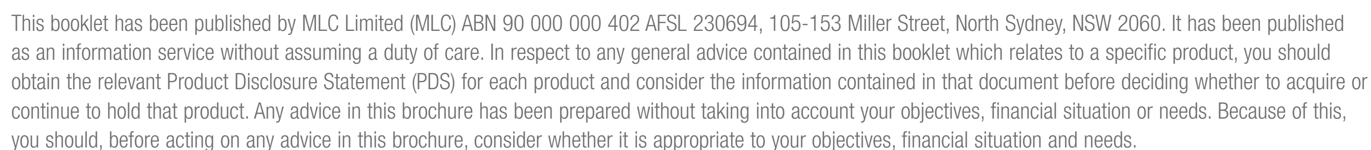
Wealth Protection

Strategies to protect what's important to you

2007/2008



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What are the facts?

Did you know, 60% of Australian families with dependants will run out of money within 12 months if the main income earner dies*.

Also, one in three Australians could be disabled for more than three months before turning 65#.

These are sobering facts, and they are a reminder that life can often throw in a few curve balls. No one expects sudden death, accident or illness – but what if something did happen? How would you, your family or even your business cope financially?

In this booklet we outline ten clever strategies that can help protect your financial security. Each of these strategies involves using insurance to help ensure your lifestyle isn't compromised by events beyond your control.

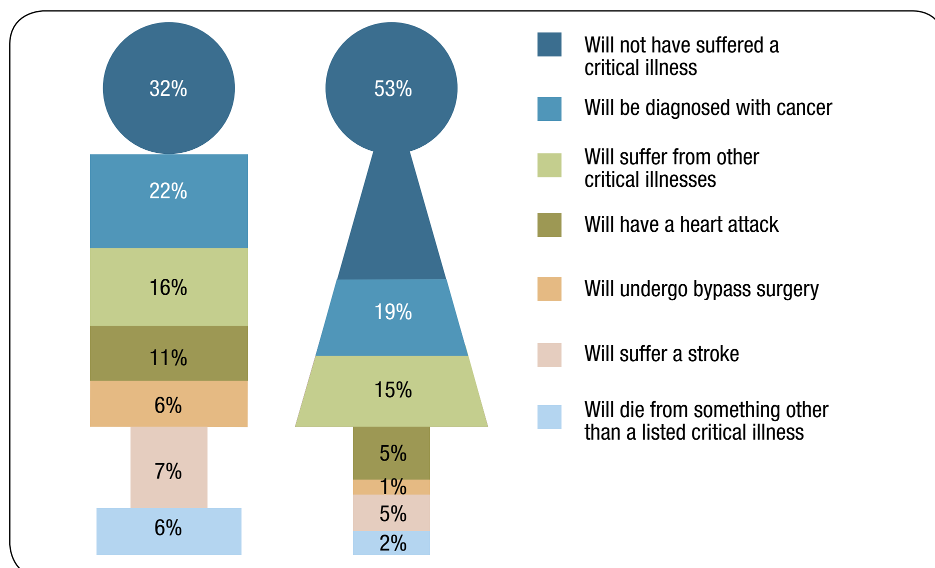
Insurance is the cornerstone of a comprehensive financial plan, and we recommend you talk to your financial adviser to determine which strategies in this booklet suit you best.

Important information

The information and strategies provided are based on our interpretation of relevant taxation and superannuation laws as at 3 December 2007.

Because the laws change frequently, you should obtain advice specific to your own personal circumstances, financial needs and investment obejectives, before you decide to implement any of these strategies.

Before the age of 70^...



Source: General Reinsurance Life Australia Limited 2005/2006

* TNS Research, 'Investigating the Issue of Underinsurance in Australia', August 2005.

\# Institute of Actuaries of Australia, 2007.

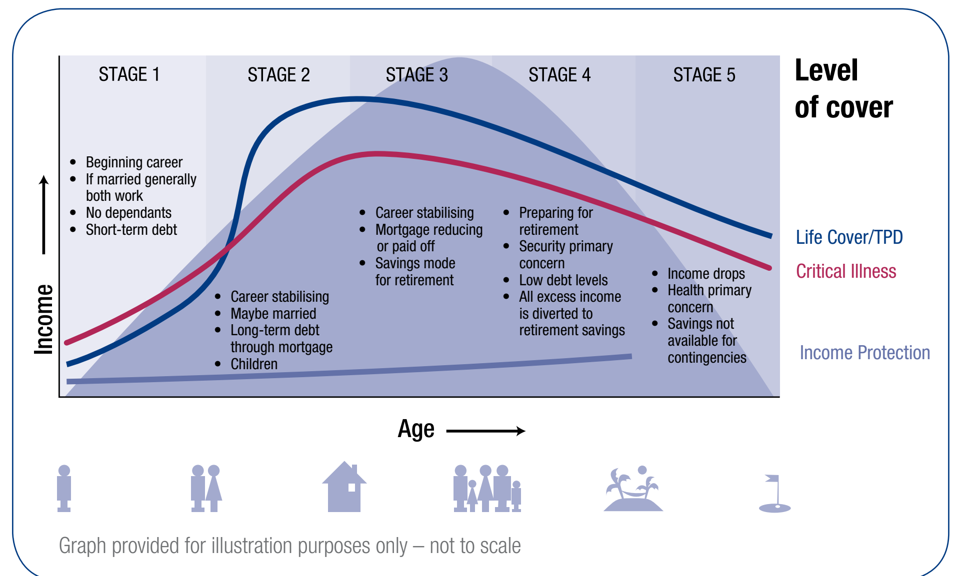
^ This is general population data based on being aged 30 now.

Getting started

Insurance is used as financial protection for a variety of personal and business purposes – for example, to protect income, repay debts, or provide for dependants. To minimise the loss that may result from your death or serious disability, it's important to implement suitable protection strategies.

As the table below reveals, insurance needs can vary depending on your goals and the stage you're at in life. To determine the right types of insurance (and the right amount of cover) you should seek financial advice.

When do you need cover?



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What types of insurance are available?

Choosing the right sort of insurance can be challenging and confusing. Not only are there five key types of insurances available (see table below), the policies offered by insurers typically contain different features and benefits. As a result, you should seek financial advice before making any insurance decision.

For information on the tax treatment of the different types of insurance, see FAQs on page 28.

Life insurance
Total and Permanent Disability (TPD) insurance
Critical Illness insurance
Income Protection insurance
Business Expenses insurance

Life insurance* provides a lump sum in the event of your death.

TPD insurance* provides a lump sum if you suffer a total and permanent disability and are unable to work again.

Critical Illness insurance pays a lump sum if you suffer or contract a critical condition specified in the policy (eg heart attack, stroke, cancer).

Income Protection insurance (also known as Salary Continuance insurance) provides you with a monthly payment (usually up to 75% of your income) if you are temporarily unable to work due to disability.

Business Expenses insurance can reimburse certain regular business expenses (eg rent, utilities, lease costs, depreciation) while you are temporarily unable to work due to disability. This can help to cover your fixed business costs and keep your business afloat while you are recuperating.

Note: These insurances are all subject to terms and conditions and exclusions may apply. You should refer to the relevant policy document for the full terms and conditions of the insurance cover provided by the product.

* If the insurance cover is held within a super fund, a death or TPD benefit may also be paid in the form of an income stream.

A common question is: 'How much insurance cover is enough?'
We recommend you see a financial adviser who can help you determine the most appropriate level of cover based on your individual needs.

You may also want to follow the prompts to the Personal Insurance Gap Calculator at www.mlc.com.au. While not a substitute for financial advice, this calculator can help you determine if you need to top-up your insurance covers.

No one expects sudden death, accident or illness – but what if something did happen? How would you or your family cope financially?

Strategies at a glance

	Strategy	Suitable for	Key benefits	Page	
1	Protect your greatest asset – your income	Anyone who earns an income (other than through investments)	• Receive income if unable to work due to illness or injury	8	Personal
2	Eliminate debt on death or disability	Anyone with debts and a dependent family	• Clear your debts • Pass on the full value of assets to your dependants	10	
3	Maintain your family's lifestyle	Anyone with a dependent family	• Help your family maintain their standard of living	12	
4	Make sure you protect the homemaker	Anyone with a dependent family	• Alleviate financial stress of losing the at-home spouse • Help cover the expenses associated with disablement, serious illness or death of a spouse	14	
5	Purchase life and TPD insurance tax-effectively	Employees who are eligible to salary sacrifice, people who are eligible to receive co-contributions, couples where one partner earns a low income and self-employed people	• Reduce the cost of insurance premiums • Increase insurance cover	16	
6	Reduce the long-term cost of your insurance	Anyone considering insurance cover	• Pay a lower average premium • Make cover more affordable when older	18	All*
7	Keep your business running	Small business owners	• Keep up-to-date with your business' bill payments • Maintain your business as a viable entity while disabled	20	Business
8	Protect a key person in your business	Business owners with employees or business debt	• Protect your business revenue • Repay business loans	22	
9	Establish a Buy Sell agreement	People who are in business with others	• Protect the value of your share in the business • Provide funds to enable others to purchase your share of the business in the event of your death or serious disability	24	
10	Treat your beneficiaries equitably	Family business owners	• Treat your beneficiaries fairly • Protect the value of your estate	26	

* This strategy can be used for both personal and business purposes.

