Insurance

Split policies

Aon Hewitt Financial Education Series

Splitting insurance policies means you have cover both inside and outside super. This allows you to access benefits on your policy that may not be available through super, while taking advantage of using your super to pay for part of the premium.

Can I use a split policy for all my insurances?

Split policies are generally available for Total and Permanent Disability (TPD) and income protection.

How does a split TPD policy work?

You can have two different definitions with TPD insurance. Under an “own” occupation, you are paid the claim when you are unable to work in your own occupation again. Under an “any” occupation, you are paid your claim only if you are unable to work in any occupation suited to you by education, training, and experience. You are only able to have an “any” occupation through super.

With a split TPD policy you hold one policy, but the policy is “split” so that part of the policy is held outside super, and part of the policy is held inside super.

When you go to make a claim, you will first be assessed against the super policy which has an “any occupation” definition. If you meet the definition, the proceeds are paid out. If you don’t meet the definition, you are then assessed against the policy outside super which has an “own occupation” definition.

You are only able to claim under one policy, you can’t meet both definitions and be paid out twice.

What are the benefits?

The main benefit is that you get access to an “own occupation” definition, at a reduced cost. As part of the policy is held through super, you get access to the tax benefits and cash flow benefits of using your super contributions or balance to pay for the premium. The rest of the policy is held outside super and you need to fund the premium from your cash flow.

For more information, please refer to the ‘Total and Permanent Disability (TPD)’ fact sheet under the Insurance Financial Education Series.

What are the disadvantages?

By holding TPD insurance through super there may be some tax payable on the insurance proceeds. There is no tax payable on the TPD proceeds if they are received form a policy held outside of super.

How does a split income protection policy work?

A split income protection policy is very similar to a split TPD policy. You will hold an income protection policy within super and another one outside super. The policy outside super enables you to have Agreed Value and more features and benefits than the one inside super. Under Agreed Value, the monthly payment is the amount that is agreed on at application thus you are certain of how much you will receive.

Your claim will first be assessed against the policy inside super, with any eligible benefits paid out. Any portion of the claim not payable under this policy may then be assessed against the policy outside of super.

The total amount payable is equal to the amount that would have been payable if you just held the policy outside of super.

What are the benefits?

As with split TPD, you get the cost benefits of a super policy with the full features of a non-super policy.

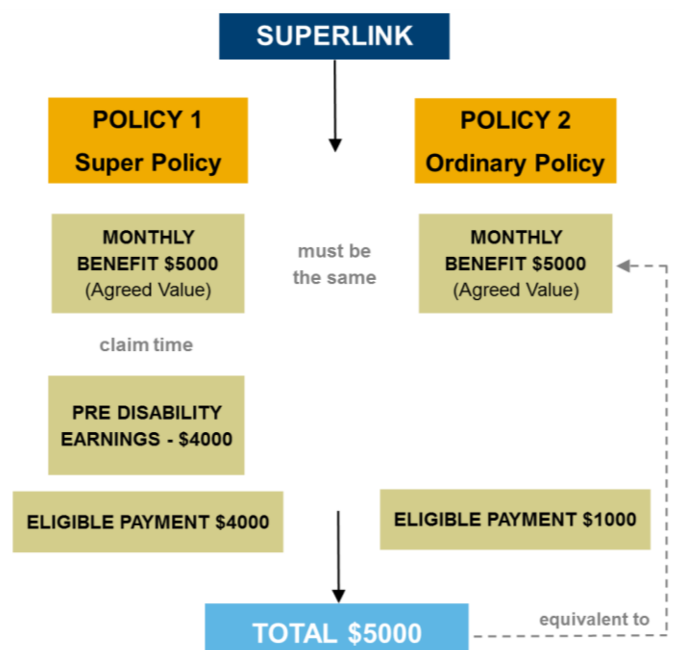
What are the disadvantages?

Under both policies the income you receive is taxable; however when you receive a benefit through super, the payment will be paid to the super trustee and tax will be deducted from the payment. For policies held outside super, the payment is paid directly to you and no tax is withheld from the payment. This provides you with a larger amount to spend each month, but also means you should set aside some money to pay your annual tax bill.

Example

Brian, on the advice of his Adviser took out a split income protection policy with a monthly benefit of $5,000. Later Brian was in a bad car accident and suffered serious injuries. In the time since Brian took out his policy he had changed jobs and reduced his salary.

Brian's adviser completes the paperwork to make a claim. Brian is first assessed against the super policy. As his salary has decreased he is only eligible for a monthly benefit of $4,000. However, the claim is then assessed against the non-super policy and Brian is eligible for an additional $1,000 per month. This means he receives the full $5,000 benefit across both policies.



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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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