DID YOU KNOW?

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CommInsure Protection update: Split Income Protection (IP)

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CommInsure's new split IP offers a structure combining the benefits of having IP in super with the flexibility and more generous benefits of an IP policy outside super.

Insurance inside super is regulated by superannuation legislation and regulations. Under this law, super funds may only offer IP cover which pays benefit that can be released to members under the 'temporary capacity' condition of release. This restricts IP inside super as follows:

- You must be employed at the time of disability to be eligible for a disability benefit.
- Payments must not exceed your pre-disability income (PDI).
- PDI is limited to the average monthly income during the 12 months preceding disability.
- Many extra benefits and options cannot be offered in super.

These restrictions do not apply to income protection outside super and our Income Care and Income Care Plus policies generally offer more generous terms and benefits, as well as options that are not available in super.

Benefit of having insurance in super

The key benefit of having insurance inside super is that you can pay your premiums using pre-tax income paid as a contribution to the super fund or with a rollover from another super fund, which generally helps improve cash flow. CommInsure also provides a renewal reward, which offers up to 15% premium reduction on Income Care Super (Total Care Plan Super - TCPS) if you pay your premium as a rollover.

Benefits of having a non-super IP policy

These include a number of additional benefits not available inside super, including the Crisis benefit, Specific Injuries benefit, Unemployment cover for CBA group loans, and many others. The outside-super policies also provide access to more generous PDI definitions available outside super, such as Agreed Value (instead of SIS aligned agreed value), Guaranteed Agreed Value, and Extended Indemnity.

What is Split IP?

Split IP splits the cover across two policies, one inside super and one outside super. The super policy contains all of the benefits/definitions that are aligned to super law. Any benefit that is payable under the terms of the super policy, will be paid from the super policy. It will also carry the majority of the premium. Any benefits not payable from the super policy will be paid from the non-super policy.

Two policies are issued under this arrangement, but Split IP is a single IP cover. This means that even though two policies are issued, both will be for the same sum insured (monthly benefit), waiting and benefit period, risk commencement and expiry date, and indexation status. Both or neither policy can have the Accident, Premium Saver or Increasing Claim options. The Super Continuance option and Business overheads cover are only available on the non-super policy.

The Super Continuance option (SCO) is available on a split IP arrangement to cover superannuation contributions. The SCO covers up to 100% of super contributions, which can be up to 15% of your total income. The super continuance monthly benefit is not paid directly to the policy owner but rather to a nominated super fund. The SCO will only apply to the non-super policy.

If the non-super policy is cancelled or lapses, the super policy can continue under the terms of the super policy only and will no longer be part of a split IP arrangement. If the super policy is cancelled or lapses, the non-super policy ends as well.

The cost of split IP will generally be the same as an equivalent non-super Income Care or Income Care Plus policy, this is before we apply the renewal reward. The renewal reward is a 15% discount on premiums in super, available from the first renewal (the second year of the policy if paying by rollover). After applying the renewal reward, the total cost of the split IP will be lower than an equivalent non-super policy. In a few circumstances, the split IP premium will not be exactly the same as an equivalent non-super policy. For example, there may be differences in payment frequencies between the super and non-super policies.

How will the premium be split between the super and non-super policies?

Before applying discounts and frequency charges:

- The split IP super policy will cost the same as a regular Income Care Super or SMSF Plan – Income Protection policy.
- The split IP non-super policy will have a premium that when added to the split IP super policy will result in the same premium paid for an equivalent non-super (i.e. income care/plus) income protection policy.

The split IP arrangement requires two separate payments. The super policy will be paid via super contributions or rollovers from a complying super fund, and the non-super policy will be paid directly by the policy owner.
Only one policy fee will be payable where split IP is held. This will be paid on the inside super policy.

Is the premium tax deductible?

The premium you pay for the split IP non-super policy can generally be claimed as a tax deduction against assessable income. The policy owner will receive a statement at the end of the financial year with all the premiums paid for the non-super policy, to use for tax returns.

How are the split IP benefits paid?

Benefits may be payable from the super policy only, the non-super policy only or from both (split). For these benefits, after assessing the claim and calculating the monthly benefits payable from each policy, there are 3 possible outcomes:

1. The super definition is met and the benefit payable is equivalent to the benefit payable on the non-super policy: the entire benefit is paid from super.
2. The super definition is met, but due to super restrictions the monthly benefit pays a lower amount in super. The monthly benefit paid from super is topped up by an additional payment from the non-super policy.
3. The super definition is not met: it is then assessed under the non-super definitions (that do not have SIS restriction). If the non-super definition is met then the entire benefit will be paid from the non-super policy.

The total benefits paid (other than Income Care Super death benefits) under a split IP arrangement will be the equivalent of the total benefits paid on a non-super Income Care or Income Care Plus policy.

Are death benefits available on split IP cover?

In the event of the life insured's death, the following death benefits will be payable where a split IP policy is held:

- $10,000 death benefit that is inbuilt to Income Care Super (when the super policy is Total Care Plan Super only). This is not available with an SMSF Plan.
- If the split IP arrangement is with an Income Care Plus, an additional Death benefit is payable.
- If eligible, Accidental Death Cover (Reward Cover) will be paid once for the total split IP cover (not separately for each policy). It will be paid from the super policy. For example, if the split IP arrangement has been in force for three years, we would pay $50,000 for accidental death.

Because of the death benefit included in TCPS policies, a split IP arrangement with TCPS would pay $10,000 in death benefits that would not be available on an Income Care or Income Care Plus policy.

Summary

Split IP provides clients an affordable and tax-effective strategy for paying income protection premiums, while providing peace of mind that it fills the gap where superannuation legislation restricts certain benefit payments.