Protect your greatest asset – your income

Many people insure their home and contents, even their life. Yet, all too often, they don't adequately protect what is potentially their greatest asset – their ability to earn an income.

Think about it this way. If you are aged 35 and earn $80,000 pa, you could earn around $3.8 million* before you turn 65. Isn't that worth protecting?

Now take a moment to consider what could happen to your lifestyle if you were unable to work for an extended period due to illness or injury.

Your expenses could quickly run down your savings. You may even need to sell your investments to make ends meet.

By taking out income protection insurance you can protect your greatest asset and avoid putting your family's lifestyle at risk.

How does the strategy work?

If you suffer an illness or injury and are unable to work, income protection insurance can pay you a monthly benefit (typically up to 75% of your pre-tax income) to replace lost earnings.

You can generally claim the premiums as a tax deduction, which can reduce the after-tax cost by up to 46.5%# (see FAQs on page 32).

You can choose from a range of benefit payment periods, with maximum cover generally up to age 65.

Most income protection policies also offer a range of waiting periods before you start receiving your insurance benefit (with options normally between 14 days and two years).

While you can generally buy income protection insurance within or outside a superannuation fund, insuring within super may be a better option (see page 9).

Includes a Medicare levy of 1.5%.

How much will you earn by age 65?*

Current income (pa)	Age now			
	25	35	45	55
$40,000	$3,020,000	$1,900,000	$1,070,000	$460,000
$60,000	$4,520,000	$2,850,000	$1,610,000	$690,000
$80,000	$6,030,000	$3,810,000	$2,150,000	$920,000
$100,000	$7,540,000	$4,760,000	$2,690,000	$1,150,000

* Assumes salary increases by 3% pa. No employment breaks. Figures rounded to nearest $10,000.

Strategy # 01

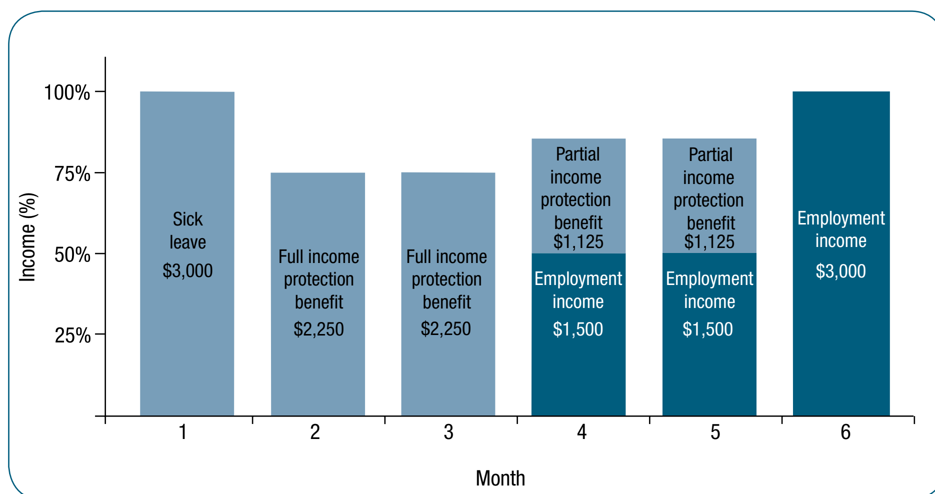
The benefits

- Receive up to 75% of your pre-tax income in the event of disability.
- Claim the premiums as a personal tax deduction if taken outside a superannuation fund.

Case study

Leanne and her husband Rob have a young daughter, Madeline. Leanne earns $36,000 pa ($3,000 per month) and jointly pays her mortgage of $240,000 with Rob. After a skiing accident, Leanne requires a knee reconstruction and is completely off her feet for three months. Also, when she returns to work, she'll be at 50% capacity for a further two months.

Fortunately, Leanne took out income protection insurance for 75% of her income ($2,250 per month). As a result, she receives the full benefit of $2,250 per month for two months after her initial one month waiting period (where she is covered by sick leave). Then, when she returns to work 2.5 days per week, she receives 50% of her monthly benefit ($1,125 per month) on top of her reduced salary of $1,500 per month.



By having insurance, Leanne receives a total income of $12,750 during the five months she is disabled – consisting of a combination of sick leave, salary and income protection benefits. If she had not taken out income protection insurance, her total earnings would have only been $6,000. Without insurance Leanne and Rob would have struggled to meet their mortgage repayments and other living expenses.

Why hold income protection insurance in superannuation?

- You can arrange to have the premiums deducted from your existing super balance. This can make income protection insurance affordable if you don't have sufficient cashflow to pay the premiums outside super.
- If you make a personal after-tax contribution to fund the premiums in super, you may qualify for a Government co-contribution of up to $1,500*. Receiving a co-contribution could make it significantly cheaper to purchase the insurance through super than outside super.

* Certain eligibility conditions apply (see Glossary on page 34).

Tips and traps

- When choosing a waiting period for your income protection insurance, make sure you take into account any benefits (including sick leave) provided by your employer.
- As a general rule, the shorter the waiting period and the longer the benefit payment period, the more the insurance will cost. Where cashflow is limited, it is generally better to choose a longer waiting period rather than shortening the benefit payment period.
- If you have a working spouse, you should also consider whether they have adequate income protection insurance.
- Some policies allow you to elect for the benefit payable to be increased in line with inflation each year in the event you make a claim. This option is worth considering as it ensures your purchasing power is maintained during claims over extended periods.
- Check you can insure for more than just your base salary. For employees, packaged items such as motor vehicles and superannuation contributions can be included, as well as commissions, fees, regular bonuses, regular overtime and other fringe benefits.
- Income protection insurance is important when borrowing to invest (gearing), as it can help you meet your interest payments if you are unable to work due to illness or injury.

Eliminate debt on death or disability

If you're like most people, you've used debt to finance a range of lifestyle purchases, including the family home. However, if you die, the loan repayments will still need to be made, even though the salary your family has relied upon is no longer available.

Your loan documents may even contain a clause that requires immediate repayment if you die or become disabled. However, sometimes this is not feasible, and the only option may be to sell the underlying asset to repay the lender. When this asset is your family home, your dependants could be in the unenviable position of either having to re-finance the loan or sell and downgrade their residence.

A cost-effective solution is to use insurance to provide a lump sum payment upon death, total and permanent disablement, or for critical illness. This payment can then be used to eliminate your debts so the full value of your assets can be passed on to your family members.

How does the strategy work?

The first step is to calculate your total debts. Make sure you include all your loans, including mortgages, personal loans, credit cards and hire purchase agreements.

Don't be surprised if you come up with a large number – it's better to know this now. Once you've worked out how much you owe, you can identify the level of insurance cover you need to clear your debts.

The next step is to work out (in conjunction with your financial adviser) the events for which you want to be covered. While many people take out insurance for death, you may also want to be covered for total and permanent disability (TPD) and/or for critical illness.

Strategy #

02

The benefits

- Provide a lump sum to clear your debts.
- Pass on the full value of your assets to your dependants.

Case study

Vanessa and Peter have three young children. Vanessa has been a full-time homemaker for the past five years and Peter earns $80,000 pa. Their home is valued at $400,000, they have debts totalling $240,000 with repayments of $2,236 per month.

Debts	Amount owing	Interest rate	Current repayments (per month)
Home loan (20 year term)	$218,000	7.5%	$1,760
Personal loan (5 year term)	$20,000	12%	$450
Credit cards	$2,000	17%	$26
Total	**$240,000**		**$2,236**

Before strategy

In the event of Peter's death or permanent disability, Vanessa could use one of the following options to fund the monthly loan repayments:

1. Return to full-time paid employment after five years out of the workforce. This may not be easy, and her income could be less than Peter's. There would also be the added expense of childcare and household help.
2. Apply for Government assistance, however, the payments will probably not be enough to service the mortgage and cover the family's living expenses.
3. Sell the family home and use the proceeds to repay the loans. As well as needing to find somewhere else to live, the level of equity in the home probably won't be enough to enable Vanessa to purchase another property, so she may need to rent.

After strategy

Instead, Peter decides to take out insurance for $240,000 so their debts can be cleared if he dies or becomes permanently disabled. By using this strategy, Vanessa and the children can continue to live in the family home and the financial strain will be reduced significantly.

