

Comparison of insurance premiums funded inside vs outside of super



The table below compares the difference in the cost of paying for \$1,000 of premium using different funding options, including:

- concessional contributions (i.e. salary sacrifice/personal deductible contributions) inside super, and
- non-super (i.e. paying for premiums personally*).

The table also shows a number of examples where an individual may pay for their premium:

- 100% via super (i.e. by making concessional contributions)
- 100% via non-super (i.e. by paying personally*), or
- by having a split policy. The percentage splits below are examples of different premium amounts funded inside super (i.e. 75% vs 85% vs 95%) with the remaining premium amounts funded outside super.

Base income details		Gross cost of \$1,000 net premium										
Gross taxable income	Marginal tax rate ^A	Super (\$) ^B	Non-super (NS)	75% inside / 25% outside ^C			85% inside / 15% outside ^C			95% inside / 5% outside ^C		
				S	NS	Total	S	NS	Total	S	NS	Total
\$30,000	21%	\$1,000	\$1,266	\$750	\$316	\$1,066	\$850	\$190	\$1,040	\$950	\$63	\$1,013
\$82,482^D	34.5%	\$1,000	\$1,527	\$750	\$382	\$1,132	\$850	\$229	\$1,079	\$950	\$76	\$1,026
\$150,000	39%	\$1,000	\$1,639	\$750	\$410	\$1,160	\$850	\$246	\$1,096	\$950	\$82	\$1,032
\$200,000	47%	\$1,000	\$1,887	\$750	\$472	\$1,222	\$850	\$283	\$1,133	\$950	\$94	\$1,044
\$250,000 ^E	47%	\$1,176	\$1,887	\$882	\$472	\$1,354	\$1,000	\$283	\$1,283	\$1,118	\$94	\$1,212

A. Includes Medicare levy, however calculations do not factor in offsets, rebates and adjustments applicable to individual circumstances.

B. The amount funded inside super is the exact amount of premium due as the super fund can claim a tax deduction for the premium, so the 15% contributions tax is effectively offset.

C. The non-super policy portion (i.e. 25%, 15% or 5%) does not factor in the benefit of any personal tax deduction able to be claimed by an individual (for example, on salary continuance policies).

D. This is the average level of gross taxable income for an Australian as at May 2018 according to ABS statistics. (Full-Time Adult Average Weekly Ordinary Time Earnings)

E. An extra 15% tax (i.e. 'Division 293 tax') is payable on concessional contributions where an individual's income (for surcharge purposes) plus concessional contributions exceeds \$250,000.

* It is possible for an employer to allow their employees to salary package (i.e. salary sacrifice) their insurance premiums (i.e. generally income protection premiums) for a personally owned policy. Where this is the case, the employee may also benefit from income tax savings by forgoing their future entitlement to pre-tax salary or wages in exchange for the employer funding the cost of insurance premiums. Although the premiums paid in respect of an employee by an employer are generally tax deductible for the employer, the premiums may be considered an expense payment fringe benefit and therefore subject to Fringe Benefit Tax (FBT).

For the purposes of this paper, we have excluded this as an option and have assumed that insurance premiums funded outside of superannuation are paid from after-tax dollars.