



Protecting you and your family

Smart strategies for 2014–2015



Did you know, 60% of Australian families with dependants will run out of money within 12 months *if the main income earner dies*¹?

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Important information

The information and strategies provided are based on our interpretation of superannuation, social security and taxation laws as at 1 July 2014. Because the laws are complex and change frequently, you should obtain advice specific to your own personal circumstances, financial needs and investment objectives before you decide to implement any of these strategies.

MLC is not a registered tax agent. If you wish to rely on the general tax information contained in this guide to determine your personal tax obligations, we recommend that you seek professional advice from a registered tax agent.

¹ TNS Research, 'Investigating the Issue of Underinsurance in Australia', August 2005.

What are the facts?

Also, one in three Australians could be disabled for more than three months before turning 65¹.

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 and your family cope financially?

In this booklet we explain how insurance can be used to provide financial protection in a range of scenarios.

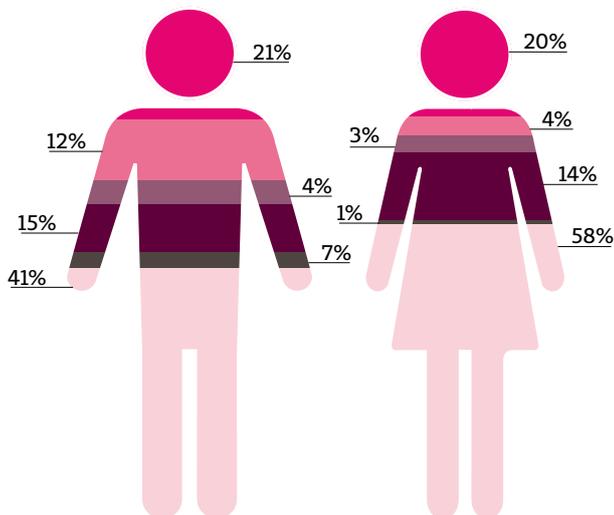
Insurance is the cornerstone of a comprehensive financial plan and can help to minimise the financial impact of events beyond your control.

For more information

To find out which strategies in this booklet suit your needs and circumstances, we recommend you speak to a financial adviser.

If you're a business owner, you may need to consider a range of other protection strategies that are outlined in our 'Smart strategies for protecting business owners' guide. To obtain a copy, speak to your financial adviser or call MLC on **132 652**.

Before the age of 70²...



Statistically, before the age of 70:

- Will be diagnosed with cancer
- Will have a heart attack
- Will suffer a stroke
- Will suffer from another critical illness
- Will die from something other than a critical illness
- Will not have suffered a critical illness

Source: Munich Reinsurance Group in Australasia, 2009.

¹ Institute of Actuaries of Australia, 2007.

² This is general population data based on those who are currently 30.

What types of insurance are available?

There are four main types of insurance that can be used to provide financial protection for you and your family.

The table below summarises these types of insurance and some of the key personal protection needs they could meet. For information on the tax treatment, see FAQs on pages 25 to 28.

Income Protection insurance	Income Protection insurance can provide a monthly payment of up to 75% of your income if you are temporarily unable to work due to illness or injury. This money could be used to meet your ongoing living expenses and financial commitments while you recover (see Strategy 1).
Critical Illness insurance	Critical Illness insurance can pay a lump sum if you suffer or contract a critical condition specified in the policy (eg cancer, a heart attack or a stroke). This money could be used to: <ul style="list-style-type: none">• cover medical and other expenses such as rehabilitation, childcare and housekeeping (see Strategy 4), and• clear some or all of your debts (see Strategy 2). Note: While many people aren't aware of this type of insurance, its importance cannot be over-emphasised. This is because Australian males and females between age 25 and 40 are, for example, three and five times respectively more likely to become critically ill than die ¹ .
Total and Permanent Disability (TPD) insurance	TPD insurance can provide a lump sum payment ² if you suffer a total and permanent disability and are unable to work again. This money could be used to: <ul style="list-style-type: none">• clear your debts (see Strategy 2), and• cover medical and rehabilitation expenses.
Life insurance	Life insurance can provide a lump sum payment ² in the event of your death. This money could be used to: <ul style="list-style-type: none">• clear your debts (see Strategy 2)• enable your family to meet their ongoing living expenses and maintain their lifestyle (see Strategy 3)• cover other expenses such as childcare and housekeeping (see Strategy 4), and• treat your beneficiaries equitably (see Strategy 5).

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

How much cover is enough?

To find out whether you have enough insurance, we recommend you seek financial advice. An adviser can assess your needs and tailor a protection plan for you and your family.

¹ Based on MLC Limited's claims experience.

² If the insurance cover is held within a super fund, the benefit may also be paid in the form of an income stream.

Strategies at a glance

Strategy	Suitable for	Key benefits	Page
1 Protect your greatest asset – your income	People who are employed or self employed	<ul style="list-style-type: none"> • Receive an income if unable to work due to illness or injury • Meet your living expenses while you recover 	7
2 Eliminate debt on death, disability or illness and grandchildren	People with debts	<ul style="list-style-type: none"> • Clear your debts • Pass on the full value of assets to your dependants 	9
3 Maintain your family's living standard	People with a dependent family	<ul style="list-style-type: none"> • Generate an ongoing income • Help your family meet their living expenses 	11
4 Protect the homemaker	People with a spouse who is not in paid employment	<ul style="list-style-type: none"> • Cover medical expenses that could arise if your spouse suffers a critical illness, dies or becomes totally and permanently disabled • Pay for additional expenses such as childcare, nursing or housekeeping 	13
5 Treat your beneficiaries equitably	People who would like, in the event of their death, to: <ul style="list-style-type: none"> • pass an asset that represents a significant portion of their wealth to a specific beneficiary, and • ensure their other beneficiaries are also provided for fairly. 	<ul style="list-style-type: none"> • Provide additional funds to equalise your estate • Ensure all your beneficiaries receive sufficient assets to achieve your estate planning objectives 	15
6 Protect your retirement plans	People who are approaching retirement and have adult children and grandchildren	<ul style="list-style-type: none"> • Ensure your grandchildren are looked after if your children die, become disabled or suffer a critical illness • Protect your retirement savings 	17
7 Purchase Life and TPD insurance tax-effectively	People who: <ul style="list-style-type: none"> • are eligible to make salary sacrifice contributions • are eligible to receive co-contributions • have a spouse on a low income, or • are self-employed. 	<ul style="list-style-type: none"> • Reduce the cost of insurance premiums • Enable certain beneficiaries to receive the death or TPD benefit as a tax-effective income stream 	19
8 Reduce the long-term cost of your insurance	People considering insurance	<ul style="list-style-type: none"> • Pay a lower average premium • Make your cover more affordable when older 	21

Strategy 1

Protect your greatest asset – your income

If you're employed or self-employed, you should consider Income Protection insurance.