Ideally, income permitting, Peter and Vanessa could also use insurance to make a provision for on-going living expenses, so they don't have to rely on Government assistance (see Strategy 3).

Tips and traps

- You may be able to nominate a beneficiary(ies) for the benefits payable on your death. This allows the death benefit to be paid directly to the chosen beneficiary(ies).
- You should make sure your insurance cover is adequate for your needs. Under-insurance can present a serious problem.
- Changes in your personal circumstances (eg taking on additional debt) often necessitates higher insurance levels. You should consider insurance policies that let you increase the level of cover in the future (within certain limits) without requiring further medical evidence.
- There may be advantages in having Life and Total and Permanent Disability insurance through a superannuation fund (see Strategy 5).
- It may be more cost-effective over the longer term if you opt for a level premium, as opposed to a stepped premium that increases each year with age (see Strategy 6).
- In conjunction with a professional adviser, you should consider your entire estate planning position, including your Will, to make sure your wishes are carried out upon your death.

Maintain your family's lifestyle

As outlined in the previous strategy, it's important you have enough insurance to clear your debts. However, you also need to consider whether your family will be able to meet their ongoing expenses, including toys, school uniforms and the latest sneakers.

Death, permanent disability or a serious medical condition can have a big impact on a family's finances and standard of living. If something should happen to the main breadwinner, the emotional strain could also be very significant.

In this strategy we explain how insurance can provide a lump sum payment that can be used to ease the financial burden and provide ongoing income support for your family.

How does the strategy work?

The key to this strategy is to work out how much income your family will need each year to pay for groceries, education, household bills and other living expenses. The next step is to consider how long you'd like your family to be financially supported.

Once you know these two things, a financial adviser can help you determine how much life, total and permanent disability and critical illness insurance cover you may require. In the event the unthinkable happens, your family can invest the insurance benefit to provide an ongoing income stream.

When calculating the amount of insurance required, a financial adviser can take into account tax that may be payable on the investment income, so your family will receive enough after-tax cashflow to meet their ongoing living expenses. An adviser can also allow for the impact of inflation, as your family will need more income in future years to maintain the same standard of living.

Strategy #

03

The benefits

- Provide a lump sum payment that can be used to generate an ongoing income.
- Help your family maintain their standard of living.

Case study

Peter and Vanessa, from Strategy 2, have recognised the need to protect the future of their three children. As a first step, they decide to list their future financial commitments.

Commitments	Amount	Frequency	Annual amount
Groceries	$800	Monthly	$9,600
Education fund (for 3 children)	$300	Monthly	$3,600
Household expenses (eg electricity, gas, phone, insurance and petrol)	$2,250	Quarterly	$9,000
Other living expenses (eg clothing and entertainment)	$150	Weekly	$7,800
Total			**$30,000**

Peter expects to work for another 27 years and wants to be able to support his family financially for at least 18 years. After speaking to his financial adviser, Peter decides to take out life and total and permanent disability cover with a sum insured of $400,000. This is in addition to the insurance of $240,000 he took out to clear their debts (see Strategy 2).

Should he die or become totally and permanently disabled, the lump sum payment of $400,000 can then be invested to generate an after-tax income of $30,000 pa over the 18 year period*. Peter could also consider critical illness insurance to protect his family's lifestyle in the event that he suffers a serious medical condition (as defined in the policy).

* Assumes the lump sum of $400,000 earns an after-tax return of 6% pa, the income required increases at 3% pa to keep pace with the rising cost of living and the capital is exhausted over the 18 year period.

Tips and traps

- When calculating the lump sum required, make sure you accurately calculate your financial commitments, otherwise you could end up under or over insured.
- It's not unusual to incur additional expenses at the time of death, permanent disability, or critical illness (eg funeral costs, relief childcare and nursing care). You should therefore consider taking out extra insurance to cover these and other potential expenses, where applicable.
- It's also important to insure your partner. Even if they are not working, their death, disability or critical illness is likely to have a serious financial (as well as emotional) impact on the family (see Strategy 4).
- You should consider insurance policies that allow you to automatically increase your cover in line with increases in the Consumer Price Index. This means your cover keeps pace with the increasing cost of living.
- You should consider reducing the amount of insurance cover over time, as your total debts decrease and the period for providing income support for your family declines.
- It is possible to have the lump sum insurance proceeds paid to your Estate and make an arrangement in your Will for a testamentary discretionary trust to be established. This will enable your surviving spouse (or another person or entity) to act as Trustee and distribute amounts to your children in a tax-effective manner.

Make sure you protect the homemaker

In the previous strategies, we outlined the financial risks a family faces if the primary breadwinner doesn't have enough insurance to pay off debts and meet ongoing living expenses. However, it's also potentially dangerous to overlook the insurance needs of the person who predominantly takes care of the home and the children.

If something should happen to the homemaker, the family can suffer financially as well as emotionally. Despite advances of modern technology, there are still plenty of things that need to be done around the house and hiring someone to provide home help and child-care services can cost a lot of money.

To protect your household (and avoid putting a big dent in the budget) it's important to include the homemaker when developing suitable insurance strategies for your family.

How does the strategy work?

If the homemaker dies or becomes disabled, the primary breadwinner usually has a limited number of options.

They can cut-back their working hours to look after the household, or they can maintain their workload and pay for outside help. Either way, both options will have a negative impact on the household's disposable income.

A simple solution is to insure the homemaker for life, total and permanent disability (TPD) and critical illness, so the family can receive a lump sum payment upon the occurrence of one of these events. This lump sum can then be used to help meet a range of medical and household expenses and ensure the family's budget is not adversely impacted.

It may also be necessary to take out additional cover to pay off debts (see Strategy 2) or provide an ongoing income (see Strategy 3).

A financial adviser can help you determine how much cover you may require (and in what circumstances).

Strategy # 04

The benefits

- Cover the cost of medical expenses associated with disablement, serious illness or death of a spouse.
- Enable the family to pay additional expenses such as child-care, nursing care or housekeeping.

Case study

Nicholas and Rebecca were married for seven years with two young children, Michelle (4) and Jake (2). Rebecca took time out from the workforce to care for their children. Nicholas earns a salary of $95,000 pa and his employer provides a comprehensive package of insurances, including life, critical illness, and income protection covers.

Twelve months ago Rebecca visited her GP to investigate a lump in her breast. The results confirmed her worst fears – a breast cancer diagnosis. Sadly, Rebecca's cancer was particularly aggressive and, despite intensive treatment, she died within six months of diagnosis.

While both Nicholas and Rebecca recognised the importance of insuring the breadwinner, they didn't protect the homemaker. As a result, Rebecca's medical expenses and funeral costs put a big dent in the family savings.

Nicholas also discovered how expensive it is to run the household and look after the children without Rebecca – the cost will account for almost 30% of his after-tax salary until Michelle turns 15 (in 11 years time).

Commitments	Amount (pa)	No. of years	Total Amount
Full-time childcare for Michelle	$16,800 ($70 per day for 48 weeks)	1 (includes time when Rebecca receives treatment)	$16,800
Full-time childcare for Jake	$16,800 ($70 per day for 48 weeks)	3 (includes time when Rebecca receives treatment)	$50,400
Home help (part-time cooking and cleaning)	$4,800 ($100 per week for 48 weeks)	11	$52,800
After school care for Michelle and Jake	$6,000 ($150 per week for 40 weeks)	10	$60,000
School holiday care	$4,800 (8 weeks at $300 per child)	9 (10 years for Michelle and 8 years for Jake)	$43,200
Total			**$223,200**

A combination of life and critical illness insurances could have provided the family with a lump sum to pay for these additional costs over the upcoming years.

Tips and traps

- There may be some tax benefits by taking out life and TPD insurance for the homemaker through a superannuation fund (see Strategy 5). For example, the contribution to the super fund to pay for the insurance premium could qualify for a Government co-contribution (up to $1,500 pa) or a spouse tax offset (up to $540 pa).
- If the cover is taken through superannuation, it may be possible to make a binding nomination to ensure that any death benefit is payable to a particular dependant (eg the working partner). However, TPD benefits in super are always payable to the disabled member.
- If taken outside superannuation, the homemaker's insurance could be owned by the working partner, ensuring complete control over the benefits received.
- Insuring the breadwinner and homemaker under the one policy may save on policy fees.
- It may be more cost-effective over the longer term if you opt for a level premium, as opposed to a stepped premium that increases each year with age (see Strategy 6).

Purchase life and TPD insurance tax-effectively

Many people take out insurance via a personal policy in their own name. However, if you're able to make salary sacrifice contributions, you're eligible for a Government co-contribution, you have a low-income spouse or you're self-employed, you should consider the benefits of insuring through a super fund.

