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Insurance and Super – Changes from 1 July 2014

Insurance has always been part of the superannuation industry – it's embedded in the 'sole purpose test'.

Public offer funds have offered discounted Group Life arrangements (and used the as a drawcard) for decades. Strict rules and minimum insurance standards now apply to all MySuper schemes.

Since 1 July 2012, every SMSF is required to consider insurance when formulating and giving effect to an investment strategy.

Thus insurance has become an integral part of every type of superannuation.

The insurance industry in the meantime has been busily expanding and refining its product range to cover all manner of health events – apart from simple death cover, one can choose Any Occupation TPD, Own Occupation TPD, Critical Illness/Trauma, Income Protection, Blood Borne Disease, Child Trauma, Business Expenses - the list goes on.

In some instances, however, these insurance products are at odds with superannuation's 'sole purpose test' and its corresponding 'conditions of release' – circumstances where one can access to their superannuation.

For example, being diagnosed with cancer or acute angina does not in itself enable you to access your super. It may, however, be enough to make a successful claim on an insurance policy. However, if this policy is owned by your SMSF, while the life company may pay the claim to the policy owner (the SMSF), the SMSF cannot pay the insured (the member) as the member would not have met a 'condition or release'. The proceeds are locked in the SMSF.

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To address this mischief, from 1 July 2014 only certain types of insurance can be held within superannuation, namely:

- Death;
- Permanent incapacity;
- Temporary incapacity;
- Terminal medical condition.

Therefore, one needs to ensure that any new policies taken out through super meet these broad definitions.

Fortunately, industry has responded to this change and is now offering hybrid policies where ownership is split between the life insured and the Fund such that, depending upon the type of claim being made, payment will be either through super or directly to the life insured.

Pre-existing policies are grandfathered (permitted to continue to be held within super). But this doesn't necessarily get around the access problem embedded in the 'conditions of release'. Care should also be exercised when tinkering with a pre-1 July 2014 insurance policy.

If you are interested in insurance or would like more information about insurance within super, please call (02) 93289328.