What are the benefits?

By using this strategy, you could:

- receive up to 75% of your pre-tax income if you are unable to work due to illness or injury, and
- meet your living expenses while you recover.

How does the strategy work?

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 unable to work for an extended period due to illness or injury, how will you meet your mortgage repayments and other bills and expenses? Without an income, you could run down your savings very quickly and face financial difficulty.

Rather than putting your family's lifestyle at risk, by taking out Income Protection insurance, you could receive a monthly benefit of up to 75% of your income to replace your lost earnings while you recover.

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

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

What is your future earning capacity?

If you're in any doubt about the importance of protecting your income, the table below shows how much you could earn by the time you reach age 65.

For example, if you are currently 35 and earn \$80,000 pa, you could earn around \$3.8 million before you turn 65. Isn't that worth protecting?

For more information

A financial adviser can help you determine whether you need Income Protection insurance and how much cover you would require. They can also review your insurance needs with you over time to help you make sure you remain suitably covered.

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

Assumptions: Income increases by 3% pa. No employment breaks. Figures rounded to nearest \$10,000.

Strategy 1

Protect your greatest asset – your income

Case study

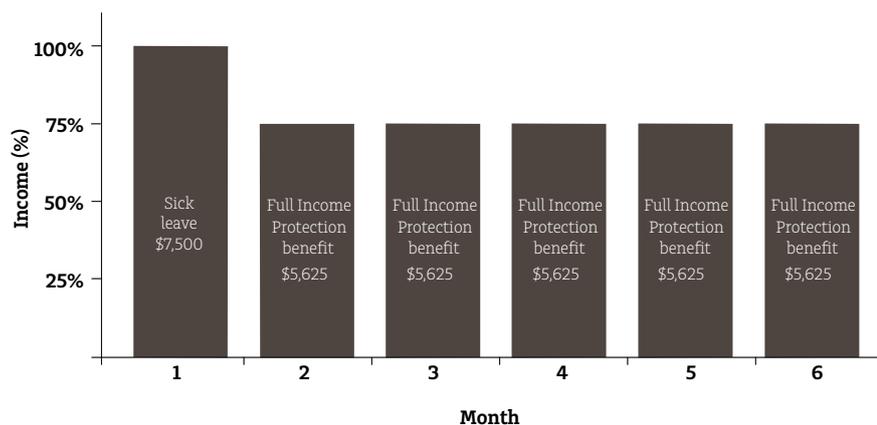
Leanne works full-time and earns a salary of \$90,000 pa. She owns a home worth \$500,000 and has a mortgage of \$350,000. If she's unable to work due to illness or injury, she wants to be able to meet her living expenses and mortgage repayments without having to eat into her limited savings.

After assessing her goals and financial situation, her financial adviser recommends she take out Income Protection insurance to cover 75% of her monthly income. Shortly after taking out the insurance, Leanne is involved in a bad car accident and is unable to work for six months.

Because Leanne had Income Protection insurance, she receives the full benefit of \$5,625 per month for five months after her initial one month waiting period (where she's covered by sick leave from her employer). As a result, Leanne receives a total income of \$35,625 during the six months she's off work—consisting of a combination of sick leave and Income Protection benefits.

If Leanne had not taken out Income Protection insurance, she would only have received a sick leave payment of \$7,500 and would have struggled to meet her living expenses, mortgage repayments and out-of-pocket medical costs.

Note: This case study highlights the importance of speaking to a financial adviser about protecting your income in the event of illness or injury. A financial adviser can also address a range of potential issues and identify other suitable protection strategies—see Tips and traps.



Tips and traps

- When choosing a waiting period for your Income Protection insurance, it's important to take into account any sick leave and related benefits provided by your employer.
- Income Protection insurance premiums will generally be lower if you choose a longer waiting period and a shorter benefit payment period.
- It may be more cost-effective over the longer term if you pay level premiums, rather than stepped premiums that increase each year with age (see Strategy 8).
- If you take out Income Protection insurance in a super fund, you could arrange to have the premiums deducted from your investment balance without making additional contributions to cover the cost. This could help you afford insurance if you don't have sufficient cashflow to pay for it outside super.
- If you are the primary income earner, you should also consider insurances that can provide a payment to clear your debts in a range of circumstances (see Strategy 2) and enable your family to meet their ongoing living expenses if you pass away (see Strategy 3).
- If your partner is not working, you should consider insurances that can provide a payment to cover medical, childcare and housekeeping expenses, if they become critically ill or die (see Strategy 4).
- Income Protection Benefits are assessable income and taxed at your marginal tax rate (similar to salary).

Strategy 2

Eliminate debt on death, disability or illness

If you have a home loan (or other personal debts), you should consider Life, Total and Permanent Disability (TPD) and Critical Illness insurance.

What are the benefits?

By using this strategy, you could:

- provide a lump sum payment to clear your debts, and
- pass on the full value of your assets to your dependants if you pass away.

How does the strategy work?

If you're like most people, you've used debt to fund a range of purchases, including your family home.

However, if you die, become totally and permanently disabled or suffer a critical illness (such as cancer, a heart attack or a stroke), the loan repayments will still need to be made, even though the salary your family has relied upon is temporarily or permanently unavailable.

In the event of your death, your lender may even require the outstanding loan to be repaid immediately, and sometimes the only way to do this is to sell the family home.

To avoid these potential problems, you should consider Life, TPD and Critical Illness insurance. These insurances can provide a lump sum payment that could be used to clear your debts.