By holding life and total and permanent disability (TPD) insurance through super, you may be able to reduce the effective cost of your premiums considerably. When you take into account the potential tax savings, it may also be possible to purchase a higher level of cover, when compared to insuring outside super.

How does the strategy work?

The same tax deductions and offsets that apply when investing in super also apply to insurance purchased through a super fund.

- **If you're eligible to make salary sacrifice contributions**, you may be able to purchase insurance through a super fund with pre-tax dollars (see case study).
- **If you earn less than $58,980* pa, of which at least 10% is from eligible employment or carrying on a business and you make personal after-tax super contributions**, you may be eligible to receive a Government co-contribution# (see Glossary on page 34) that could help you cover the cost of insurance.
- **If you make super contributions on behalf of a low-income spouse**, you may be able to claim a tax offset of up to $540 pa (see Glossary on page 35) that could be put towards insurance premiums for you or your spouse.
- **If you're self-employed**^, you can generally claim your super contributions as a tax deduction – regardless of whether they are used in the fund to purchase investments or insurance.

These tax benefits can make it significantly cheaper to insure through a super fund. All you need to do is nominate how your contributions should be allocated between your super investments and your insurance policy.

* Includes assessable income plus reportable fringe benefits. Other conditions apply.

\# Some funds or superannuation interests may not be able to receive Government co-contributions. This includes unfunded public sector schemes, defined benefit interests, traditional policies (such as endowment or whole of life) and insurance only superannuation interests.

^ To qualify as self-employed, you must earn less than 10% of your assessable income plus reportable fringe benefits from eligible employment.

Strategy # 05

The benefits

- Reduce the cost of your life and TPD insurance premiums.
- Purchase a higher level of cover when compared to insuring outside super.

Case study

Jack, aged 38, earns a salary of $80,000 pa. He is married with young children and has a large mortgage.

His employer's super fund already provides life and TPD insurance. However, he needs additional cover to help his family pay off their debts and replace his income, should the unthinkable happen. The premium for this additional insurance is $1,170 pa.

If he takes out the additional cover through a personal insurance policy (outside super), he will need to pay the annual premium from his after-tax salary. The pre-tax cost will therefore be $2,000 (ie $2,000 less tax at his marginal rate of 41.5%* is $1,170).

After speaking to his adviser, Jack decides to take out an equivalent level of cover through his super fund. He arranges for his employer to sacrifice $1,170 of his pre-tax salary into his fund and instructs the fund administrator to use this contribution to pay for the insurance premiums.

Because super funds receive a tax deduction for death and disability premiums, no contributions tax will be deducted from Jack's super contribution. As a result, he will be able to purchase the insurance through his super fund with pre-tax dollars and make a pre-tax saving[#] of $830 on the first year's premiums.

	Insurance purchased outside super (with after-tax salary)	**Insurance purchased within super (via salary sacrifice)**
Insurance premium (pa)	$1,170	$1,170
Plus income tax payable on salary at 41.5%*	$830	Nil
Pre-tax cost of insurance	$2,000	$1,170
Pre-tax saving[#]		**$830**

* Includes a Medicare levy of 1.5%

Given Jack pays tax at a marginal rate of 41.5%*, the after-tax saving would be $486.

Tips and traps

- Insurance cover, purchased through a super fund, is owned by the Trustee of the super fund, who is responsible for paying benefits subject to relevant legislation and the rules of the fund (see 'Restrictions on non-death benefits' in the Glossary on page 35). When considering insurance cover purchased through a super fund, you should be clear on the powers and obligations of the relevant Trustee in respect of paying benefits.
- No tax is payable when a superannuation death benefit is received by a dependant, such as a spouse or child under age 18.
- Tax may be payable when a superannuation death benefit is paid to a non-dependant, or a TPD benefit is received by a disabled fund member. However, to compensate for the potential tax liability, you could consider taking out a higher level of insurance. While this will generally increase the premiums, the after-tax cost may be lower than insuring outside super, when you take into account the tax concessions outlined on page 16.
- While critical illness insurance is generally not available within super, it is now possible to purchase income protection (or salary continuance) insurance in super with a choice of benefit payment periods up to age 65.
- When making contributions to fund insurance premiums in a super fund, you should take into account the cap on concessional and non-concessional contributions (see Glossary on page 34).
- When insuring in super, you can usually arrange for the premiums to be deducted from your existing account balance. This can enable you to buy insurance in situations where you don't have sufficient cashflow to fund the premiums outside super.

Reduce the long-term cost of your insurance

When you take out insurance, there are generally two ways you can pay your premiums.

You can opt for a stepped premium that is calculated each year in line with your age. Or you can choose a level premium that is calculated each year based on your age when the cover commenced. Level premiums are generally consistent each year but are not guaranteed (ie they can go up or down).

While stepped premiums are usually lower in the early years, level premiums can be a more cost-effective option if you continue the insurance over a longer period.

How does the strategy work?

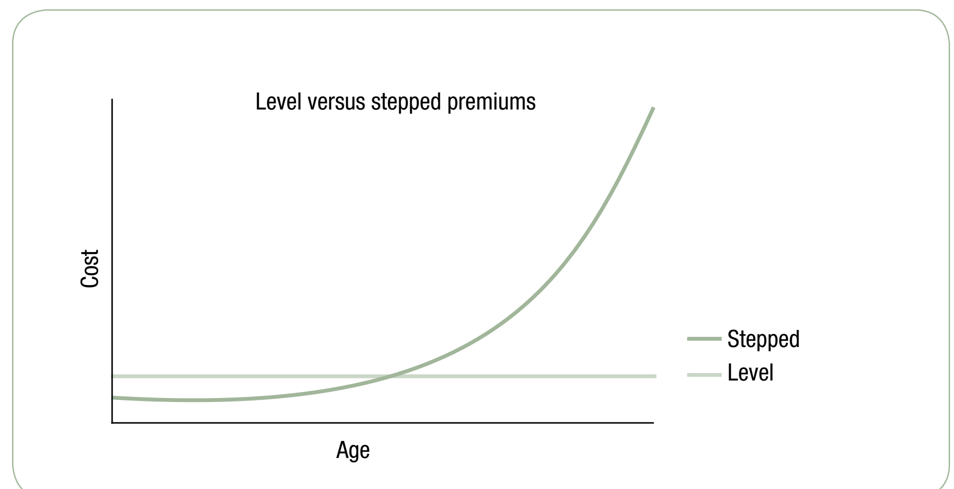
Level premiums are higher than stepped premiums at the start (see graph below).

However, over time, as stepped premiums increase, level premiums can end up cheaper – often at the stage in life when you need the cover most.

The premium savings in the later years can also make up for the additional payments in the earlier years – saving you money over the life of the policy.

When deciding which option to choose, remember you could need insurance to cover your debts and income for 30 years or longer. During those years you could change careers, remarry (with a second mortgage), start a new business or simply work for longer.

With a bit of forward planning, and the right premium option, you could reduce the long-term cost of your insurance considerably.



Strategy# 06

The benefits

- Pay a lower average premium over the life of the policy.
- Make your cover more affordable at a time when you need it most.

Case study

David, aged 35, took out life insurance for $500,000. Even though he needed to pay higher premiums in the earlier years, he chose level premiums because he anticipated needing the cover until he reached age 65.

Over the next 30 years, he paid premiums of $825 pa for a total cost of $24,750. Had he chosen stepped premiums, he would have paid between $349 and $6,864 pa for a total amount of $57,206.

By having the foresight to select level premiums, David saved himself a total of $32,456 (or $13,999 in today's dollars*). Also, in the later years, the cover was far more affordable (eg $825 pa versus $6,864 pa at age 65).

	Level	Stepped	Difference
Total premiums over 30 years	$24,750	$57,206	$32,456
Saving (in today's dollars*)			**$13,999**

The situation could have been quite different, however, if David only needed the insurance for a shorter time period. For example, over five years, his level premium of $825 pa would have cost him a total of $4,125. Conversely, if he'd chosen stepped premiums, he would have paid between $349 and $421 pa, for a total cost of only $1,902.

In this example, opting for level premiums cost him an extra $2,223 (or $2,102 in today's dollars*). Before you decide which premium structure you should select, make sure you consider how long you will require the cover and always seek financial advice.

	Level	Stepped	
Total premiums over 5 years	$4,125	$1,902	$2,223
Additional cost (in today's dollars*)			**$2,102**

Insurance assumptions: Age 35, non-smoker. Based on MLC Limited's Standard premium rates as at 1 October 2007.

* Assumes an inflation rate of 3% pa.

