



ADLV LAW

FIERCELY ON YOUR SIDE

SOLUTION BRIEF

Life Insurance and Super

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Holding your life insurance policy through your super fund is not always as “tax-effective” as you may think. You need to think past the “deduction” for premiums.

01

The good news

Funding life insurance premiums through super can be tax effective because concessional contributions used to pay premiums are effectively not subject to the 15% contributions tax, and you still get a deduction (or reduced income) from making the contribution. In this way you get a “tax subsidy” for funding the premiums through super.

Furthermore, by paying your premiums from your super contributions and savings, you can reduce pressure on your own personal (non-super) cash flow. Premiums can be paid using superannuation guarantee contributions, investment earnings and accumulated benefits. However, this will of course have a negative impact on the overall level of savings left over for your retirement.

You may also be able to benefit from cheaper insurance premiums if you are with a super fund that has the ability to “buy in bulk” and thereby negotiate lower premiums for its members.

Another key benefit is that the payment of a death benefit from a super fund to a “tax dependent” is tax-free. A tax dependent includes your spouse, a child under the age of 18 or a person who is financially dependent on you at the time of your death.

02

The not so good news

The payment of a death benefit from a super fund to someone who is not a tax dependent is subject to tax. The rate of tax is either 17% or 32% of the gross death benefit paid. Which rate applies depends on how long you have maintained the super account before taking up the policy, relative to your preservation age.

For example, Mark held a life insurance policy through his super fund and died at age 45. The super fund claimed a deduction for the insurance premiums. The super fund received a \$1 million payout on the policy on Mark's death, and in turn paid this as a death benefit to Mark's 22-year-old daughter Lesley. Mark started the super 10 years ago, when he was 35.

Given that the death benefit is paid to his adult daughter who is not a tax dependent, tax will apply to the death benefit as follows:

- The taxed component is calculated as follows:
 - 10 years of eligible service (from age 35 to 45)
 - 30 years of total service period (normally up to age 65) - from 35 to 65
 - $\$1,000,000 \times (10/30) = \$333,333$
- The untaxed component is calculated as follows:
 - $\$1,000,000 - \$333,333$ (i.e., the taxed component) = \$666,667
- The tax payable on each component is calculated as follows:
 - Taxed component: $\$333,333 \times 16.5\% = \$56,666.61$
 - Untaxed component: $\$666,667 \times 31.5\% = \$213,333.44$
- Total tax payable by Lesley on the death benefit = \$270,000.05



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What next?

We note that our comments in this Solution Brief are of a general nature only, and do not take into account your personal financial affairs or objectives. If you require further advice on life insurance and super we recommend that you consult your licensed investment adviser.

If you would like to speak to someone about the tax and legal implications of holding your life insurance in or out of super, call us on 1300 654 590 or email us at wehelp@adlvlaw.com.au.

Further information can also be found on our website at www.adlvlaw.com.au.

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