When determining how much cover you may need, you should:

- add up all the debts that would need to be repaid (including your mortgage, personal loans, credit cards and hire purchase arrangements)
- deduct any existing insurance and other financial resources that could be accessed (such as your superannuation balance), and
- add any legal and other expenses that could be incurred.

For more information

To find out the types and amounts of cover you may need to clear your debts, you should speak to a financial adviser. A financial adviser can also review your insurance needs with you over time to help you make sure you remain suitably covered.

Strategy 2 Eliminate debt on death, disability or illness

Case study

Vanessa and Peter have three young children. Vanessa has been a full-time homemaker for the past five years and Peter earns a salary of \$95,000 pa. Their home is valued at \$500,000, they have debts totalling \$320,000 and the repayments are \$2,797 per month.

Debts	Amount owing	Interest rate	Current repayments (per month)
Home loan (20 year term)	\$295,000	7%	\$2,287
Personal loan (5 year term)	\$20,000	12%	\$445
Credit cards	\$5,000	17%	\$65
Total	\$320,000		\$2,797

Peter is concerned that, if something happened to him, Vanessa would struggle to meet the loan repayments and may even need to sell the family home to clear their debts. So they decide to see a financial adviser to discuss their insurance needs.

After finding out more about their financial situation, their adviser points out that if Peter becomes totally and permanently disabled or (dies), he (or Vanessa) could receive a lump sum payment from his super fund of \$120,000. This includes his existing account balance and an insurance benefit provided by his fund.

Their financial adviser then explains that while this money could be used to reduce the debts to \$200,000, Vanessa may still find it difficult to meet the repayments. This is because, even though she could return to the workforce, she would probably have to meet some additional costs from her salary, such as childcare and household help.

To ensure enough money becomes available to clear the debts, their financial adviser recommends Peter take out \$200,000 in Life and TPD insurance to supplement the \$120,000 that would be paid from his super fund.

Furthermore, because Peter is unlikely to receive a benefit from his super fund if he becomes critically ill, unless the illness is terminal. Their financial adviser recommends he use Critical Illness insurance to cover their total debts of \$320,000. This will enable Peter and his family to focus on his recovery without the financial stress of having to meet loan repayments.

Note: This case study highlights the importance of speaking to a financial adviser about making sure you have enough insurance to clear your debts in different circumstances. A financial adviser can also address a range of potential issues and identify other suitable protection strategies—see Tips and traps.

Tips and traps

- Because changes in your personal circumstances (eg taking on additional debt) often necessitate higher insurance levels, it's important to select a policy that lets you increase the level of cover in the future, (often within certain limits, without requiring further medical evidence).
- If you are the primary income earner, you should also consider insurances that can enable your family to meet their ongoing living expenses in the event of your illness or injury (see Strategy 1) and your death (see Strategy 3).
- If your partner is not working, they should consider insurances that can provide a payment to cover medical, childcare and housekeeping expenses if they become critically ill or die (see Strategy 4).
- There may be some advantages in taking out the Life and TPD insurance in a super fund (see Strategy 7).
- However restrictions do apply to who can be nominated as a beneficiary and taxation liabilities may apply to certain eligible persons when a death benefit (including insurance proceeds) is paid in the form of a lump sum, pension or a combination of both from a super fund.
- It may be more cost-effective over the longer term if you pay level premiums, rather than stepped premiums that increase each year with age (see Strategy 8).
- To ensure your wishes are carried out upon your death, you should consider your entire estate planning position, including which assets will (and won't) be dealt with by your Will. The best way to do this is to seek professional estate planning advice.

Strategy 3

Maintain your family's living standard

If you have a financially dependent family, you should ensure you have enough Life insurance.

What are the benefits?

By using this strategy, you could:

- provide your family with an ongoing income, and
- enable them to meet their living expenses if you pass away.

How does the strategy work?

In the previous strategy, we explained why you should consider using insurance to clear your debts if you die, become totally and permanently disabled or suffer a critical illness.

However, it's also important you have enough Life insurance to enable your family to meet their ongoing living expenses in the event of your death.

As a starting point, you need to:

- work out what your family spends each year on groceries, education, household bills and other living expenses, and
- decide how long you'd like your family to be financially supported in your absence.

Once you know these two things, a financial adviser can help you calculate how much Life insurance cover you will need to provide the required income over the desired time period.

When doing this, a financial adviser can take into account the tax that may be payable on the investment income your family will receive and allow for the impact of inflation.

With the right insurance advice, your family could receive enough after-tax income to meet their ongoing living expenses and avoid financial difficulty.

A financial adviser can also review your insurance needs with you over time to help you make sure you remain suitably covered.

Strategy 3 Maintain your family's living standard

Case study

Peter, from Strategy 2, also wants to make sure his wife (Vanessa) and three young children will be able to maintain their living standard if he dies.

Peter works out his family currently needs around \$34,000 pa (or \$650 per week) to meet their regular bills and expenses, excluding loan repayments.

Commitments	Amount	Frequency	Annual amount
Groceries	\$1,000	Monthly	\$12,000
Education fund (for three children)	\$300	Monthly	\$3,600
Household expenses (eg electricity, gas, phone, insurance and petrol)	\$2,650	Quarterly	\$10,600
Other living expenses (eg clothing and entertainment)	\$150	Weekly	\$7,800
Total			\$34,000

Peter would also like to ensure his family has enough money to meet these financial commitments for the next 18 years, until their youngest child reaches 21.

After assessing their goals and financial situation, their adviser recommends Peter take out an extra \$460,000 in Life insurance cover. This is in addition to the Life, TPD and Critical Illness cover he needs to clear their debts—see Strategy 2.

Should he die, the additional lump sum payment of \$460,000 can be invested to generate an after-tax income of \$34,000 pa over the 18 year period¹.

Note: This case study highlights the importance of speaking to a financial adviser to make sure you have enough Life insurance so your family can meet their ongoing living expenses if you pass away. A financial adviser can also address a range of potential issues and identify other suitable protection strategies—see Tips and traps.