Tips and traps

- You may want to take out part of your insurance using stepped premiums and use level premiums for the rest. This way, the premium in the earlier years will be lower than if you opt entirely for level premiums. Over time, you can then reduce your stepped premium cover as you build up more assets and potentially need less insurance. As a result, you could end up paying level premiums on most (if not all) of your insurance in the later years, and benefit from the lower premium costs associated with level premiums at that time.
- The earlier you 'lock-in' the level premium, the greater the potential long-term savings. This is because level premiums are based on your age when the policy commences and are generally lower if your take out the cover at a younger age. However, as you approach age 65, the difference between the two premium structures diminishes for new policies.
- Level premiums can make budgeting easier, because you know in advance what your insurance is going to cost.
- The maximum age you can start a policy with level premiums is generally lower than for stepped premiums.
- Regardless of which premium structure you choose, you generally also have a choice of how often you pay your premiums (eg monthly or annually).
- While stepped and level premiums are generally offered for non-super insurance, this may not be the case with insurance offered through super.

Keep your business running

In strategy 1, we explained how income protection insurance can replace up to 75% of your pre-tax income if you are unable to work due to illness or injury.

But what if you are a business owner? While income protection insurance should still be considered, it's also important to protect the very thing that generates your income – your business.

By taking out business expenses insurance, you can cover certain ongoing expenses and keep your business running while you recover.

How does the strategy work?

If you are self-employed or in a small partnership, business expenses insurance can help you meet 100% of your share of eligible business overheads, should you be unable to work due to illness or injury.

This can help keep your business afloat and ensure that, in the worst case scenario, there is still a business to sell should the need arise.

Expenses that can be covered with this type of insurance typically include, amongst other things, office rent and mortgage payments, equipment or vehicle leasing costs and utility bills such as electricity, heating and water.

The maximum benefit payment period is usually limited to 12 months. After this period, you can reasonably determine (with guidance from your doctor) whether you will be able to return to work. You can also choose a waiting period before the policy will start reimbursing your business expenses – typically 14 days or a month.

Strategy #

07

The benefits

- Keep on top of business expenses during a period of serious illness or disability.
- Ensure you have a saleable business asset if you are prevented from returning to the workforce because of your disability.

Case study

Tony and his business partner Andrew run a successful veterinary practice. They both generate a pre-tax income of $20,000 per month and are jointly responsible for meeting the total business expenses of $16,000. This leaves them $12,000 each to draw as income every month.

	For the practice (per month)	Per partner (per month)
Pre-tax income	$40,000	$20,000
Less ongoing business expenses	($16,000)	($8,000)
Pre-tax income (after business expenses)	$24,000	$12,000

They have both used income protection insurance to protect 75% of their respective incomes. Tony has also taken out business expenses insurance for $8,000 a month, which represents his share of the practice's business overheads.

The table below outlines what could potentially happen if either Andrew or Tony became disabled.

	Andrew Protection plan without business expenses (per month)	Tony Protection plan with business expenses (per month)
Income protection insurance benefit	$9,000	$9,000
Business expenses insurance benefit	$0	$8,000
Total insurance benefits	$9,000	$17,000
Less ongoing business expenses	($8,000)	($8,000)
Pre-tax income (after business expenses)	**$1,000**	**$9,000**

Andrew's income protection policy would provide a monthly benefit of $9,000, which represents 75% of his income, net of expenses, but before tax. However, because he doesn't have business expenses insurance, he'll have to fund the business expenses out of his own pocket – potentially from his income protection policy. As a result, he's left with $1,000 each month to meet his personal expenses and tax liability.

Conversely, Tony, who also insured 100% of his share of the practice's business expenses, will not need to use any of his income protection benefit (or any of his personal savings) to meet his ongoing business expenses.

Tips and traps

- Premiums for business expenses insurance are tax-deductible, and benefits received will be assessable as income, to either the business or the business owner.
- Business expenses insurance is also generally available if the business is owned and operated through a company. In this scenario, the insurance provider will usually treat the expenses paid by the company as if they were paid by you.
- Like investment planning, putting together an insurance plan requires more than a set and forget approach. Regular reviews of your insurance needs are vital to ensure your cover keeps pace with the changing needs of your business.
- Insurance contracts differ, so check the policy document to ensure you understand exactly what the business expenses insurance provides, including what is defined as eligible business expenses.
- You should consider insurance policies that allow you to automatically increase your cover in line with increases in the Consumer Price Index, ensuring the benefit keeps pace with the rising cost of living.

Protect a key person in your business

The most valuable asset in any business – whether a milk bar or a multi-national corporation – is the key people who run the business. But while material assets such as plant and equipment can be replaced relatively easily, this is not the case with human assets.

The loss of the managerial skills, expertise and leadership of a key person can have a substantial impact on revenue and profitability. Considerable costs can be incurred in recruiting and training a suitable replacement. There may also be an adverse impact on the business's goodwill and its ability to repay debts or other expenses.

By taking out key person insurance, you can help fund the loss of a valuable employee (including a business owner in certain circumstances) by providing an injection of cash for a revenue or capital purpose.

How does the strategy work?

A key person is someone whose contribution is considered vital to the ongoing success of a business.

The purpose of key person insurance is to protect the financial position of the business by providing a lump sum payment to offset the estimated losses that would arise upon the death, total and permanent disablement (TPD) or critical illness of a key person.

Key person insurance may be used for a revenue purpose (to protect against loss of income and profits), or a capital purpose (eg to provide capital to repay business debt).

Other options may be available to protect your business, such as drawing on savings, borrowing money or selling assets. However, all of these options are costly and some may not be feasible. Key person insurance can be a less expensive and more convenient alternative.

Strategy #

The benefits

- Offset a drop in your business profits.
- Provide your business with sufficient time and inducement to find and attract a suitable replacement.
- Provide capital to repay loans.
- Help protect your business from a forced sale.
- Continue your business expansion or development plans.

Case study

1. Protecting your business against loss of profit

Charlotte has owned and operated a large and successful garden nursery for many years. Wanting to maintain ownership but free up some time to concentrate on other commitments, she employed Gretel as a manager.

Gretel's management skills greatly increased the nursery's gross revenue and customer base. But when she was diagnosed with cancer, she was advised to retire by her doctor.

Fortunately, Charlotte had the foresight to insure Gretel. The critical illness benefit provided Charlotte with the necessary cash to find a suitable replacement, as well as smooth over the inevitable drop in profits experienced during this period of upheaval.

2. Protecting your business debts

Adam recently expanded his dry-cleaning business, using a loan from a major bank. As part of the agreement, he signed a personal guarantee using his personal assets, and one of the conditions required the loan to be repaid immediately upon his death or permanent disability.

He realised that should something happen to him, the only options would be to sell his business or the family home to repay the loan and both of these options have significant drawbacks.

Relying on selling the business assumes there'll be a willing buyer at a reasonable price. Selling the family home has the same problems, compounded by Adam's family having to find somewhere else to live.

Adam therefore decided to protect his family by insuring himself for the value of the loan. As a result, if he dies or becomes disabled, he (or his estate) will have the necessary cash to repay the loan and extinguish the loan guarantee.

Tips and traps

- Term life insurance policies used to protect against a loss of profits (ie revenue purpose policies) are tax-deductible and any benefits received are assessable as income. You may therefore want to increase the level of insurance cover to account for anticipated taxes and ensure your business is left with the required net amount.
- Term life insurance policies, used to repay a loan or other debt (ie capital purpose policies) are not tax-deductible and any benefits received are not assessable as income.
- The Australian Tax Office does not recognise a policy as having a revenue purpose if the death or disablement of that person is likely to result in the closure of the business.
- Proper ownership of the insurance policy is vital. Different policy ownership may have different tax implications depending on the type of insurance and purpose of the policy (see FAQs on page 28).
- Make sure your insurance cover is updated in line with the (increasing) value of the key person to your business. Failing to do this may lead to a funding shortfall.
- You should consider insurance policies that allow you to increase the level of insurance cover in the future (within certain limits) without medical evidence, when the value of the key person to the business increases.

Establish a Buy Sell agreement

It can take years of hard work to build up a business. But all the hard work can be undone very quickly if a business owner dies or suffers a serious disability. That's why many business owners establish what is known as a Buy Sell agreement as part of their broader succession planning.

A Buy Sell agreement is a legal contract that can facilitate the orderly transfer of a person's share in a business to the remaining owners if certain trigger events occur, such as death or disability.

To help fund the transfer, the agreement normally uses life insurance so that sufficient capital becomes available to buy out the departing owner's share in the business.

How does the strategy work?

There are generally two steps involved when preparing a Buy Sell agreement.

First, the owners need to determine, in advance, what will happen to the ownership of the business in certain circumstances (such as death or disability). This is usually achieved by entering into a transfer agreement*.

Secondly, the owners need to put in place a funding agreement, which outlines how the money will be raised to finance the ownership transfer, including any associated tax bills.

There are a number of ways a Buy Sell agreement can be funded. For example, the surviving business owner(s) may be able to buy-out the departing owner's interests using their own capital or borrowed money.

