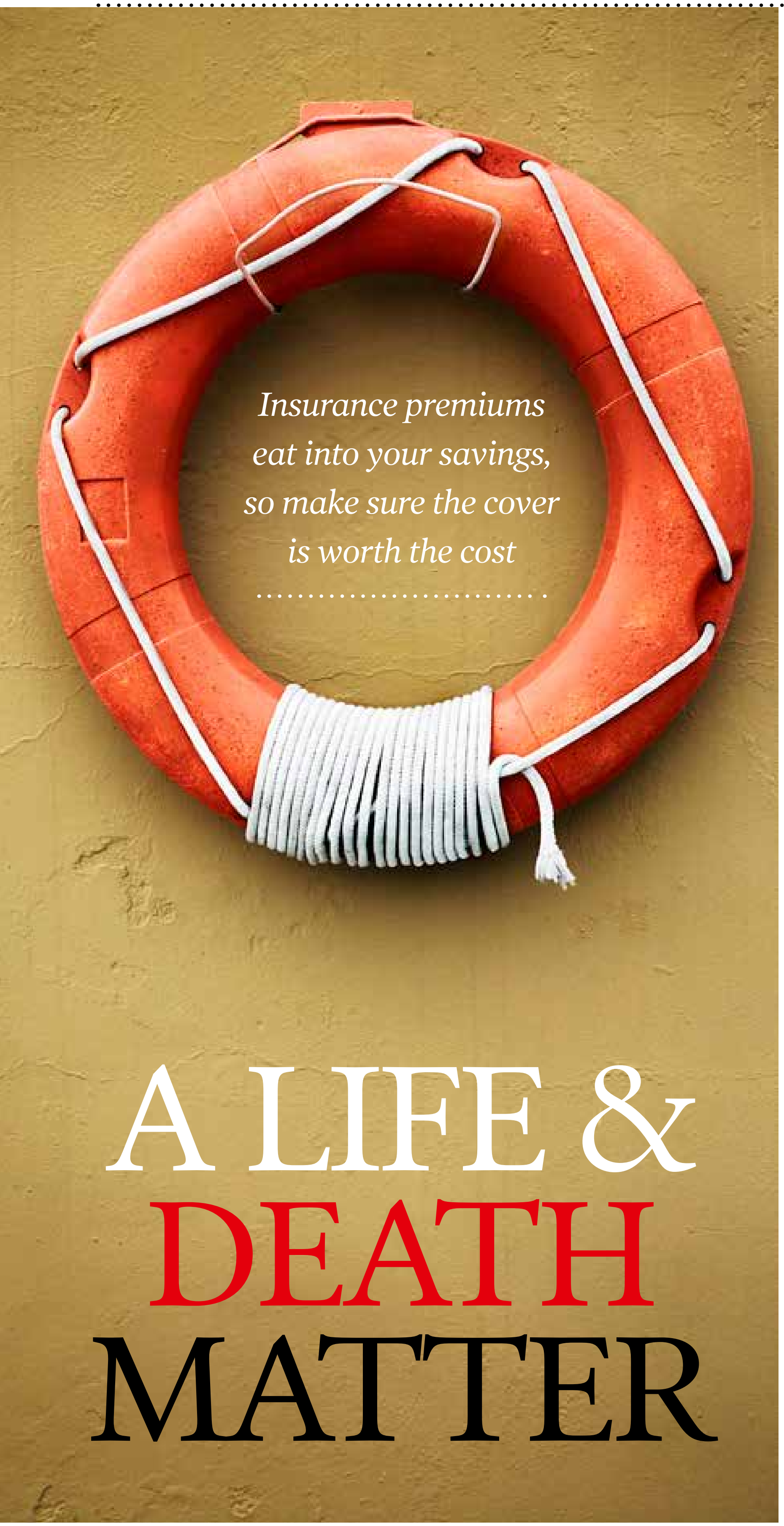

Insurance premiums eat into your savings, so make sure the cover is worth the cost

A LIFE & DEATH MATTER

STORY SUSAN HELY

Choosing a superannuation fund based on insurance might sound unusual. Typically the fund's performance and how the money is invested are the reasons behind a decision. But checking insurance features and costs can be a smart move as life, disability and income protection insurance can vary widely from fund to fund. The best insurance can make a difference if you fall ill or are injured in an accident.

Australians typically hold their life, disability and income protection through their super fund. About 70% of all life cover is taken out through super. Most fund members pay $200-$300 a year for default insurance cover, according to Rice Warner.

Insurance is there for unforeseen emergencies. Life cover isn't for you but for the people you leave behind. TPD insurance will help cover your debts and living costs when you can no longer work. Income protection covers a portion of your living costs when you are too sick or injured to work.

When you weigh up different funds, it is crucial to compare the insurance premiums and the benefits. If the number of claims is high, all the members are slugged with higher premiums. If necessary, you can move to a fund with the same cover for a lower cost, other things being equal. Ideally, you want quality insurance at a low cost.

Over the past few years, the generous insurance arrangements offered by superannuation funds have changed. Some funds have experienced a jump in the number of claims by members and are under pressure from their insurance companies. Many premiums have gone up, the level of cover is down and the terms have been tightened. Exclusions have been added and if you have a pre-existing condition you may not be able to claim. This means you may not have the cover you thought you had.