¹ Assumes the lump sum of \$460,000 earns an after-tax return of 6% pa, the income required increases at 3% (Growth 4.06, Income 3.68 and Franking 28.55) pa to keep pace with the rising cost of living and the capital is exhausted over the 18 year period. Provision for 1.4% per annum (ICR and Account Management Fees)

Tips and traps

- When determining the amount of Life insurance you require, it's also important to take into account any funeral and estate costs that may need to be met when you die.
- You may want to decrease the amount of Life insurance cover over time as the period over which you need to provide income support for your family declines.
- If you are the primary income earner, you should also consider insurances that can enable your family to meet their ongoing living expenses in the event of your illness or injury (see Strategy 1).
- If your partner is not working, they should consider insurances that can provide a payment to cover medical, childcare and housekeeping expenses if they become critically ill or die (see Strategy 4).
- There may be some advantages in taking out the Life insurance in a super fund (see Strategy 7).
- However restrictions do apply to who can be nominated as a beneficiary and taxation liabilities may apply to certain eligible persons when a death benefit (including insurance proceeds) is paid in the form of a lump sum, pension or a combination of both from a super fund.
- It may be more cost-effective over the longer term if you pay level premiums, rather than stepped premiums that increase each year with age (see Strategy 8).

Strategy 4

Protect the homemaker

If your spouse is predominantly the homemaker and child carer, they should also ensure they have sufficient insurance.

What are the benefits?

By using this strategy, you could:

- cover medical expenses that could arise if your spouse suffers a critical illness, dies or becomes totally and permanently disabled, and
- pay for additional expenses, such as childcare, nursing or housekeeping.

How does the strategy work?

In the previous strategies, we outlined the financial risks a family faces if the primary income earner doesn't have enough insurance.

However, it's also potentially dangerous to overlook the insurance needs of the person who is mainly responsible for looking after the home and raising the children.

If something should happen to the homemaker, the primary income earner usually has a limited number of options.

They can reduce their working hours to look after the household and children, or they can hire someone else to do it.

But both options could have a negative impact on the household's disposable income.

A simple way to avoid putting a big dent in the household budget is to get the homemaker to take out insurances that can provide a lump sum payment if they suffer a critical illness, die or become totally and permanently disabled.

When deciding which of these insurances to buy, Critical Illness cover is potentially the most important. This is because:

- Australian males and females between age 25 and 40 are, for example, three and five times respectively more likely to become critically ill than die¹, and
- you need to be employed or self-employed if you want to take out Income Protection insurance (see Strategy 1).

However, the homemaker should also consider Life and TPD insurance. This is because the death or total and permanent disability of the homemaker could have a devastating financial (as well as emotional) impact on the family.

¹ Based on MLC Limited's claims experience.

For more information

A financial adviser can help you determine how much cover the homemaker will need and in what circumstances. They can also review your insurance needs over time to help you make sure you and your spouse remain suitably covered.

Case study

Nicholas is married to Rebecca, who is taking time out of the workforce to look after their twin three-year-old boys.

Nicholas is employed, earns a pre-tax salary of \$100,000 pa (or \$73,553 pa after tax) and has already arranged a comprehensive package of insurances for himself. However, they hadn't recognised the importance of insuring Rebecca and the financial impact of this oversight hit home when she was diagnosed with breast cancer.

During the three years it took Rebecca to make a full recovery, they spent a total of \$92,400 on childcare¹ and help around the home, as outlined below.

Commitments	Amount (pa)	Number of years	Total Amount
Full-time childcare	\$33,600 (\$70 per work day over 48 weeks for two children)	2 (until they start school)	\$67,200
After school care	\$6,000 (\$75 per week over 40 weeks for two children)	1	\$6,000
School holiday care	\$4,800 (\$300 per week over eight weeks for two children)	1	\$4,800
Housekeeping (part-time cooking and cleaning)	\$4,800 (\$100 per week for 48 weeks)	3	\$14,400
Total			\$92,400

Also, things were particularly tough in the first two years, where these costs amounted to \$38,400 pa (of the total \$92,400 in additional expenses in the above table). This represents a little over 50% of Nicholas's take-home pay, leaving him with little money to pay the mortgage and meet their day-to-day living expenses.

The financial impact of Rebecca's critical illness could have been reduced (or eliminated) if, after speaking to a financial adviser, she had taken out Critical Illness insurance to cover these and other costs.

Note: This case study highlights the importance of speaking to a financial adviser to make sure your spouse has enough insurance to cover medical, childcare and housekeeping expenses if something should happen to them. A financial adviser can also address a range of potential issues and identify other suitable protection strategies—see Tips and traps.

¹ Net of Government rebates and benefits.

Tips and traps

- There may be some advantages in taking out the Life and TPD insurance for the homemaker in a super fund (see Strategy 7).
- However restrictions do apply to who can be nominated as a beneficiary and taxation liabilities may apply to certain eligible persons when a death benefit (including insurance proceeds) is paid in the form of a lump sum, pension or a combination of both from a super fund.
- If the cover is taken through superannuation, it may be possible to make a binding nomination to ensure any death benefit is payable to a particular dependant (eg the working partner). Any TPD benefits in super are always payable to the disabled member (where they qualify for that benefit).
- Insuring the primary income earner and the homemaker under the one policy may save on policy fees.
- It may be more cost-effective over the longer term if you opt for level premiums, rather than stepped premiums that increase each year with age (see Strategy 8).

Strategy 5

Treat your beneficiaries equitably

If you'd like to pass an asset that represents a significant portion of your wealth to a particular beneficiary, Life insurance could be used to ensure your other beneficiaries are treated fairly.

What are the benefits?

By using this strategy, you could:

- provide additional funds to equalise your estate in the event of your death, and
- ensure all your beneficiaries receive sufficient assets to achieve your estate planning objectives.

How does the strategy work?

When planning the distribution of your wealth, you may want to pass an asset of significant value to a particular beneficiary. This could occur if you would like to leave, for example, an investment property or the family home to one of your children.

But what if this asset represents a large portion of your total wealth and you are unable to ensure your other children benefit equally?

One solution is to take out a suitable amount of Life insurance. In the event of your death:

- the asset of significant value could be passed on to one of your children, and
- the proceeds from the life insurance policy could be added to your other assets to ensure all your children receive the same amount.

