

Life insurance that doesn't hurt the hip pocket

Each year many of us renew our car insurance thinking that it is something we hope we never have to use. This feeling is probably magnified when we look at health insurance, and again when we consider life insurance. While our car insurance will replace a material asset if it is lost or damaged, our health and our life are certainly not easily replaced by a policy payout. Even if we never actually claim on our various insurance policies, the value of having them in place is the peace of mind that we and our family have some protection if the unmentionable does happen.

Nonetheless, there are times when the other costs of living seem more important. You might think that you'd rather use that bit of extra cash to buy your children a new pair of shoes because you can be certain that they will benefit from it, whereas life insurance premiums might end up being wasted.

If cashflow is a concern, an important strategy to consider is whether you should take out (or increase) insurance through your superannuation fund. How does insurance in super work?

Superannuation funds can only own certain types of life insurance policies, so for starters you can't put your car or health insurance in super. The four common categories of life insurance provide cover in the event of:

- death
- total and permanent disability
- income protection; and
- trauma.

However, only the first three of these can be held via super in accordance with government regulations. So if you need trauma cover, personal ownership is likely to be the best option. If your super fund owns the policy, it will be liable for the insurances premiums and these will generally be deducted from your account. So in effect your insurance costs are being met by inflows into the fund, such as employer super guarantee contributions or earnings on your existing superannuation balance. As a result, your ultimate retirement benefit will be affected, but this is to be weighed against the fact that you otherwise might not be comfortable taking out insurance cover at all.

You should also consider that in the event of a claim, the insurance company will pay any benefit to the super fund (as owner of the policy). The rules of the super fund will then determine when and how the monies are paid to you or your family.

Remember that not only do you need to determine who should own the policy, you also need to work out how much insurance cover is appropriate for your personal situation. This process is not as simple as calculating the value of replacing your car for a motor vehicle policy. How much is your life and your health worth? Your financial adviser can help you determine how much cover you actually need.

Date: April 2009

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Important Information

The information and any advice do not take into account your personal objectives, financial situation or needs and so you should consider its appropriateness having regard to these factors before acting on it.
