Insurance

Term life insurance

Aon Hewitt Financial Education Series

You are working hard to provide a good future for you and your family. But what would happen if you were to die unexpectedly? Could the mortgage repayments be managed, living costs paid and still provide your family with a bright future?

Life insurance is one of the best ways of protecting your family in the event of your untimely death. It provides a lump sum payment to your beneficiaries, ensuring they have additional funds in the event of your death. Most policies will also pay all or part of the benefit should you be diagnosed as terminally ill. The lump sum can be used for any purpose - for example, it can be used to repay the mortgage or other debts, or invest the funds to provide an income stream to meet your family's living needs or education costs.

Life cover through super

You can hold this insurance in your personal name, or you can hold it through your super fund. By holding life insurance through super you can often reduce the cost of the premium. You are able to claim a tax deduction on the contribution you made into your super for the cost of premium via either salary sacrifice or deductible contributions. Alternatively you can have the premiums deducted from your super account balance. This will allow you to take out insurance cover with no impact on your cash flow; however it will reduce your retirement savings.

You do need to be aware however that tax may be payable on the insurance proceeds if they are paid to a non-dependent, for example a child over 18 who is financially independent.

Tax payable

If you are taking out life insurance to cover yourself (and not for business purposes) then the premium is not tax-deductible, however the proceeds will be received tax free.

If you structure your life insurance through super, as discussed above, the premium may be tax-deductible, and if the proceeds are paid to a dependent they will be received tax free.

Example – Benefit of life insurance

John and Sally were happily married with two children, Tom aged 6 and Sarah aged 4. Sally was staying home to care for their children, but was looking forward to returning to part-time work when Sarah started school next year.

They had a home mortgage of $300,000 and were meeting their living needs from John's salary.

Tragically, John was involved in a car accident and died a few days later. John and Sally had seen their financial adviser and had a number of insurances in place, including insurance on John's life of $1,000,000.

These funds allowed Sally to pay the hospital and funeral bills, as well as repay the mortgage of $300,000. This left $625,000 to invest to provide a long-term income stream. It meant that Sally didn't have to look for full-time work immediately, and that she could return to work part-time as planned.

Without the life insurance Sally may have had to sell the house and return to work full-time, while putting Sarah into childcare, making losing John even more stressful.

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This document, including all tax and super calculations, has been prepared using legislation in place as at the 1 July 2018.

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