This could enable you to equalise your estate and treat your children (or other beneficiaries) fairly.

For more information

A financial adviser can help you determine how much Life insurance you may require and can review your insurance needs over time to make sure you remain suitably covered. Because the law can vary in each state, you should also seek professional legal advice before using this strategy.

The taxation consequences of estate planning are complicated and it is recommended that you also seek professional advice from a registered tax agent.

Strategy 5

Treat your beneficiaries equitably

Case study

Lucinda is a widow and has three adult children—Harry, Kate and Angus—who she would like to share her wealth equally, in the event of her death.

She has \$800,000 in assets, consisting of the family home worth \$400,000 and \$400,000 in shares and superannuation.

While Harry and Kate have already bought their homes, Angus is still renting. So, Lucinda would like Angus to receive the family home if she passes away.

The problem she faces is that her children will not benefit equally if the property goes to Angus and the other assets are split between Harry and Kate. This is because Angus will receive an asset worth \$400,000, while her other children will receive \$200,000 each.

Distribution of wealth – before seeking advice

Asset	Harry	Kate	Angus
Family home	Nil	Nil	\$400,000
Shares and superannuation	\$200,000	\$200,000	Nil
Total amount received	\$200,000	\$200,000	\$400,000

After assessing her goals and financial situation, her adviser recommends she take out \$400,000 in Life insurance and make arrangements so that this additional money will be paid to Harry and Kate in the event of her death.

By using this strategy, Lucinda makes sure that Angus will receive the family home and all three children will receive assets of equivalent value.

Distribution of wealth – after seeking advice

Asset	Harry	Kate	Angus
Family home	Nil	Nil	\$400,000
Shares and superannuation	\$200,000	\$200,000	Nil
Life insurance benefit	\$200,000	\$200,000	Nil
Total amount received	\$400,000	\$400,000	\$400,000

Note: This case study highlights the importance of speaking to a financial adviser about using Life insurance to equalise your estate. A financial adviser can also address a range of potential issues and identify other suitable protection strategies—see Tips and traps.

Tips and traps

- There are a number of ways to ensure the Life insurance proceeds are received by your intended beneficiaries. Some of these include having the intended beneficiary as the policy owner, nominating them as a beneficiary of the policy or distributing the money via your Will. Each alternative may have different implications which you should consider before choosing a particular option.
- To treat all beneficiaries fairly, you should take into account any taxes (eg Capital Gains Tax) that may be payable if and when certain assets are sold after your death. You should also update your insurance cover to reflect the changing value of your assets. Failing to do this may lead to one or more beneficiaries receiving more (or less) than you intended.
- To ensure your wishes are carried out upon your death, you should consider your entire estate planning position, including which assets will (and won't) be dealt with by your Will. The best way to do this is to seek professional estate planning advice.
- There may be some advantages in taking out the Life insurance in a super fund (see Strategy 7). However restrictions do apply to who can be nominated as a beneficiary and taxation liabilities may apply to certain eligible persons when a death benefit (including insurance proceeds) is paid in the form of a lump sum, pension or a combination of both from a super fund.
- It may be more cost-effective over the longer term if you pay level premiums, rather than stepped premiums that increase each year with age (see Strategy 8).

Strategy 6

Protect your retirement plans

If you're approaching retirement, you should ensure your children have sufficient insurance.

What are the benefits?

By using this strategy, you could:

- ensure your grandchildren receive the financial support they will need if your children die, become disabled or suffer a critical illness, and
- protect your retirement plans.

How does the strategy work?

As you approach retirement, you have many wonderful things to look forward to. However, life doesn't always work out as you planned.

Imagine what would happen if your son or daughter died, became disabled or suffered a critical illness and they didn't have adequate insurance.

Probably the last thing you'd expect to cope with would be taking on a parental role again, but for around 22,500¹ Australians this is something they're already experiencing.

To minimise the impact this could have on your financial position, you should find out whether your children have implemented suitable protection strategies.

If not (and they are not in a financial position to do so) you may want to pay for additional Life, Total and Permanent Disability and Critical Illness insurance on their behalf.

¹ ABS: Family Characteristics, Australia, 2003.

For more information

Your financial adviser can help you protect the ones you love, as well as help you achieve your retirement goals. They can also review your family's insurance needs over time to help make sure they remain suitably covered.

Strategy 6

Protect your retirement plans

Case study

Harry and Judy retired last year. After many years of hard work and planning, they had built up a sizeable nest egg and had many things to look forward to, including an extended trip around Australia.

But just as they were settling into this new stage in their lives, the unthinkable happened. Their eldest son, Simon, had a brain haemorrhage and passed away.

To make matters worse, because he was young, Simon hadn't seen the need for Life insurance and left his wife Nicole and three children without any means of financial support.

Like many caring grandparents would do, Harry and Judy decided to take Nicole and the kids into their home. But they quickly found this had a devastating impact on their financial situation.

Importantly, they were left in a position where they were unable to afford the lifestyle they'd anticipated and had to cancel their travel plans.

This situation could have been avoided if they'd talked to a financial adviser about insuring Simon. Had they done this, Nicole could have received a lump sum payment to meet her (and the kids') ongoing expenses and not become a financial burden for Harry and Judy.

Note: This case study highlights the importance of speaking to a financial adviser about your children's insurance needs. A financial adviser can also address a range of potential issues and identify other suitable protection strategies—see Tips and traps.

Tips and traps

- When deciding how much insurance your adult children may need, they should consider how much money would be required to:
 - clear their debts (see Strategy 2)
 - provide an ongoing income to meet living expenses (see Strategy 3), and
 - cover a range of medical, childcare and housekeeping costs (see Strategy 4).
- If you pay for insurance taken out on the life of your children, you may want to own the policy. This will ensure you have complete control over any proceeds paid in the event of their death, total and permanent disability or critical illness.
- It may be more cost-effective over the longer term if the policy owner elects to pay level rather than stepped premiums (see Strategy 8).

Strategy 7

Purchase Life and TPD insurance tax-effectively

If you want to protect yourself and your family tax-effectively, you may want to take out life and total and permanent disability (TPD) insurance in a super fund rather than outside super.

