

Regulatory changes for life insurance in superannuation

Factsheet
July 2020



In the past year, several regulatory amendments have changed the superannuation landscape in terms of the availability of life insurance for its members. This factsheet provides a basic summary of these changes and considers some of the implications.

Insurance provided through super

Superannuation funds have long been a significant provider of life insurance to the Australian public, predominantly through cover automatically provided to its members (default cover).

Forms of default cover include:

- death
- terminal illness
- total and permanent disablement (TPD)
- income protection.

This cover has historically been a cost-effective safety net to many who had not organised cover themselves or had health issues preventing them from obtaining cover elsewhere.

If you rely on this default cover, it is important you are aware of recent changes in legislation, which may have resulted in your cover being cancelled.

Super life insurance and inactive accounts

As at 1 July 2019, all super funds were required by law (also known as the Protecting Your Super [PYS] changes) to cancel default cover life insurance provided to members if their accumulation account was inactive. That is, the fund had not received a contribution or rollover, with respect to a particular member, in the previous 16 months.

In the lead-up to cancellation, your super fund would have likely have issued a notice advising your default cover was due for cancellation with an option to opt-in to continue your cover.

If you did not opt-in, then your default cover may have been cancelled.

In some instances, reinstatement may be possible. However, you may be required to complete some form of health and lifestyle underwriting assessment in order to have cover reinstated. You should contact your fund if you are considering this option.

Super life insurance and low account balances

From 1 April 2020, further changes to existing superannuation legislation came into effect. Known as Putting Members' Interests First (PMIF), at a high level, those changes are:

- If your super balance hasn't reached \$6,000 by 1 April 2020, your existing insurance in super may be cancelled.
- From 1 April 2020, when you join a super fund, insurance in super won't be provided until you're at least age 25 and your super balance has reached \$6,000.

Similar to the PYS changes, for those with existing default cover, your super fund would have likely issued a notice advising that your default cover was due for cancellation with an option to opt-in to continue your cover.

Maintaining cover in superannuation

Paying for your life insurance with super savings can be a useful strategy to manage your cashflow and may provide some tax benefits compared to paying for cover outside super.

However, it should be noted that benefit payments in super may be subject to tax. The cover available can also have more restrictions compared to life insurance held outside super.

Always in a doctor's best interest

Some specific things to be aware of about life insurance in super include:

- Total and permanent disablement (TPD) cover is generally restricted to the 'any occupation' definition. This means a payment will be unavailable if you are able to work in another medically-related occupation outside of your current specialty.
- Income protection payments are often restricted to a two-year benefit period, leaving you uninsured for long-term disabilities.
- Cover levels can fluctuate over time without your knowledge so may reduce to levels insufficient for your needs, or exceed what you require leading to unnecessary reductions in your super savings through excess premiums.
- Life insurance provided by your super fund can be changed without your consent, with more restrictive definitions imposed or cover reduced.

These are just a few of the differences to keep in mind when considering cover through super compared to fully underwritten non-super policies, such as those available through financial advisers or directly from life insurers. If you are in doubt about what the best option is for you, it is important to seek financial advice.

Get advice that suits your situation

This factsheet provides an overview of recent notable changes made to life insurance offered through superannuation, and resulting potential implications to consider when holding life insurance within superannuation.

For professional advice that will confirm the appropriate form of life insurance for your circumstances and ensure that it is structured correctly to achieve your objectives, contact the expert team at Doctors Wealth Management.

You can find additional resources and information about Doctors Wealth Management at avant.org.au/doctorswealthmanagement or call **1800 128 268**.

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