

Did you know?



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Insurance in super changes: Income protection

Super changes from 1 July 2014 impact on a number of insurances held by trustees of regulated superannuation funds, notably TPD own occupation cover and income protection. On 11 May 2014, CommInsure launched an updated and a new product – Total Care Plan Super (TCPS) and SMSF Plan – which are aligned with SIS conditions of release. This article will examine income protection in super in the new environment.

Grandfathered policies and the new regime

Under grandfathered policies, insurance product providers pay super fund trustees a benefit if insured members meet the particular product definition. Trustees then assess these benefits against SIS conditions of release to determine if they can be released to the insured member. Under the new regime, any new insurance purchased inside super needs to align with SIS conditions of release to ensure benefits are not trapped inside super. The SIS legislation relating to income protection is covered by the temporary incapacity condition of release. The key points super fund trustees need to consider in paying a temporary incapacity benefit are the following:

Gainful employment

If the member is not in gainful employment at the time of disablement, the trustee cannot pay a temporary incapacity (income protection) benefit to the member. This will likely impact persons who are unemployed at time of disablement or between contracts of employment, as well as persons not receiving income (or any other gain or reward) from their employer as they are on unpaid leave. Contrast this with certain grandfathered policies: An insurer would still pay a benefit to the super fund trustee if an unemployed person has a guaranteed agreed value income protection policy and is totally disabled; however, the trustee could not release the temporary incapacity benefit until another condition of release is met.

Period of incapacity

A temporary incapacity benefit can be paid for a period not exceeding the period of incapacity from employment of the kind engaged in immediately before the temporary incapacity. This impacts on additional benefits found in most non-super income protection policies, which pay a pre-determined multiple of monthly benefit if the life insured suffers a critical illness (trauma) or a specified illness or injury. From 1 July 2014 these benefits are prohibited in income protection inside super.

Pre-disability income

Temporary incapacity requires that only income immediately before disability (i.e. pre-disability income) is considered in paying an income protection benefit inside super. In line with prevailing industry standards, CommInsure's definition of pre-disability income is "is the average monthly income the life insured received during the 12 months before their most recent period of disability"¹. If a client has an agreed value policy under Income Care Super (ICS), this may have an impact on an income protection benefit payable, best illustrated in the following case study:

Case study: Sean – modified agreed value

Sean, a successful professional, is underwritten on 1 August 2014 (with supporting financials) for an agreed value ICS based on his current income of \$180,000 per annum, with a monthly benefit of \$11,250. Eighteen months later, he makes a successful claim for total disability whilst working for a new employer. Due to a period of

¹ See CommInsure Protection Combined PDS and Policy (Issue date: 11 May 2014)

unemployment, his income in the 12 months prior to disability has decreased to \$120,000 (average monthly benefit of \$10,000). In accordance with the 2014 super changes, CommInsure can only pay the lower of the amount shown in Sean's policy schedule and his pre-disability income, which is \$10,000. However, this would still be more than the \$7,500 monthly benefit that Sean would be paid if he had an indemnity ICS policy.

Case study: Sean – grandfathered guaranteed agreed value

Assume all other facts are the same, except that Sean has a guaranteed agreed value ICS policy accepted on 1 May 2014. As the super changes do not apply to this grandfathered policy, CommInsure can pay the super fund trustee the full amount on the policy schedule of \$11,250. However, the TCPS Trustee can only release his pre-disability income of \$10,000; the remaining \$1,250 will be retained in super until another condition of release is met.

If Sean had had his guaranteed agreed value income protection outside super, CommInsure could pay Sean the full \$11,250 monthly benefit, regardless of his employment status².

Other changes

In line with SIS changes, CommInsure has made additional amendments to its ICS offering, which is largely reflected in the new SMSF Plan. They include:

- Removal of Permanent Disablement Cover option, as the benefit is triggered by an own occupation TPD definition, which does not automatically meet a condition of release
- Removal of the Recurrent Disability benefit, due to issues around cessation of gainful employment after returning to work following a claim
- Capping the Increasing Claim benefit based on the lower of 5% and CPI in line with temporary incapacity definition restrictions
- Capping employer offsets (sick leave, annual leave, long service leave) to ensure that temporary incapacity payments do not exceed insured member's pre-disability income.

From 11 May 2014, CommInsure has also introduced a premium waiver for financial hardship and paternity leave across all income protection cover.

Summary

CommInsure's updated Total Care Plan Super and new SMSF Plan align these products to SIS conditions of release ahead of the 1 July 2014 deadline. To find out more about CommInsure changes please visit <http://comminsureadviser.com.au/change> or speak to your Business Development Manager.

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² After 12 months of unemployment, insured would be assessed under an any occupation definition