What are the benefits?

By using this strategy, you could:

- reduce the premium costs, and
- enable certain beneficiaries to receive the death or TPD benefit as a tax-effective income stream.

How does the strategy work?

If you buy life and TPD insurances in a super fund, you may be able to take advantage of a range of upfront tax concessions generally not available when insuring outside super. For example:

- **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 \$49,488¹ pa and you make personal after-tax super contributions**, you may be eligible to receive a Government co-contribution (see Glossary) that could help you cover the cost of future insurance premiums.
- **If you make super contributions on behalf of a spouse on a low-income**, you may be able to claim a tax offset of up to \$540 pa (see Glossary) that could be put towards insurance premiums for you or your spouse.
- **If you earn less than 10% of your income² from eligible employment (eg you're self-employed or not 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 concessions can make it cheaper to insure through a super fund. This will usually also be the case if the sum insured is increased to make a provision for any lump sum tax that is payable on TPD and death benefits in certain circumstances (see FAQs on pages 25 and 28).

Another benefit of insuring in super is that you (or certain eligible dependants) have the option to receive the TPD (or death) benefit as an income stream, rather than a lump sum payment. Where this is done:

- because lump sum tax won't be payable when the income stream is commenced, there is no need to increase the sum insured, and
- the income payments will be concessional tax (see FAQs on pages 25 and 28).

However, receiving the insurance proceeds as an income stream will generally not be suitable if the money is required as a lump sum to clear debts (see Strategy 2) or meet any other one-off financial commitments.

Note: Any contributions made to a super fund including contributions made to cover the cost of insurance premiums, will count towards the contribution caps. If these caps are exceeded an excess contribution tax will be payable.

- ¹ Includes assessable income, reportable fringe benefits and reportable employer super contributions (of which at least 10% must be from eligible employment or carrying on a business).
- ² Includes assessable income, reportable fringe benefits, reportable employer super contributions and less business deductions.

For more information

A financial adviser can help you determine whether you could benefit from insuring in super. They can also review your insurance needs over time to help make sure you remain suitably covered.

Strategy 7

Purchase Life and TPD insurance tax-effectively

Case study

Jack, aged 44, is married to Claire, aged 41. Claire is taking a break from the workforce while she looks after their young children. Jack works full-time, earns a salary of \$100,000 pa and they have a mortgage.

After assessing their goals and financial situation, their adviser recommends Jack take out \$700,000 in Life insurance so Claire can pay off their debts (see Strategy 2) and replace his income (see Strategy 3) if he dies. The premium for this insurance is \$805 in year one.

Their adviser also explains it will be more cost-effective if he takes out the insurance in super. This is because if he arranges with his employer to sacrifice \$805 of his salary into his super fund, he'll be able to pay the premiums with pre-tax dollars³.

Conversely, if he purchases the cover outside super:

- he'll need to pay the premium of \$805 from his after-tax salary, and
- after taking into account his marginal rate of 39%⁴, the pre-tax cost would be \$1,319 (ie \$1,319 less tax at 39% [\$514] equals \$805).

By insuring in super he could make a pre-tax saving of \$514 on the first year's premium and an after-tax saving of \$314, after taking into account his marginal rate of 39%.

	Insurance purchased outside super (with after-tax salary)	Insurance purchased within super (via salary sacrifice)
Premium	\$805	\$805
Plus tax at marginal rate of 39%⁴	\$514	N/A
Pre-tax salary received or sacrificed	\$1,319	\$805
Pre-tax saving	N/A	\$514
After-tax saving	N/A	\$314

Let's now assume he continues this cover for 20 years and the amount of insurance increases by 5% pa, to ensure the benefit payable keeps pace with inflation. Over this period, the after-tax savings could amount to \$35,950 (in today's dollars on stepped premiums). So insuring in super could be significantly cheaper over a long time period.

Insurance assumptions: Age 44, non-smoker, \$700,000 in Life insurance cover increased by 5% each year. Based on MLC Limited's standard premium rates as at 23 June 2014. Includes a policy fee.

Note: This case study highlights the importance of speaking to a financial adviser about the benefits of taking out insurance in a super fund. A financial adviser can also address a range of potential issues and identify other suitable protection strategies – see Tips and traps.

³ Because super funds generally receive a tax deduction for death and disability premiums, no tax is deducted from the salary sacrifice super contributions (see FAQ's on page 26). If an individual earns \$300,000 or more, they will pay an additional 15% tax on concessional super contributions and incur an additional 15% tax on their concessional contributions (see Glossary).

⁴ Includes Medicare levy.

Tips and traps

- Insurance cover purchased through a super fund is owned by the fund Trustee, who is responsible for paying benefits subject to relevant legislation and the fund rules (see 'Restrictions on non-death benefits' in the Glossary). When insuring in super, you should be clear on the powers and obligations of the relevant Trustee when paying benefits.
- 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).
- When insuring in super, you can usually arrange to have the premiums deducted from your account balance without making additional contributions to cover the cost. This could enable you to get the cover you need without reducing your cashflow.
- While Critical Illness insurance is generally not available within super, it is possible to purchase Income Protection (or Salary Continuance) insurance in super with a choice of benefit payment periods up to age 65. To find out more about the tax implications, see FAQs on page 28.
- It may be more cost-effective over the longer term if you pay level premiums, rather than stepped premiums that increase each year with age (see Strategy 8).

Strategy 8

Reduce the long-term cost of your insurance

When taking out insurance to protect you or your family, you should consider paying level rather than stepped premiums.

What are the benefits?

By using this strategy, you could:

- pay a lower average premium over the life of the policy, and
- make your cover more affordable at a time when you need it most.

How does the strategy work?