However, these options are not always available – particularly if a business owner dies or suffers a serious disability. Insurance is usually considered the most cost-effective and efficient way to raise sufficient capital.

* The business can also be transferred through the partnership agreement, or by amending the articles of association in the case of a company.

Strategy # 09

The benefits

- Provide immediate funds to enable the purchase of the departing owner's share of the business.
- Provide a guaranteed market for the business interest at an agreed price.
- Provide peace of mind for the continuing partners/owners/shareholders.
- Pacify creditors and stabilise the business.
- Reduce the chance of disputes between continuing business owners and a deceased owner's estate.

Case study

Alex and Bill each owned 50% of a successful medium-size engineering business when Bill died suddenly.

Without a Buy Sell agreement

Without thinking too much about what might happen to the business in the event of death or disability, Bill left his share to his wife, Lynn, through his Will.

However, Lynn doesn't have the skills (or the time) to help run the business. Also, Alex doesn't have enough funds to buy out Lynn's share and is unable to borrow the money.

To further complicate matters, Lynn is still entitled to the same management rights and share of profits as her deceased husband, while Alex is doing 100% of the work and only receiving 50% of the profits.

With a funded Buy Sell agreement

Fortunately, Alex and Bill had the foresight to enter into a Buy Sell agreement, funded by insurance.

To enable them to transfer ownership, the value of the insurance was equal to their share of the business (after taking into account any capital gains tax that may be payable on the sale of the business).

On Bill's death, the insurance money is paid to Lynn in exchange for handing over the share in the business to Alex.

By using this strategy, Alex gets to take full control of the business and Lynn (as sole beneficiary of Bill's estate) is fully compensated for her interests – a win-win situation.

Tips and traps

- Take the time to calculate the value of your business and develop contingency plans if something should happen to one of your business partners.
- As the Buy Sell agreement is a document which affects your legal rights, it should always be prepared by a solicitor (preferably one that specialises in this area).
- There are a number of ways to structure the ownership of insurance policies used to fund a Buy Sell agreement. As each ownership method will have different legal, tax and stamp duty issues, the ownership should also be recommended by the advising solicitor after having regard to your personal and business situation.
- You may want to take out the insurance to fund the Buy Sell agreement through a super fund. This could result in the super contributions made to pay the insurance premiums being tax-deductible to you or the business.
- It is prudent to make sure all family members are aware of the arrangements made.
- Ensure your insurance cover is updated in line with the (increasing) value of your business. Failing to do this may lead to a funding shortfall.
- You should consider insurance policies which allow you to increase your level of insurance cover in the future (within certain limits) without medical evidence when the value of your business increases.

Treat your beneficiaries equitably

When planning for the distribution of an estate, a parent may wish to leave the family business to one or more of their children. This may be common in the farming community, or where a parent has been grooming one child to take over their place in the family business.

But what happens when one child is catered for in this manner and another is not?

In this strategy we explain how life insurance can be used to equalise your estate and treat your beneficiaries equitably.

How does the strategy work?

Estate equalisation is the process where one asset (eg the family business) is passed on to one child and an asset of equivalent value is passed on to the other(s).

However, it is not unusual for the bulk of the family's wealth to be tied up in the business and, even where it's not, selling other assets can trigger a capital gains tax liability.

For these reasons, a better way to provide an asset of equivalent value can often involve the use of a life insurance policy. The insurance benefit can then be used on the death of one of the parents to treat the other beneficiaries more fairly.

An estate equalisation strategy may also complement a Buy Sell agreement (see Strategy 9) where family members are in business with one another.

For example, if two brothers are in business together, one brother may want to pass their interest to one of their children in the event of their death (and provide another asset to the other child). At the same time, the second brother may not have children interested in being part of the business and may want his brother to buy out his share.

Strategy # 10

The benefits

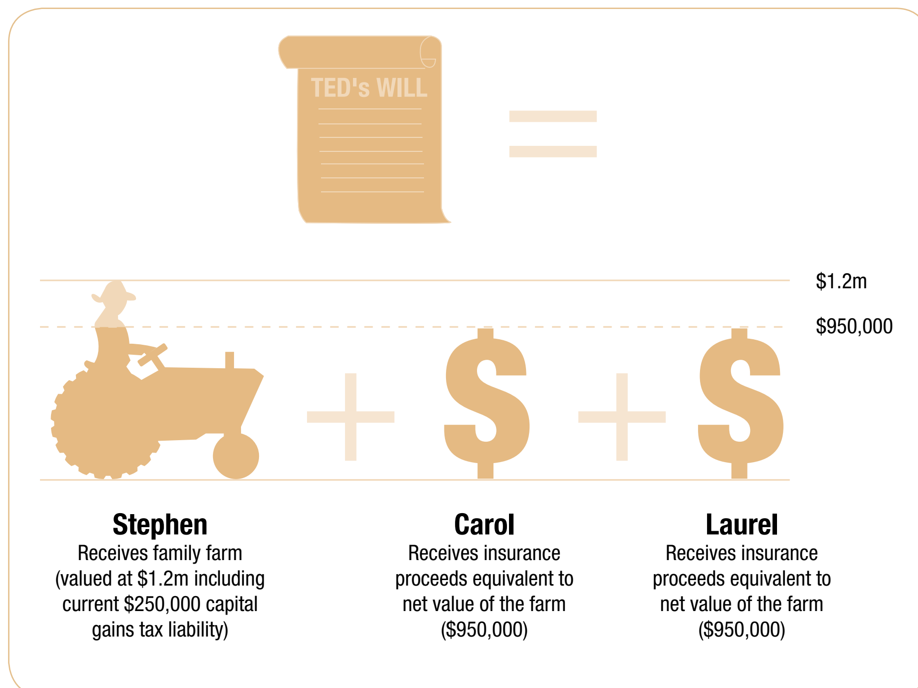
- Ensure your estate planning wishes are carried out.
- Prevent family rows over inheritance.
- Reduce the chance of your Will being challenged in Court.
- Protect the value of your estate, since assets do not have to be sold (often with an accompanying capital gains tax bill!).

Case study

Ted, a third generation farmer and widower, has worked on the family farm his whole life. He has also groomed his son, Stephen, to take over the farm when he retires. The farm is valued at $1.2 million and there is an unrealised capital gains tax (CGT) liability of $250,000.

Ted suffers a stroke while drenching the sheep and dies a few days later. In his Will, Ted left the entire farm to Stephen. Realising this would be an unfair result for his other children, he also took out a life insurance policy so that his daughters (Carol and Laurel) would receive a lump sum amount of $950,000 each. This is equivalent to the net value of the farm, after allowing for the CGT liability.

By using this strategy, Stephen will inherit the farm, but all his children will be treated fairly.



Tips and traps

- As the Family Maintenance provisions vary in each State, you should seek professional legal advice before implementing this strategy.
- When determining the appropriate amount of insurance cover, you should consider taking into account capital gains tax and other liabilities associated with transferring ownership of a business asset.
- There are a number of ways of ensuring the life insurance proceeds are received by the intended beneficiaries. Some of these methods include having the intended beneficiary as the policy owner, nominating them as a beneficiary of the policy, or through the operation of your Will. Each alternative may have different legal and tax outcomes which you should consider before settling on a particular arrangement.
- To treat all children fairly, you should update your insurance cover in line with the (increasing) value of your business. Failing to do this may lead to one or more beneficiaries receiving less than others.
- In conjunction with a professional adviser, you should consider your entire estate planning position, including your Will, to ensure your wishes are carried out upon your death.

FAQs

In this section, we summarise the taxation treatment of different types of insurance. The tax implications can vary, depending on the reason the insurance is purchased and the person (or the entity) that is established as owner of the policy.

Note: This taxation information is based on MLC's understanding of current legislation and Australian Taxation Office practice as at 3 December 2007. Our comments are general only. The taxation treatment may vary according to your individual circumstances and may not apply in all cases. You should therefore seek professional advice on your own taxation position.

What are the tax implications of Life Insurance?

Scenario	Are the premiums subject to Fringe Benefits Tax (FBT)?	Are the premiums tax-deductible?
Where an individual owns the policy on their own life and the premiums are paid by the individual for personal protection purposes	No	No
Where an individual owns the policy on their own life and the premiums are paid by the individual's employer	Yes – FBT is payable by the employer at 46.5%* on the grossed-up premium	Yes – the premium and related FBT liability are deductible to the employer
Where a company, trust, partners in a partnership or sole proprietor owns a key person insurance policy for revenue purposes	No	Yes – the company, trust, partnership or sole proprietor can claim the premiums as a tax deduction (provided a term insurance policy is used)
Where a company, trust, partners in a partnership or sole proprietor owns a key person insurance policy for capital purposes	No	No
Where the Trustees of a superannuation fund own a policy on the life of a fund member	No	Contributions made to a super fund are: • Fully tax-deductible# to self-employed^ people, unsupported~ people or employers, and • Count towards the members concessional contribution cap (see Glossary on page 34).

