Did you know?

The 12 months of Did you know?...

For the final issue of *Did you know* for the year we bring you a bumper Christmas special with key take outs from our articles for 2009. Have a happy and safe festive break and look out for the first DYK of the new year out 8 January 2010.

1 PITFALLS OF POLICY OWNERSHIP (January)

Non-super life insurance policies should be structured to ensure the right people receive the right payments at the right time, whilst minimising potential tax liabilities.

For term life policies, some insurers only allow nomination of beneficiaries if all the policy owners are also lives insured, but this impedes situations where there is a valid reason for having a policy owner who is not the life insured (i.e. business partnerships) and also for nominating beneficiaries. CommInsure's internal policy ownership rules provide maximum flexibility for clients, although this puts the onus on the adviser to provide the appropriate ownership recommendation.

2 OVERCOMING TIMES OF HARDSHIP (February)

No cost benefit through CommInsure's Total Care Plan cover - the Severe Hardship Booster benefit - can pay up to double the sum insured.

The Severe Hardship Booster Benefit will become payable if the life insured becomes terminally ill or dies due to Meningococcal Disease, Legionnaires' Disease or Motor Neurone Disease, or on the payment of a terminal illness benefit. Also, should the life insured suffer loss of limbs or sight as a result of direct injury, we will pay this benefit under their TPD cover. Under the life insured's trauma cover, the benefit will be paid for conditions such as severe burns, diplegia, hemiplegia, quadriplegia, tetraplegia and paraplegia.

3 PROTECT YOUR KIDNEYS (March)

More than 2 million Australians – about one in 10 adults – have some form of kidney damage. Every day more than 40 Australians die of kidney failure (11.3% of all deaths), and this is a 100% increase since 1980.

Chronic Kidney Disease (CKD) is a significant and growing public health problem, responsible for substantial burden of illness and premature mortality. Advisers can ensure their clients have adequate life insurance, in particular trauma insurance, to protect their clients and provide financial support in the event of CKD. For individuals with CKD, CommInsure provides payments under its trauma policy for Chronic Kidney Failure, and Major Organ Transplant. CommInsure also provides payments under the related conditions of: Placement on a Waiting List for Major Organ Transplant, Advanced Diabetes, and Primary Pulmonary Hypertension.

4 BEING A NON-SMOKER IS GOOD FOR YOUR HEALTH – AND WALLET (April)

If any of your existing clients have given up smoking for at least 12 months, they may now be eligible for non-smoking rates which could deliver significant savings.

A 'non-smoker' is defined as a person who has not smoked tobacco or any other substance, or used a product containing nicotine, for at least 12 months prior to application. An applicant who smokes fewer than three cigars per year is classified as a non-smoker for the purposes of the definition. If the life insured smokes socially or smokes one cigarette per week, a smoker rate applies. Where the insured has indicated they are a non-smoker, a further test may be required and applicants are required to complete a non-smoker declaration, in which they declare they have not used tobacco products for more than 12 months and that the reasons for stopping smoking was not related to a deterioration in health or a medical condition.

5 BANKRUPTCY AND INSURANCE INSIDE SUPER (May)

In 2008, there were 32,865 personal insolvencies including 25,970 bankruptcies and 6,618 debt agreements.

Life insurance – inside and outside super – affords protection against bankruptcy. Section 116(2) of the Bankruptcy Act 1966 provides the following exclusions regarding superannuation: the bankrupt's interest in a regulated super fund; or an approved deposit fund; or an exempt public sector super scheme; or a payment to the bankrupt from such a fund received on or after the date of bankruptcy, if the payment is not a pension within the meaning of the SIS Act. It also excludes the money a bankrupt holds in a Retirement Savings Account (RSA) or payment to a bankrupt from an RSA received on or after the date of the bankruptcy, if the payment is not a pension or annuity within the meaning of the Retirement Savings Accounts Act 1997. Previous legislation exempted superannuation only up to the then existing Reasonable Benefit Limits.

6 KEY PERSON INSURANCE: WHAT A CAPITAL IDEA! (June)

Life insurance can compensate businesses for any financial impact due to loss – through death, disablement or critical illness – of key employees, based on the capital value of the business.

Advisers can ask business owners how much of the business's current capital value and annual capital appreciation, as a percentage, is attributable to the key person. The capital value of the business is often determined by profitability and may include a goodwill component. If profitability or goodwill would be reduced by a certain percentage, this would be one measure of the potential capital loss to the business.
CommInsure has produced a debt protection calculator, which provides term life and TPD cover based on a sliding scale, taking into account the total business debt and the number of business owners.

7 DIABETES, THE PROGRESSIVE BUT OFTEN PREVENTABLE DISEASE (July)

Experts are unanimous; we should avoid obesity, sedentary lifestyles, uncontrolled hypertension, high cholesterol and other abnormalities of blood lipids, and above all, smoking. People with diabetes do not commonly die from a diabetic coma, but instead from heart disease, stroke and related conditions.

