Did you know?

29/05/2009

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Budget impact on Life Insurance

The Federal Budget for 2009-2010 was announced on 12 May 2009. While it has yet to attain Royal Ascent, there are some significant impacts on the life insurance industry.

Age Pension Age

The Government announced that it will increase the qualifying age for the Age Pension and the Commonwealth Seniors Health Card for men and women to 67 years of age from 2023. The transition to the higher Age Pension age will commence in July 2017, with the qualifying age increasing by six months every two years, to reach 67 on 1 July 2023. The Government said this timeline dovetails with the current process for increasing the female Age Pension age, which is being increased from 63.5 today to 65 years of age by July 2013. The current Age Pension age for men is 65.

Some life insurance companies are now considering extending benefit periods to age 67 for income protection and/or total and permanent disability insurance.

Reduction in Concessional Contribution Caps

The Government will reduce the concessional contributions cap to $25,000 per annum (indexed), with effect from the 2009-10 financial year. The transitional concessional contributions cap (applicable to individuals aged 50 and over for the 2009-10, 2010-11 and 2011-12 financial years) will be reduced to $50,000 per annum.

The annual cap on non-concessional contributions is $150,000 per annum for the 2008-09 financial year and will remain at that level in 2009-10. In the future, the cap will be calculated as six times the level of the (indexed) concessional contributions cap.

Having regard for the increased potential for excess contributions, advisers should have regard for the potential implication of this reduction in the concessional contribution threshold in recommending risk insurances through superannuation.

Temporary reduction in Government Co-Contribution

The Government will temporarily reduce the matching rate and maximum co-contribution that is payable on an individual's eligible personal non-concessional superannuation contributions, with effect from 1 July 2009.
Under this measure, the matching rate will be:

- 100% for 2009-10, 2010-11 and 2011-12, with a maximum co-contribution of $1000, reduced by 3.333 cents for each dollar by which the person's total income exceeds the shade out threshold for receiving the full co-contribution;
- 125% for 2012-13 and 2013-14, with a maximum co-contribution of $1,250, reduced by 4.167 cents for each dollar of total income above the shade out threshold; and
- 150% from 2014-15 onwards, with a maximum co-contribution of $1,500, reduced by 5 cents for each dollar of total income above the shade out threshold.

For low income earners who used the Government Co-Contribution to pay for insurance premiums inside superannuation, may need to make additional contributions or use assets within the fund to pay for part of the premium over the next couple of years.

CommInsure

Product oppportunity – Insurance Bonds

The generous non-concessional superannuation contribution limits have remained relatively undisturbed. However, the strict preservation restrictions impacting superannuation continue to apply.

For many investors the thought of not being able to access their investments until retirement is an undesirable feature of the superannuation regime. Coupled with that is the uncertainty which arises from the tweaking of the superannuation rules by successive governments. Insurance bonds provide a “middle ground” for investors to retain control over and access to their funds, while the savings grow in a tax advantaged environment.

Funds which might otherwise have been channelled into superannuation as concessional (salary sacrifice etc) contributions but are now impacted by the lower contributions caps represent a target market opportunity for tax effective insurance bonds to be used as an alternative savings plan.

Summary

The recent Federal Budget creates a number of challenges and opportunities when considering life insurance.

Advisers need to consider the impact of insurance inside superannuation, and the opportunity to use insurance bonds as a tax effective investment vehicle outside of superannuation.