It's important to be aware of what cover you have and whether it fits your circumstances before a crisis arises. If you haven't checked the benefits and terms recently, don't delay. You may find that you don't have enough insurance to cover your debts and take care of your dependents. For most Australians, a super fund provides their only form of financial protection in case something goes wrong. Compared with other countries, Australia has a unique arrangement with insurance and super.

But the more you spend on insurance through your super fund, the less money you have for retirement, points out Roy Agranat, founder and director of risk advisory firm Fairbridge. You may need to contribute more to super to meet your savings goal. He says the recent steep increase in insurance premiums by large super funds means that they can be more expensive than personal insurance plans. He recommends comparing the rates and benefits. "People can use any insurer," he says. "They don't have to stay with their super fund. Often personal plans have better definitions of disability. Some super funds reserve the right to reskill you."

He says that premiums for total and permanent disability (TPD) and income protection have increased significantly, in some cases by more than 150%.

But insurance deals are numbingly complicated to compare – even though many super funds pride themselves on keeping the arrangements simple. There are so many variations with insurance it's hard to compare apples with apples. For example, some funds provide automatic acceptance for all three types of insurance: life, total and permanent disability (TPD) and income protection. Others don't.

Some funds, such as REST, offer a life-stages style of insurance that automatically adjusts the cover according to a member's age, gender and occupation, anticipating their insurance needs. Under REST's life-stages insurance, younger people have lower levels of life and TPD insurance cover but as they age, take on more debt and have dependants their cover increases. As with most super funds, members can opt in for higher levels of cover or they can opt out of insurance altogether.

The terms and conditions can also be quite different. One indicator to look at is the level of cover you have for your age across funds. Some funds offer a monthly income protection insurance payout for two years while others, such as REST and HESTA, offer long-term income protection that can pay out a monthly income to the age of 67 to cater for the increasing number of people working past 65.

The main benefit of holding insurance through a fund is that it is much cheaper because it comes out of your super money, which is taxed at only 15%. Another big advantage is that it is commission free, unlike some private insurance, which often involves paying high fees to advisers. Importantly, the insurance within super is a simple product and often the funds use their large membership base to negotiate wholesale rates.

While many superannuation funds have been raising their insurance premiums, others have announced cuts. The industry fund Intrust Super, which has won *Money* magazine's Best Value Insurance in Super award for five consecutive years, has announced that the premiums on its income protection policy, PayGuard, will fall by 12% from October 1, 2017. They will go down from 0.7% to 0.615% of gross income or, in dollar terms, from $7 per $1000 of cover to $6.15 per $1000 for the member default insurance, which has a 21-day waiting period. ***M***

LIFE INSURANCE

AGE	20	30	40	50
POPULATION				
Single	74%	37%	22%	21%
Married	24%	45%	31%	31%
Married + 1 child	2%	11%	16%	12%
Married + 2 children	0	7%	31%	36%
INSURANCE NEEDS				
Single	$43,000	$43,000	$43,000	$43,000
Married	$327,000	$280,000	$226,000	$198,000
Married + 1 child	$654,000	$558,000	$457,000	$323,000
Married + 2 children	$704,000	$605,000	$498,000	$347,000
Weighted average	$124,049	$242,608	$305,414	$234,323

Source: Rice Warner

TURN OFF YOUR COVER

Insurance premiums eat into the superannuation savings of young people with part-time jobs. Often young people don't need to have insurance cover because they don't have dependants. But they typically receive automatic life and TPD cover, and in some case income protection, from their employer's super fund.

For young people who work during the holidays only, the insurance fees wipe out their super balance, the fund closes and they have neither a super balance nor insurance cover. So what is the point?

It certainly sours the experience of young people with what is considered to be one of the best retirement income systems in the world.

Although they can contact their fund and turn off their insurance cover, they tend not to. But with some insurance premiums going up, it certainly makes good sense to think about it.

Some proactive super funds have looked at members' circumstances and have put in place measures to prevent balances from eroding. For example, some funds won't take insurance premiums from members once their balance is below $3000.

CHECKLIST: QUESTIONS TO ASK

- Do you have insurance through your fund? Not all funds provide it.
- Ask what sort of insurance you have. Do you have life, total and permanent disability (TPD) and income protection?
- What is the cover? For example, if you died how much would your family receive? If you are too ill to work, what would your monthly income be? For how long is it paid out?
- Is the cover high enough to maintain payment of your debts? If you have young children, is it enough to pay their education and living costs?
- In the case of income protection, how long is the waiting period before you are paid an income?
- Can you take out more insurance?
- Check on your insurance if you leave your job. You may not be covered for TPD and income protection but could still be paying premiums
- When you leave a job, your super fund generally moves you from group insurance into a personal plan that is often more expensive.
- If you are in more than one fund, see if you have more than one salary continuance policy, keep the most suitable and discard the other because you can't claim twice.
- For death cover and TPD you can have more than one policy and a claim can be made on each.
- If you are young with no dependants, do you need insurance? You can tell your super fund you want to opt out.
- If you make a claim, call your fund, not a lawyer.
- For complaints, contact the Superannuation Complaints Tribunal (sct.gov.au).