stream, a portion of the pension payment will be taxed at your marginal tax rate, and you'll be entitled to a 15% tax offset.

For more information, visit www.ato.gov.au and search 'Personal deductible contributions', 'Low-rate cap' or 'Withdrawing your super and paying tax'. You can also refer to 'What are the limits on superannuation contributions ?' fact sheet.

Can I retain my insurance despite having an inactive super account?

If your insurance is held inside super, trustees generally cannot provide cover to you if your super account is inactive. An account is deemed inactive if it has not received a contribution or rollover for over 16 months. If your account is inactive, you will receive a communication from your super provider explaining that your insurance could be cancelled by a specified date. To keep your insurance cover:

- Return the opt-in form enclosed with the letter sent to you, or
- Complete a separate opt-in form located on the website of your super account provider, or
- Make a contribution or rollover which will make your super active again.

Case study 1

After suffering a significant lower back injury in a motor vehicle accident, **Aaron** successfully claimed on his TPD insurance policy. Based on his prior work history, including physically demanding roles within the construction industry as well as his current employment as a security guard, he was precluded from working within his education, training, and experience.

As Aaron reviewed his insurance needs on an annual basis with his financial adviser, he was confident that the TPD pay out would be sufficient to meet his needs should anything happen. At time of claim, the lump sum covered his living expenses while continuing to achieve his long-term savings goals, fund rehabilitation costs and renovations to his property to accommodate his physical condition.

Case study 2

Sophia was an advertising executive with a long history working in a stressful corporate environment. After being diagnosed with chronic fatigue, she had to cease work due to the severity of her symptoms. After lodging a claim with her insurer, they made a preliminary decision to decline the claim.