* Includes a Medicare levy of 1.5%.

No tax deduction is available for personal contributions and non-mandated employer contributions over age 75.

^ To qualify as self-employed, you must earn less than 10% of your assessable income plus reportable fringe benefits from eligible employment.

~ To qualify as unsupported, you must not be eligible to receive superannuation from an employer in the financial year the tax deduction is claimed.

Are the benefits assessed as income?	Are the benefits subject to Capital Gains Tax?
No	No, unless the recipient is not the original beneficial owner and acquired the interest for considerationΩ
No	No (as above)
Yes – the benefits are assessable to the company, trust, partnership or sole proprietor (provided a term insurance policy is used)	No (as above)
No	No (as above)
If paid as a **lump sum**: • Dependants† can receive unlimited tax-free amounts • Non-dependants will pay tax as follows: – The tax free component is tax-free – The taxed element of the taxable component is taxed at 16.5%‡ – The untaxed element of the taxable component is taxed at 31.5%‡. If paid as an **income stream**, the income payments will be tax-free if the deceased (or the recipient) is aged 60 or over. Otherwise, the income payments less any tax free component will be taxable at the recipient's marginal rate (less a 15% pension offset) until they reach age 60. Note: Only certain dependants are able to receive a death benefit as an income stream. These include a spouse, children under age 18, financially dependent children aged between 18 and 25, other financial dependants (excluding children), disabled children over age 25 and people in an interdependency relationship with the deceased fund member.	No

† Include a spouse, children under age 18, a financial dependant or a person in an interdependency relationship with the deceased fund member.

‡ Includes a Medicare levy of 1.5%.

Ω Consideration may be monetary or otherwise, but does not include premiums paid on the policy.

What are the tax implications of Total and Permanent Disability (TPD) insurance?

Scenario	Are the premiums subject to Fringe Benefits Tax (FBT)?	Are the premiums tax-deductible?
Where an individual owns the policy on their own life and the premiums are paid by the individual for personal protection purposes	No	No
Where an individual owns the policy on their own life and the premiums are paid by the individual's employer	Yes – FBT is payable by the employer at 46.5%* on the grossed-up premium	Yes – the premium and related FBT liability are deductible to the employer
Where a company, trust, partners in a partnership or sole proprietor owns a key person insurance policy for revenue purposes	No	Yes – the company, trust, partnership or sole proprietor can claim the premiums as a tax deduction
Where a company, trust, partners in a partnership or sole proprietor owns a key person insurance policy for capital purposes	No	No
Where the Trustee of a superannuation fund own a policy on the life of a fund member	No	Contributions made to a super fund are: • Fully tax-deductible# to self-employed^ people, unsupported~ people or employers, and • Count towards the members concessional contribution cap (see Glossary on page 34).

* Includes a Medicare levy of 1.5%.

\# No tax deduction is available for personal contributions and non-mandated employer contributions over age 75.

^ To qualify as self-employed, you must earn less than 10% of your assessable income plus reportable fringe benefits from eligible employment.

~ To qualify as unsupported, you must not be eligible to receive superannuation from an employer in the financial year the tax deduction is claimed.

Are the benefits assessed as income?	Are the benefits subject to Capital Gains Tax?
No	No, so long as the person receiving the insurance benefit is the life insured or a defined relative[‡] of the life insured
No	No (as above)
Yes – the benefits are assessable to the company, trust, partnership or sole proprietor	Yes – if the recipient is not the life insured or a defined relative[‡] of the life insured, however the capital gain is reduced by the amount included as assessable income[Ω]
No	Yes – if the recipient is not the life insured or a defined relative[‡] of the life insured
If paid as a **lump sum**: • The tax free component is tax-free • The taxable component is: – Taxed at 21.5%[†] if under age 55 – Taxed at 16.5%[†] on amounts above $140,000 if aged 55 to 59 – Tax-free if aged 60 or over. If paid as an **income stream**, the income payments will be tax-free if the disabled fund member is aged 60 or over. Otherwise, the income payments less any tax free component will be taxable at the disabled member's marginal rate (less a 15% pension offset) until they reach age 60.	No

† Includes a Medicare levy of 1.5%.

‡ Includes a:

- Spouse (married or de facto)
- Parent, grandparent, brother, sister, uncle, aunt, nephew, niece, child (including adopted or step) or spouse of these people.

Ω It's generally unlikely for a capital gain to be higher than the amount otherwise assessable as income, if the capital gain is a discount capital gain.

What are the tax implications of Critical Illness insurance (when benefit is paid as a lump sum)?

Scenario	Are the premiums subject to Fringe Benefits Tax (FBT)?	Are the premiums tax-deductible?
Where an individual owns the policy on their own life and the premiums are paid by the individual for personal protection purposes	No	No
Where an individual owns the policy on their own life and the premiums are paid by the individual's employer	Yes – FBT is payable by the employer at 46.5%* on the grossed-up premium	Yes – the premium and related FBT liability are deductible to the employer
Where a company, trust, partners in a partnership or sole proprietor owns a key person insurance policy for revenue purposes	No	Yes – the company, trust, partnership or sole proprietor can claim the premiums as a tax deduction
Where a company, trust, partners in a partnership or sole proprietor owns a key person insurance policy for capital purposes	No	No

What are the tax implications of Income Protection and Business Expenses insurance?

Scenario	Are the premiums subject to Fringe Benefits Tax (FBT)?	Are the premiums tax-deductible?
Where an individual owns the policy on their own life and the premiums are paid by the individual for personal protection purposes	No	Yes – the individual can claim the premiums as a tax deduction
Where an individual owns the policy on their own life and the premiums are paid by the individual's employer	No	Yes – the employer can claim the premiums as a tax deduction
Where the Trustee of a superannuation fund owns a policy on the life of a fund member	No	Contributions made to a super fund are: • Fully tax-deductible# to self-employed^ people, unsupported~ people or employers, and • Count towards the members concessional contribution cap (see Glossary on page 34).

* Includes a Medicare levy of 1.5%.

No tax deduction is available for personal contributions and non-mandated employer contributions over age 75.

^ To qualify as self-employed, you must earn less than 10% of your assessable income plus reportable fringe benefits from eligible employment.

~ To qualify as unsupported, you must not be eligible to receive superannuation from an employer in the financial year the tax deduction is claimed.

Are the benefits assessed as income?	Are the benefits subject to Capital Gains Tax?
No	No, so long as the person receiving the insurance benefit is the life insured or a defined relative† of the life insured
No	No (as above)
Yes – the benefits are assessable to the company, trust, partnership or sole proprietor	Yes – if the recipient is not the life insured or a defined relative† of the life insured, however the capital gain is reduced by the amount included as assessable income‡
No	Yes – if the recipient is not the life insured or a defined relative† of the life insured

Are the benefits assessed as income?	Are the benefits subject to Capital Gains Tax?
Yes – the benefits are assessable to the individual	No
Yes (as above)	No
Yes (as above)	No

† Includes a:
- Spouse (married or de facto)
- Parent, grandparent, brother, sister, uncle, aunt, nephew, niece, child (including adopted or step) or spouse of these people.

‡ It's generally unlikely for a capital gain to be higher than the amount otherwise assessable as income, if the capital gain is a discount capital gain.

Glossary

Assessable income – income (including capital gains) you receive before deductions.

Capital gains tax (CGT) – a tax on the growth in the value of assets or investments, payable when the gain is realised. If the assets have been held for more than one year, the capital gain may receive concessional treatment.

Complying super fund – a super fund that qualifies for concessional tax rates. A complying super fund must meet the requirements that are set down by law.

Co-contribution – a super contribution of up to $1,500 pa from the Government. To qualify for a co-contribution:

- Your assessable income plus reportable fringe benefits must be less than $58,980 pa.
- At least 10% of your assessable income plus reportable fringe benefits must be attributable to eligible employment or carrying on a business.
- You need to make personal after-tax contributions to your super account. Note: Salary sacrifice contributions don't qualify.
- You need to lodge an income tax return.
- You must be under age 71 at the end of the financial year the personal after-tax super contribution is made.
- You can't be a temporary resident.

The table below outlines the co-contribution you may be entitled to receive if you make personal after-tax super contributions in the 2007/08 financial year.

Income*	Personal contribution	Co-contribution available
$28,980 or less	Any amount	Personal contribution x 1.5 (max. $1,500)
$28,981 - $58,979	$0 - $1,000	An amount equal to the lesser of: • Personal contribution x 1.5, or • $1,500 – [0.05 x (income* - $28,980)]
$28,981 - $58,979	$1,000 or more	$1,500 – [0.05 x (income* - $28,980)]
$58,980 or more	Any amount	Nil

* Includes assessable income plus reportable fringe benefits.