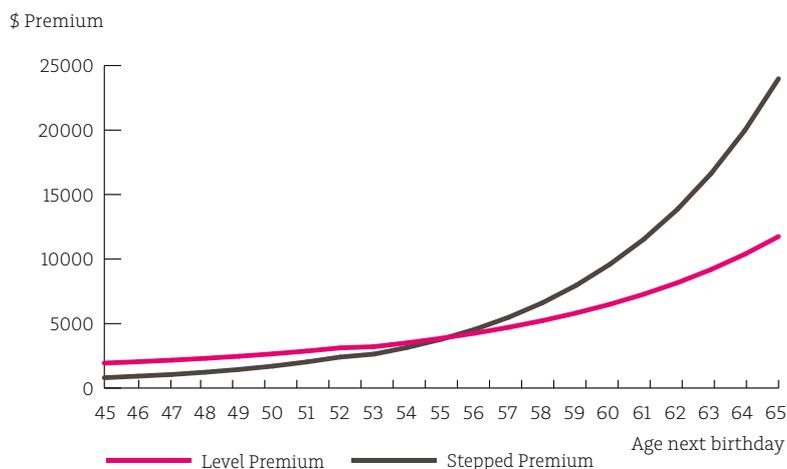
When you take out insurance within or outside super, there are generally two ways you can pay your premiums.

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 usually higher than stepped premiums at the start (as the graph below reveals).

Level vs stepped premiums



Insurance assumptions: Age 44, male, non-smoker, \$700,000 in Life insurance Cover increased by 5% each year. Based on MLC Limited's standard premium rates as at 23 June 2014 and excludes policy fee. Please refer to the relevant disclosure document.

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

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

The case study on the opposite page provides an example of the long-term savings that choosing level premiums could provide.

Note: Choosing a level premium does not mean your premiums are guaranteed or will not change in the future. Level premium rates may increase due to rate increases, CPI increases and policy fee increases. However, unlike stepped premiums, level premiums (excluding CPI and the policy fee) don't go up by age-related increases.

For more information

To find out whether you could benefit from paying level premiums, you should seek financial advice. A financial adviser can also help you determine the types and amounts of insurance you require and can review your needs over time to help make sure you remain suitably covered.

Strategy 8

Reduce the long-term cost of your insurance

Case study

Jack and Claire (from Strategy 7) have spoken to a financial adviser about their insurance needs.

After assessing their goals and financial situation, their adviser has recommended Jack take out \$700,000 of Life insurance in his super fund, where he could make an after-tax saving of \$314 on the first year's premium and \$35,950 over a 20 year period.

Their adviser also explains it will be even more cost-effective over the longer term if Jack pays level rather than stepped premiums. This is because, over the next 20 years, he'll pay level premiums totalling \$103,429 compared to a total of \$141,373 if he chooses stepped premiums.

Level premiums could therefore save Jack a total of \$37,944 over the next 20 years (or \$28,152 in today's dollars¹). This is in addition to the savings he could make by holding the insurance in super.

However, if Jack only needed insurance for a shorter time period (eg five years), it may be more cost-effective if he opts for stepped rather than level premiums.

	Level premiums	Stepped premiums	Difference
Total premiums over 20 years	\$103,429	\$141,373	\$37,944
Saving (in today's dollars)¹			\$28,152

Furthermore, if Jack pays level premiums, the cost in year 20 (for example) will be \$11,748 compared to \$23,980 with stepped premiums. In other words, level premiums could be significantly lower in the later years, when the cover is needed most.

Insurance assumptions: Age 44, male, non-smoker, \$700,000 in Life insurance Cover increased by 5% each year. Based on MLC Limited's standard premium rates as at 23 June 2014 and includes a policy fee. Please refer to the relevant disclosure document.

Note: This case study highlights the importance of speaking to a financial adviser about the best premium payment option when taking out insurance. A financial adviser can also address a range of potential issues and identify other suitable protection strategies—see Tips and traps.

¹ 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 could 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 you 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 could make budgeting easier, because you have a greater degree of certainty regarding what your insurance is going to cost when compared to stepped premiums.
- The maximum age you can start a policy with level premiums is generally lower than for stepped premiums.

One Minute Insurance Check

Complete the One Minute Insurance Check below to help assess your personal insurance needs.

Would your current insurance, 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 happened to your partner, could you 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 it could be more tax-effective to buy insurance in a super fund?

- Yes
- No
- Unsure

Are you aware that choosing to pay level rather than stepped premiums could reduce the cost of insurance over the long term?

- 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.

If you do not have an adviser, contact MLC on **132 652** or go to **mlc.com.au**

Keep your insurance going in tough times

During tough economic times, you may look for ways to cut your expenses. However, when reviewing your budget, insurance should be one of the last items examined.

If the unthinkable were to happen and you didn't have adequate insurance, the financial impact on you and your family could be quite dramatic.

Regardless of whether you're feeling the squeeze right now or looking for ways to reduce your expenses, there are a number of ways many of us could make personal insurance cover more affordable.

Buy your insurance in super

If you buy your insurance through a super fund, you may be able to take advantage of a range of tax concessions generally not available when insuring outside super (see Strategy 7).

Alternatively, you could arrange to have your premiums deducted from your existing superannuation account balance without making additional contributions to cover the cost.

This could make your insurance affordable if you don't have sufficient cashflow to fund the premiums.

The trade-off with this option is that you will use up some of the money that could otherwise meet your living expenses in retirement.

While this could impact your lifestyle when you retire, think of what could happen to your family's lifestyle in the interim if the worst were to happen.

Without insurance, your family could run down your savings very quickly and face financial difficulty well before your intended retirement date.

Pay level premiums

If you elect to pay level rather than stepped premiums, you could reduce the long-term cost of your insurance considerably (see Strategy 8). This is because, over time, level premiums could end up cheaper, often at a stage in life when you need the cover the most.

Pay your premiums annually

In some cases, you may be eligible for a discount if you pay your premiums annually, rather than monthly.

Consolidate your insurances

Holding all your personal insurances in the one policy could enable you to save on fees. Fee savings could also be made by consolidating the insurances held by yourself, your spouse and other family members (in some cases) into the one policy.

Choose a longer waiting period and shorter benefit payment period for Income Protection

Most Income Protection insurance policies enable you to choose how long you will need to wait before the insurance benefit will start to be paid and how long it will be paid for. Choosing a longer waiting period and a shorter benefit payment period could reduce your premiums, in some cases significantly.

Reduce the sum insured

As a last resort, you could consider insuring yourself for a lower amount. If something were to happen to you, this would clearly be a better option than cancelling your insurance completely.

