LORREQUER
Wealth & Advisory

Total and Permanent Disablement (TPD) Insurance

TPD insurance protects you and your family by paying a lump sum payment if you suffer a total and permanent disability and are permanently unable to work.

Benefits

It is important to work out individually what you need to protect and how much cover you need. But the lump sum payment can be used for goals such as:

- reduce or clear your home loan and other debts
- cover medical and rehabilitation expenses
- generate on ongoing income stream to help you to meet your future living expenses
- employ paid carers
- pay for modifications to your home or vehicle
- set money aside for future education costs for your children
- protect your long term wealth accumulation strategy.

Without insurance, you and your family or dependants may need to run down savings, sell assets, and/or rely on family or Centrelink for assistance. You may find it difficult to maintain your standard of living or pay for the care and medical assistance you need. This can place extra stress on you.

How it works

To receive a TPD payment, you must meet the definition in the insurance policy you select. Some policies require that you are unable to work in **any occupation** for which you are 'reasonably suited by training, education or experience' while other policies may provide cover if you are permanently unable to work in your **own occupation**.

Generally you need to be working but you may also obtain policies that cover other **modified** definitions. These might trigger payment if you lose limbs or your sight or are unable to undertake activities of daily living unassisted. This may provide cover for homemakers or others who are not working.

TPD cover under an 'any' occupation definition is less expensive than cover under an 'own' occupation policy but it could be more difficult to meet the requirements for a successful payment because the insurer may take into account other training and experience you may have when determining the extent of your disability.

The 'any' occupation definition may be suitable for you if you want to own the cover within your super fund, you have only ever worked in the one occupation or you want the less expensive option.

The 'own' occupation option may be suitable for you if you have the cashflow to afford the higher premium and want the more flexible definition, or you have had a varied or specialist occupation history.

Stand-alone TPD Cover

You can buy TPD insurance as a stand-alone policy that includes just TPD cover and no death cover.

Linked TPD Cover

You can also purchase your cover so that it is 'linked' to your Term Life or Trauma Insurance. With 'linked' covers, if you make a TPD (or Trauma) claim and the claim is paid, the other two cover levels may reduce by this amount. Linking your covers in this way can reduce the cost of your TPD insurance. Most policies include 'buy-back' options to regain the reduced cover amount after a period of time has elapsed.

Policy Ownership

TPD insurance can be owned either in your own name or within your superannuation fund.

Self-ownership

Owning your TPD insurance in your own name means you pay the premium from your cashflow. The premiums for self-owned TPD insurance are not tax deductible. In the event of a successful claim, the proceeds will be paid to you as a tax-free lump sum.

This may be suitable if you have the cashflow available to pay the premium, you want the 'own' occupation TPD definition, or you want to ensure the proceeds will be a tax-free lump sum.

Superannuation ownership

Alternatively you can apply for cover within your superannuation fund. This allows the premium to be paid by making contributions to super or simply be deducted from your superannuation account balance so it does not affect your cashflow. The premium is a deductible expense to your superannuation fund and can reduce the tax payable on contributions and investment income. The premiums for TPD cover may be either fully or partially deductible to the fund depending on the characteristics of the policy as follows:

TPD policy type	Deductible portion
Any occupation	100%
Own occupation standalone	67%
Own occupation bundled with life cover	80%

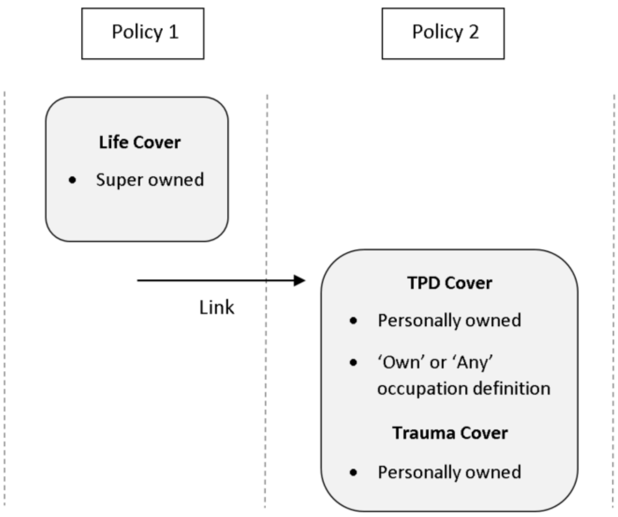
In the event of your total and permanent disablement, the insurance proceeds will be paid into your superannuation fund and form part of your account balance. You will need to meet a superannuation condition of release (such as permanent incapacity) to access the proceeds. This may restrict access to your benefits compared to a self-owned policy. If you are under age 60 tax may be payable on amounts you take out of superannuation.

This may be suitable for you if you do not have the cashflow to make the premium payments, receive contributions from an employer into superannuation or are eligible to make salary sacrifice contributions, are eligible for co-contributions, or are self-employed. Tax concessions can reduce the cost of insurance. If additional contributions are made into superannuation to cover premiums it is important to ensure you do not exceed the limits on how much can be contributed.

From 1 July 2017 the total amount of super monies used to start pensions will be capped at $1.6 million. All superannuation income streams are assessed against the transfer balance cap regardless of when it first commenced. You can retain excess amounts in your accumulation accounts where tax at 15% continues to apply.

Where your sum insured is large, not all of the benefit may be able to be taken as a tax-effective income stream by your beneficiaries.

How does 'Flexi-linked' TPD work?



How does "Super-linked" TPD work?

With TPD insurance, there are two basic styles of policy you can select from:

1. 'Any' occupation: You can claim if you are permanently disabled and cannot work in any occupation you are suited to by education, training, or experience. This definition is more difficult to meet as you must prove that you can't work in a wide range of occupations (not just your current one) and because of this, premiums are cheaper.
2. 'Own' occupation: You can claim if you're unable to work in your usual occupation or your chosen field of employment. This definition is easier to meet (as you only need to prove you cannot work in your current occupation) and because of this, premiums are more expensive. "Own" occupation TPD policies cannot be owned through superannuation.

Under a 'Super-Linked' TPD structure, you have two TPD policies in place — one owned through superannuation (with an 'Any' Occupation definition) and another owned personally (with an 'Own' occupation definition). In the event of a TPD claim, you are first assessed under the 'Any' occupation super owned policy. If you meet this definition the benefit is paid out via superannuation. If you do not meet this definition, you are then assessed under the ‘Own’ occupation definition under your personally owned policy and paid out under this policy.

Consequences

- Funding the premiums from your superannuation balance will reduce the growth of your retirement savings unless you make additional contributions to offset the premiums. These contributions will count towards your contribution caps.
- If your policy is held within your super fund you may not be able to transfer all of the benefit to a tax-effective income stream.
- Benefit payment is usually excluded if you become totally and permanently disabled as a result of war (or act of war) or a self-inflicted act.
- You should always carefully read the Product Disclosure Statement (PDS) and policy document for your selected insurance policy and keep these documents in a safe place.

Date: 1 April 2018