



## Insurance and your SMSF.

Navigating your SMSF.

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### Insurance and your SMSF

You can purchase insurance within your SMSF, and more importantly, the super laws require trustees to consider the insurance needs of members when drafting and reviewing the fund's investment strategy.

Considering the insurance needs of SMSF members doesn't mean you must purchase insurance within your SMSF.

Also it's important to note that life insurance policies held outside of a super fund cannot be transferred into an SMSF. Although, some providers will allow you to cancel your existing policy and then reestablish it again in your SMSF without impacting your level of cover.

### Recent insurance rule changes

On 1 July 2014, regulations were introduced requiring all new insurance policies issued to SMSFs be consistent with the Superannuation Industry (Supervision) regulations conditions of release.

The upshot of this is that you can hold insurance policies within your SMSF for:

- Life insurance;

- TPD insurance with an Any Occupation definition; and
- Standard Income Protection insurance policies.

It also means your SMSF can't purchase or hold the following insurance policies (unless you are increasing or decreasing cover that was already held prior to 1 July 2014):

- Own Occupation TPD;
- Trauma cover; and
- Comprehensive Income Protection.

Although Life, Any Occupation TPD and Standard Income Protection policies can be purchased by SMSFs, the cover will have some restrictions compared to the same cover purchased outside super.

### SMSF Life insurance

Life insurance policies can be purchased by an SMSF for the members of the fund and the premiums will be deductible expenses to the fund.

Key things to consider

- The SMSF version of the life insurance policy will only cover the core benefits of death and terminal illness.

- The insurance company will pay the proceeds of the policy directly to the fund and the trustees then have the discretion to decide on the distribution of the funds in accordance with the trust deed.
- Payouts from SMSFs may be subject to tax under certain circumstances, unlike policies outside super where payouts are generally tax-free.

### SMSF TPD insurance (Any Occupation)

Any Occupation TPD policies can be purchased by an SMSF for the members of the fund and the premiums will usually be deductible expenses to the fund.

Key things to consider

- There is an overriding requirement for the policy to satisfy the definition of 'Permanent Incapacity' in the Super Act. Claims for lesser disabilities, such as a partial payment for loss of one limb or sight in one eye, aren't allowed.
- Members who are highly paid or perform highly specialised occupations may prefer to have 'Own Occupation' TPD cover where the insurer pays a benefit if they are permanently unable to perform their own occupation, even though they may be able to perform the duties of another lower paid job.
- Unlike a TPD policy held outside super where the insurance payout is tax-free, a TPD payout from an SMSF may be subject to tax if the member is under 60 years of age.

### SMSF Income protection insurance

Income protection insurance can provide your SMSF members with a monthly payment if they are unable to work temporarily due to sickness or accident.

Key things to consider

- The tax implications of holding an Income Protection policy through an SMSF or directly are the same. The only advantage might be using the accumulated funds in the SMSF to pay the premium, as opposed to a member's private cashflow.
- While policies purchased by a SMSF will provide cover where a member is unable to work at all due to sickness or injury, they will not be able to offer the additional features and benefits as policies outside of super, e.g. trauma benefit or nursing care, etc.
- A member may not be able to claim under their policy while unemployed, unlike under policies held outside super. Benefit payments may also be offset for any sick leave payments received.
- Most insurers don't offer Agreed Value for SMSF income protection policies, only Indemnity cover. Agreed Value policies are attractive to professionals and self-employed individuals who have income which can fluctuate from year to year.

### Insurance advice is recommended

SMSF trustees should consider the personal circumstances of each of the members of the fund when considering insurance.

This includes members' income, assets and liabilities, any existing insurance cover they have and how they or their family would be impacted by their death and disability.

Insurance is a complicated area where exceptions exist, and one worth exploring your personal situation with a financial adviser.

### We are ready to help

There are lots of advantages to managing your super and retirement savings via a self-managed super fund, but there can be complicated areas and considerations that are best addressed with SMSF-specialist advice.

We are equipped with the knowledge and expertise to help you get the most out of your SMSF, by showing you how to set up and develop a sound investment strategy that reflects your needs. We can work with other professional services to create and manage a super fund that puts you on a clear path.



**Talk to your SMSF financial adviser for specific information related to your SMSF needs.**

**Wealth Planning Partners**

**T (07) 5593 0855**

**E [amanda@wealthplanningpartners.com.au](mailto:amanda@wealthplanningpartners.com.au)**

**[www.wealthplanningpartners.com.au](http://www.wealthplanningpartners.com.au)**

Wealth Planning Partners ABN 80 114 978 442 Corporate Authorised Representative WPP Licensee Services Pty Ltd AFSL No. 530393 ABN 76 649 079 998 .  
Amanda Cassar is an Authorised Representative WPP Licensee Services Pty Ltd AFSL No. 530393 ABN 76 649 079 998

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