The Australian Tax Office will determine your entitlement based on the data received from your superannuation fund (usually by 31 October each year for the preceding financial year) and the information contained in your tax return. As a result, there can be a time lag between when you make your personal after-tax contribution and when the Government pays the co-contribution.

Concessional contribution cap – a cap that applies to certain super contributions. These include, but are not limited to:

- Contributions from an employer (including salary sacrifice),
- Personal contributions claimed as a tax deduction (where eligible), and/or
- Employment Termination Payments rolled over to super between 1 July 2007 and 30 June 2012 exceeding the $1 million threshold amount#.

The cap is $50,000 pa or, if aged 50 or over, $100,000 pa for five years until 30 June 2012. If the cap is exceeded, excess contributions will be taxed at a rate of 31.5%.

The $1 million is reduced by all other transitional Employment Termination Payments received between 1 July 2007 and 30 June 2012 (including those taken in cash).

Contributions tax – a tax of no more than 15% that is payable on personal deductible and employer contributions made to a super fund, less the cost of life, TPD and income protection insurance.

Fringe benefit – a benefit provided by your employer in respect of your employment. Super contributions made by an employer to a complying super fund are excluded from Fringe Benefits Tax.

Fringe Benefits Tax (FBT) – a tax payable by your employer on the grossed up value of certain fringe benefits that you receive as an employee. The current rate of tax is 46.5%.

Income streams – investments that provide a regular income, such as account based pensions and annuities.

Marginal tax rate – the stepped rate of tax you pay on your taxable income.

Taxable income range	Tax payable~ in 2007/08
$0 - $6,000	Nil
$6,001 - $30,000	15% on amount over $6,000
$30,001 - $75,000	$3,600 + 30% on amount over $30,000
$75,001 - $150,000	$17,100 + 40% on amount over $75,000
Over $150,000	$47,100 + 45% on amount over $150,000

~ Excludes Medicare levy.

Medicare levy – a levy of 1.5% that is payable on your taxable income on top of normal marginal rates. An additional 1% is charged for couples with a combined income over $100,000 ($50,000 for singles) who have no private health insurance. If you earn less than $16,741 pa ($28,248 pa for couples) you are exempt from the levy.

Non-concessional contribution cap – a cap that applies to certain super contributions. These include, but are not limited to, personal after-tax contributions and spouse contributions received. From 1 July this year, the cap is $150,000 pa (or $450,000 in one year for those under 65 in that year who don't make further contributions in the following two years). If the cap is exceeded, excess contributions will be taxed at a penalty rate of 46.5%.

Restrictions on non-death benefits from superannuation – Government regulations restricting payments from superannuation funds apply to all non-death benefits paid under the policy. This means the Trustee may not pass benefits to you until it has satisfactory proof that you will never be able to work again in any occupation you are reasonably suited to by education, experience or training, or until you satisfy one of the other conditions of release prescribed by law.

If you do not satisfy a condition of release, the Trustee of the super fund must preserve the benefit in the fund until it is allowed to release it. Should this situation arise, the trustee of the super fund will write to you, explaining your options in relation to the preserved benefit.

Examples of some conditions of release are as follows:

- You have reached your preservation age (between 55 and 60, depending on your date of birth) and have permanently retired from the workforce;
- You stop working for your last employer on or after reaching age 60; or
- You turn 65.

Where you are entitled to receive a non-death benefit, the Trustee of the super fund will pay the benefit to you. Alternatively, you may ask for the benefit to be transferred to a roll-over facility of your choice.

Spouse contribution tax offset – a tax offset of up to $540 pa that may be available to you if you make personal after-tax super contributions on behalf of your low-income or non-working spouse. The amount of the tax offset will depend on your spouse's income*, as follows:

Spouse's income*	Contribution amount	You can claim a tax offset of:
$10,800 or less	$0 - $3,000	18% of contributions
$10,800 or less	$3,000 or more	$540 maximum
$10,801 - $13,799	Any amount	18% of contributions up to $3,000 (minus $1 for every dollar your spouse earns over $10,800)
$13,800 or more	Any amount	Nil

* Includes assessable income plus reportable fringe benefits

Taxable component – the remainder of a superannuation benefit after allowing for the tax free component. The amount of tax payable on the taxable component may depend on the age of the recipient, the dependency status of the beneficiary (death benefits only) and the size of the benefit.

Taxed super fund – a super fund that pays tax on contributions and earnings in accordance with the standard superannuation tax provisions.

Tax free component – that part of a superannuation benefit that is received tax-free.

Unsupported – a person who is not eligible to receive superannuation contributions from an employer.

Do you have enough insurance cover?

Complete the 1-minute insurance check below, or try the online Insurance Gap Calculator*

Your personal needs

Would your current insurances, including those within super funds, be enough to pay-off your debts (eg mortgage, car loan, credit card) and keep your family comfortable for the rest of their lives?

☐ Yes ☐ No ☐ Unsure

If something unexpected occurred, could your partner afford a housekeeper or nanny to look after any children?

☐ Yes ☐ No ☐ Unsure ☐ N/A

If you were unable to work for three months, or longer, because of an accident or illness, could you meet your lifestyle expenses (eg loan repayments, rent, food, education, clothing, entertainment) without a regular income?

☐ Yes ☐ No ☐ Unsure

Are you aware some types of insurance can be paid for using pre-tax income or as part of a super fund?

☐ Yes ☐ No ☐ Unsure

Your business needs (if applicable)

If you (or a key person) were unable to work in the business, would your current insurance cover all your business debts (eg mortgage, overdrafts, lease commitments)?

☐ Yes ☐ No ☐ Unsure

If you were unable to work in your business for a year, could you continue to pay your ongoing business expenses (eg loan or rent repayments, leasing costs, utility bills)?

☐ Yes ☐ No ☐ Unsure

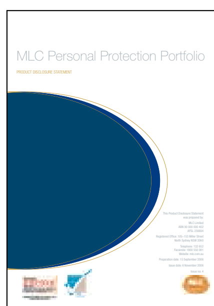
Want some help?

If you answered no or unsure to any of these questions, it could be time you considered talking to an expert about protecting you and your family or your business!

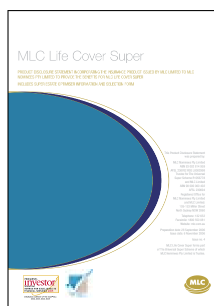
If you do not have an adviser, contact MLC on 132 652.

* The Insurance Gap Calculator is available at www.mlc.com.au.

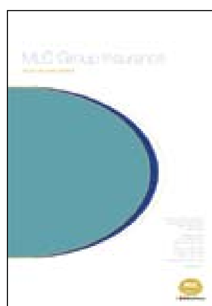
Speak to your financial adviser about these solutions to protect your assets.



Strategies 1 to 4
and 6 to 10



Strategies 2 to 6
and 9 to 10

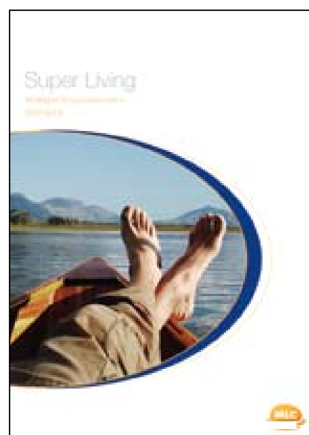

Strategies 1 to 3

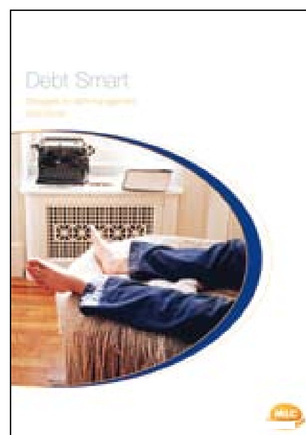
How to contact us

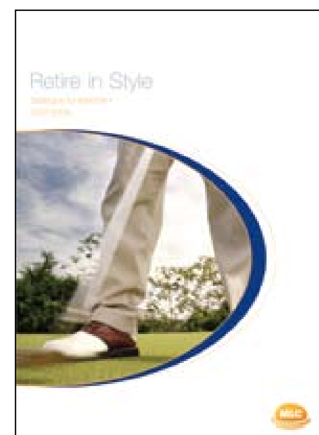
MLC MasterKey Service Centre
For more information call **MLC Service Centre** from anywhere in Australia on **132 652**, or contact your financial adviser.

Website
mlc.com.au

Postal address
MLC Limited
PO Box 200
North Sydney
NSW 2059







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MLC also has guides on wealth creation, superannuation, debt management and retirement.
Ask your financial adviser for more details.