Did you know?

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Cash back option – no claim bonus for income protection

Some prospective income protection clients, particularly young professionals, ask their advisers what they would get back from their income protection policies if they never made a claim. Normally, the answer would be: nothing. However, they may if they took the Cash Back Option, which is an option under CommInsure's Income Care or Income Care Plus. Under this option, CommInsure will refund clients up to 20 per cent of all premiums paid if no claim is made on the policy.[1]

If a client selects the Cash Back Option – which must be done at policy application – and holds the policy for at least 3 years, he/she will quality for a refund when the policy ends (either through policy expiry, lapse or cancellation, other than on the death of the client), provided no claim has been paid or is payable under the policy. The refund includes policy fees and frequency charges but not stamp duty or any premiums CommInsure has already refunded. The amount of refund will depend on the number of complete years between the date insured from and the date the policy ends, as shown in the table below. After 3 years, the refund is 13 per cent of premiums, increasing by 1 per cent each year until it reaches a maximum refund of 20 percent once the policy has been in force for 10 years or more.

What is the tax treatment?

Premiums paid for an Income Care or Income Care Plus policy are tax deductible; however, the additional 10 per cent of premiums paid for the Cash Back Option are not deductible (section 8-1 of the ITAA 1997).

If the client is eligible for a refund of premiums, this refund will consist of the following:

1. Assessable portion which relates to the premiums claimable as a tax deduction (refer to CR 2005/15 for more information).

2. Non-assessable portion which relates to the premiums not claimable as a tax deduction (Subdivision 20-A ITAA 1997).

Take a client with a level-premium Income Care Plus policy who pays $2,200 per year ($2,000 for the insurance and $200 for the Cash Back Option) for 10 years (assuming no indexation). If the policy is subsequently cancelled, the client would be entitled to a refund of $4,400 (i.e. 20 per cent of $22,000). Of this refund, $2,000 would be non-assessable, and the balance of $2,400 would be assessable and taxed at the client's marginal tax rate.

Other important information

⇒ If there is more than one person covered by the policy, everyone must have the Cash Back Option

⇒ The option must be selected when the policy is first applied for and, if selected, **cannot** be cancelled

⇒ The option **cannot** be selected if the client selects the Premium Saver Option, the Total and Temporary Disability Cover Option or the Total and Permanent Disability Cover Option

⇒ No interest is payable on a refund

⇒ This option is only available to cover **outside** super

[1] See CommInsure Protection Combined Product Disclosure Statement (PDS) and Policy (issue date 11 May 2014 for full terms and conditions.

Cash Back Option Cost = 10% of premium	
Number of complete years	**Percentage of premiums refunded**
Less than 3	**0%**
3	**13%**
4	**14%**
5	**15%**
6	**16%**
7	**17%**
8	**18%**
9	**19%**
10 or more	**20%**

Summary

Income protection insurance is more affordable than some clients think. With CommInsure's Cash Back option, clients could be eligible for a refund of a percentage of their premiums, if no claim has been made or is payable.

CommInsure