DID YOU KNOW

Insurance cover held on platform

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HEALTHIER, LONGER, BETTER LIVES

There are generally two structuring options when housing insurance in super; cover held in a 'risk-only' super fund or as an integrated option on a platform/SMSF structure.

Key callouts in the comparison between risk-only super and platform held insurances are as follows:

Is risk-only more tax effective?

A popular strategy and recommendation is to use a risk-only super product, particularly when an upfront 15% rebate is available if funding premiums via enduring rollover. However, an equivalent 15% rebate is also available via the platform/SMSF option, as illustrated in the following table. Headline premium assumed to be $1,000.

Risk only: Funded via rollover

Amount rolled over	$850
Upfront 15% rebate (risk-only fund)	$150
Benefit of 15% fund tax credit passed back to member account*	N/A
Net outlay	**$850**

Platform

Amount deducted from member's super account	$1,000
Upfront 15% rebate (risk-only fund)	N/A
Benefit of 15% fund tax credit passed back to member account*	$150
Net outlay	**$850**

*Timing varies from platform to platform

Super components and the proportioning rule

When a partial rollover is set up to pay the premiums in a risk-only fund, the rollover is taken proportionately from the underlying taxable and tax-free components in accordance with the proportioning rule. Over time, this can significantly dilute any tax-free component that has been created from prior non-concessional contributions. In contrast unlike a rollover, the payment of the premium for insurances held on platform/SMSF will not dilute the tax-free component and will instead be drawn entirely from the taxable component, thereby keeping any tax-free component intact.

Risk-only cover and the tax deductibility trap

If a client wishes to claim a personal tax deduction for super contributions, they must:

- Submit a Notice of Intent (NOI) form to the fund trustee, and
- receive acknowledgement back from the trustee.

In the event a client makes a partial rollover to a risk-only fund to meet premiums before submitting the NOI, the client's eligibility to claim a full tax deduction for contributions made to the platform/SMSF super account may be reduced.

Similarly, this could be a problem for clients that make personal contributions into a risk-only super account from which they intend on claiming a personal tax deduction. If a risk-only policy is cancelled or lapses before a valid NOI is submitted and acknowledged by the fund trustee, then any subsequent NOI submission will be invalid and rejected, as the underlying super interest to which the notice relates no longer exists.

Naturally, there is less risk when it comes to NOI timeframe requirements if the insurance is housed within a platform super fund structure where a running super balance is maintained.

Portability and Visibility

AIA insurance, held on most major platforms, is generally fully portable by Memorandum of Transfer. At the same time a platform solution provides a client with visibility over their superannuation investments, it would also allow them to view their AIA insurance through their consolidating reporting feature.

Estate Planning and improved Benefit Payment Options

With a single platform product solution at a time of claim, either the Executor or beneficiaries would be dealing with a single superannuation trustee (the same would apply for the life insured at time of claim for Total and Permanent Disability).

A niche planning opportunity also exists for clients able to commence an income stream where there is a concurrent need for super-owned life insurance. It revolves around the segregation of the insurance policy to a reversionary income stream, which ensures that claim proceeds are subsequently treated as earnings and therefore not captured as a credit to the recipient beneficiary's Transfer Balance Account.

Similarly, terminal illness proceeds from a life policy held on a platform would be added to the life insured superannuation interest in the first instance. That contrasts with terminal illness proceeds paid into a risk-only policy where it can only be received as a lump sum and not rolled over as a superannuation interest.

Did you know?

A recommendation to hold insurance cover, primarily for cost efficiency purposes, under the risk-only super policy may not be a reasonable basis for recommending this ownership structure.

For more information on the Priority Protection for Platform Investors (PPPI) offering contact your AIA Client Development Manager.

Search "AIA TECE" on the internet or click here for our dedicated technical resources page and other compliance supporting materials. You can also contact AIA Technical Services directly at tece@aia.com.