CommInsure offers a full trauma benefit payment for Advanced Diabetes. Advanced Diabetes is defined (ref 4.4.4) as severe diabetes mellitus (either insulin or non-insulin dependent) as certified by a consultant endocrinologist and resulting in at least two of the following criteria:

- Severe diabetic retinopathy resulting in visual acuity uncorrected and corrected of 6/36 or worse in both eyes
- Severe diabetic neuropathy causing motor and/autonomic impairment
- Severe diabetic nephropathy causing chronic irreversible renal impairment
- Diabetic gangrene leading to surgical intervention.

We also offer a partial trauma benefit of 40% of the Trauma Cover Benefit (up to $200,000) for Diabetes Complication. This is covered under our 10 extra events for Trauma Plus. CommInsure does not exclude Diabetes Complication over the age of 30.

8 THE VALUE OF LIFE INSURANCE (August)

Life insurance is the most cost-effective method of providing individuals with cash when they need it most.

Let's compare the cost of saving for the "rainy day" versus life insurance (combined policy with term, trauma and total and permanent disability).

Male, aged 40, non smoker, with CPI indexation	Accountant	Bricklayer
Annual premium (stepped)	$1,482.93 (0.3%)	$1,821.18 (0.4%)
Cumulative premium after 10 years (stepped)	$30,536.90 (6.1%)	$37,658.65 (7.5%)
Annual premium (Level)	$3,902.36 (0.8%)	$4,732.39 (0.9%)
Cumulative premium after 10 years (level)	$44,646.87 (8.9%)	$54,162.17 (10.8%)

From the table, we can see that annual premiums are less than 1% of the sum insured for $500,000 worth of cover. Even after 10 years, the cumulative premium is still less than 11% of the sum insured. The typical savings ratio of an Australian family is 6.6%, or approximately $7 for every $100 earned. While this sounds impressive, a person earning $100,000 per year would need to save for more than 70 years to save up the “rainy day” fund of $500,000!

9 TRANSFERRING LIFE POLICIES INTO SUPER (September)

Transferring clients’ ordinary life insurance policies into self-managed super funds is not permitted.

The trustee (or investment manager) of a regulated super fund must not intentionally acquire an asset from a related party of the fund, except for certain in-house assets as specified in section 66 (1) of the Superannuation Industry (Supervision) Act 1993 (SIS Act). The exceptions to the acquisition of in-house assets includes a life insurance policy issued by a life insurance company (other than a policy acquired from a member of the fund or from a relative of the member) [section 66 (2A) (iii)].
However, a client may start a new life insurance policy with the self-managed super fund (SMSF) trustee as owner. A potential problem with this approach is that the client will generally be subject to full underwriting. Fortunately, CommInsure will cancel and reissue an existing CommInsure policy with the SMSF trustee as owner, on the same terms, subject to the following limits and conditions: Life cover and TPD up to $1.5 million sum insured; trauma up to $1 million sum insured; the existing policy has no loadings or exclusions or special conditions.

10 BREAST CANCER AWARENESS (October)

Life insurers provide cover for breast cancer sufferers in many ways. Depending on the severity of the condition, a client may make a cancer-related claim for income protection, trauma cover, total and permanent disablement and of course life cover.

Two of the three ‘living’ covers being income protection and TPD, generally have work-based and/or income-based definitions, involving partial or total disability or permanent incapacity. A trauma cover claim, on the other hand, is governed by the cancer definitions in the insurer’s policy document. Generally, all insurers pay a full trauma benefit upon diagnosis of invasive breast cancer, i.e. any malignant tumour characterised by the uncontrolled growth and spread of malignant cells requiring major interventionist treatment. In addition, many insurers, including CommInsure, pay a full benefit for carcinoma in situ of the breast (where the tumour has not yet spread to surrounding tissues) resulting directly in the removal of the entire breast (with or without removing lymph nodes).

11 TRANSITIONAL RELIEF FOR SUPERANNUATION FUNDS (November)

Until 30 June 2011, any TPD insurance premium paid by the trustee of a super fund to an insurance provider will receive a full tax deduction. From 1 July 2011, in order to receive a tax deduction the trustee must meet the strict superannuation disability benefit definition of, “a benefit that is paid to a person because he or she suffers from ill-health (whether physical or mental), and two legally qualified medical practitioners have certified that, because of the ill-health, it is unlikely that the person can ever be gainfully employed in a capacity for which he or she is reasonably qualified because of education, experience or training.” This means that “loss of limbs and sight”, “loss of independent existence”, and “own occupation” benefits will not be entitled to a tax deduction after 1 July 2011.

12 NEW UNDERWRITING GUIDELINES FOR NON-RESIDENTS (December)

CommInsure’s underwriting team has developed new guidelines for non-residents wanting to take out insurance in Australia and for when they visit their country of origin.

The client must be from a ‘safe’ country (Level 1 or 2 on the Government website) or clerical workers from South Africa, India, Malaysia and Thailand); have lived in Australia for 12 months or more, is applying for permanent residency and their visa expires in more than six months; and must hold one of the following visas which allow them to apply for permanent residency: 457 (long stay business visa); 820/801 (spouse visa), 890 (business visa) and 121/856 (employer nomination scheme).
Our guidelines for foreign travel are subject to Department of Foreign Affairs and Travel rating of the home country, the number of times they travel there per year, and the amount of time they will spend in their home country.