PLAY IT SAFE

Price isn't everything – make sure the your fund's policy still has the features and flexibility you need

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Many of us pay little attention to where our super contributions go, with the result that too frequently we end up in an employer's default fund, where we accept all the conditions and products without a moment's thought. If we do pay any attention it is to visions of retirement with a nice big nest egg. But what if you don't make it that far? What if you die early or become totally and permanently disabled during your working life? What sort of benefits will be paid to your family? A common response is "I have no idea".

Industry and retail super funds provide default death and total and permanent disability (TPD) cover and often optional income replacement insurance, but can you get a better deal by shopping around outside the super fund?

RULES ARE REWRITTEN

Until three years ago there was a dramatic cost advantage in having TPD and death cover included in the super fund by a group insurer, compared with buying the cover privately. However, larger than expected claims have forced group premiums to jump by up to 100%, to the point where insurance premiums within a super fund can be more expensive than buying individual cover from an insurer.

The bad claims experience has also caused some fund insurers to rewrite the conditions under which they will pay a TPD benefit, from one that pays out if you cannot ever expect to resume your own occupation to one where the benefit is paid only if you are unlikely to ever work again in any similar occupation for which you are suited by education, training or experience, or any job you may be asked to retrain for. This means the insurer has the power to force you to re-skill and retrain into "any occupation" instead of paying your claim. It could mean that a marketing manager may end up in a call centre pitching for donations. An "own occupation" definition can make all the difference to your quality of life post-TPD.

KEEP UP YOUR COVER

Find out what happens to your cover if you move to a different super fund or your employer's super contributions stop. Your insurance might actually stop without notice.

According to Roy Agranat, director with Fairbridge Financial Services, the conditions under which a policy will pay out a TPD benefit are more important than going for the cheapest product, or simply accepting the group insurer included in the super package. Rice Warner actuaries make the point that an identical product outside a fund may provide more flexibility and features, such as financial planning and counselling.

HOW MUCH IT COSTS

Let's take the example of a 35-year-old white-collar male who is considering taking out $1 million life and TPD cover through Australian Super or CFS First Choice Personal Super, or his own personal retail cover through Insurer A. Australian Super will charge $930 a year and CFS First Choice $783. Both are for "any occupation" definitions. Individual cover arranged with an external insurer but with the premium paid from a super account will cost $698 if he takes the "any occupation" route and $830 if he can't work at his "own occupation".

A 35-year-old blue-collar worker will be charged more: $1846 with Australian Super and $1020 with CFS First Choice. He can buy his personal policy for $798 for the "any occupation" definition and for $983 if he can't return to his "own occupation".

Michael Rice, CEO of Rice Warner, notes that group

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cover in most funds still offers a price advantage but not much. Fairbridge's Agranat also makes the point that if you switch funds there is no opportunity to continue your existing cover externally, or to convert it to a non-super product. That means you may have to make a new application, complete with medicals, and that could be more expensive and it could be rejected.

Rice notes most medium-paid workers with a mortgage find it more affordable to buy cover inside super where they get a 15% tax concession on premiums. At higher income levels, personal cover can be paid for through salary sacrifice, when the same tax concession as inside-super cover applies. The other factor to consider is that within super the premiums climb with age and therefore deplete the proportion of contributions building super. If the premium is paid separately, all of the super contribution after fees builds the retirement balance.

CHECK FIRST
Make sure you'll get the same level of insurance cover if you switch to a new fund before closing your old one.

CHECK THE FINE PRINT

Some policies no longer cover you if you take a sabbatical or go on prolonged leave. Check with your fund. In an era of casual work it is important to note that some group policies will not pay out for TPD if your job is not permanent, if you work less than 15 hours a week, if the employment is for a term of less than 12 months, if you are not required to work regular hours or if your employment does not provide holiday or sick leave. Agranat says some fund members find out they are not covered only when they claim, at which time they face a battle with the insurer, even though they have not missed a premium. You don't want to have a claim battle from a wheelchair.

BUYING EXTRA COVER

Most funds allow up to $5 million of death cover and $3 million in TPD cover but most members can't afford this much insurance. $1 million is more likely. Additional cover can be purchased either as a fixed amount or in units. Units generally result in cover reducing as the insured person ages. Usually applications for additional over will be required as well as updated medical details.

TAX POSITION AT PAYOUT

If the benefit is paid from a super fund to a spouse or dependant, the benefit is not taxed. But if left to non-tax-dependent adult children or relative, the benefit could be taxed at up to 30%. If the benefit is from a personal policy paid for with taxed dollars, no tax is payable regardless of the beneficiaries. Rice says death and TPD payouts from super funds can also take longer because a trustee is involved as well as the insurance company. *M*

TOP TIPS HOW TO MAKE A TPD CLAIM FROM SUPER

- Contact the fund and have the claim assessment process explained. Ask what information is required, including medical reports and employment records.
- Complete and submit forms provided. Completing all at the same time might save processing time.
- The fund will check your claim and submit it to the group insurer. Generally the fund will be the contact between you and the insurer. You may be asked to provide a further medical report or more information and have a medical examination with an independent specialist.
- After considering the medical evidence and other information the insurer, and not the fund, will decide whether you meet the relevant TPD definition.
- Your claim will either be accepted or deferred for a period to determine the full extent of your disability. The claim will be reviewed again at the end of that period.
- If your claim fails you may need a lawyer's help to fight for your benefit.
- If you have a terminal illness and have a medical certificate to say you have less than 12 months to live, the benefit will be paid tax free.
- A complaint about an unsuccessful claim can be made in writing to the Superannuation Claims Tribunal. See sct.gov.au.