But you also need to keep in mind that reducing the sum insured could leave you (or your family) without sufficient money to meet your financial goals should the unthinkable happen.

For more information

To find out how you could make your premiums more affordable, we recommend you speak to a financial adviser.

Frequently Asked Questions

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 owns the policy.

What are the tax implications of Life insurance?

Scenario	What tax concessions are available?	Are the benefits assessed as income?	Are the benefits subject to Capital Gains Tax?
Where an individual owns the policy on their own life and the premiums are paid by the individual for personal protection purposes	None	No	No, unless the recipient is not the original beneficial owner and acquired the policy for consideration ¹
Where an individual owns the policy on their own life and the premiums are paid by the individual's employer	The employer may be able to claim the premiums and related fringe benefits tax (FBT) ² as a tax deduction.	No	(No as above)
Where the Trustee of a superannuation fund owns a policy on the life of a fund member	<p>The Trustee may be able to claim the premium as a tax deduction. At the fund member level:</p> <ul style="list-style-type: none"> Self-employed⁴ and other eligible people can claim their personal super contributions as a tax deduction. Employees can arrange to make pre-tax (salary sacrifice) super contributions. Certain members may be eligible for Government co-contributions (see page 29). <p>Note: Super contributions will count towards the member's concessional or non-concessional contribution cap (see pages 29 and 30).</p>	<p>If paid as a lump sum:</p> <ul style="list-style-type: none"> Dependants for tax purposes⁵ can receive unlimited tax-free amounts. Non-dependants will pay tax as follows: <ul style="list-style-type: none"> no tax is payable on the tax free component the taxed element of the taxable component is taxed at up to 17%⁶ the untaxed element of the taxable component is taxed at up to 32%⁶. <p>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 tax offset) until they reach age 60.</p> <p>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 and people in an interdependency relationship with the deceased fund member.</p>	No

Note: This taxation information is based on our understanding of current legislation and Australian Taxation Office practice as at 1 July 2014. 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 regarding your own taxation position from a registered tax agent or registered tax (financial) adviser before relying on this information to satisfy your liabilities, obligations or claim entitlements that arise, or could arise, under taxation law.

Frequently Asked Questions

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

Scenario	What tax concessions are available?	Are the benefits assessed as income?	Are the benefits subject to Capital Gains Tax?
Where an individual owns the policy on their own life and the premiums are paid by the individual for personal protection purposes	None	No	No, so long as the person receiving the insurance benefit is the life insured or a defined relative ⁷ of the life insured
Where an individual owns the policy on their own life and the premiums are paid by the individual's employer	The employer may be able to claim the premiums and related fringe benefits tax (FBT) ² as a tax deduction.	No	(No as above)
Where the Trustee of a superannuation fund owns a policy on the life of a fund member	<p>The Trustee may be able to claim a portion of the premium as a tax deduction. In some cases, a deduction of 100% of the premium may be available to the trustee. The portion that is deductible will depend on the terms of the policy and the application of the relevant taxation law.³</p> <p>At the fund member level:</p> <ul style="list-style-type: none"> • Self-employed⁴ and other eligible people can claim their personal super contributions as a tax deduction. • Employees can arrange to make pre-tax (salary sacrifice) super contributions. • Certain members may be eligible for Government co-contributions (see Glossary). <p>Note: Super contributions will count towards the member's concessional or non-concessional contribution cap (see Glossary).</p>	<p>If paid as a lump sum:</p> <ul style="list-style-type: none"> • No tax is payable on the tax free component. • The taxable component is: <ul style="list-style-type: none"> – taxed at 22%⁶ if under age 55 – taxed at 17%⁶ on amounts above \$185,000⁸ if aged 55 to 59 – tax-free if aged 60 or over. <p>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 tax offset) until they reach age 60.</p>	No

- ¹ Consideration may be monetary or otherwise but does not include paid on the policy. You should therefore seek professional advice regarding your own position.
- ² FBT of 47% (increasing to 49% from 1 April 2015 until 31 March 2017) is payable on the taxable value of the premiums.
- ³ The government has banned the provision of own occupation insurance in all superannuation funds from 1 July 2014. Policies held at that date can continue to be owned by the super trustee.
- ⁴ To qualify as self-employed for this purpose, you must earn less than 10% of your assessable income, reportable fringe benefits and reportable employer super contributions from eligible employment.
- ⁵ Includes a spouse (legally married or de facto including same sex), a former spouse, children under age 18, a financial dependant and a person in an interdependency relationship with the deceased.
- ⁶ Includes Medicare levy, where not paid via the deceased's estate.
- ⁷ Includes a spouse (legally married or de facto including same sex), a former spouse, children under age 18, a financial dependant and a person in an interdependency relationship with the deceased.
- ⁸ Includes Medicare levy, where not paid via the deceased's estate.

Frequently Asked Questions

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

Scenario	What tax concessions are available?	Are the benefits assessed as income?	Are the benefits subject to Capital Gains Tax?
Where an individual owns the policy on their own life and the premiums are paid by the individual for personal protection purposes	None	No	No, so long as the person receiving the insurance benefit is the life insured or a defined relative ⁹ of the life insured
Where an individual owns the policy on their own life and the premiums are paid by the individual's employer	The employer may be able to claim the premiums and related fringe benefits tax (FBT) ¹⁰ as a tax deduction.	No	(No as above)

7 A defined relative includes:

- a. the person's spouse, or
- b. the parent, grandparent, brother, sister, uncle, aunt, nephew, niece, lineal descendant or adopted child of that person, or of that person's spouse, or
- c. the spouse of a person referred to in paragraph (b).

8 Broadly this cap applies to the total of all taxable components (and post-June 1983 components prior to 1 July 2007) that are taken as cash at age 55 and over. Threshold is current for 2014/15 financial year.

9 A defined relative includes:

- a. the person's spouse, or
- b. the parent, grandparent, brother, sister, uncle, aunt, nephew, niece, lineal descendant or adopted child of that person, or of that person's spouse, or
- c. the spouse of a person referred to in paragraph (b).

10 FBT of 47% (increasing to 49% from 1 April 2015 until 31 March 2017) is payable on the taxable value of the premiums.

Frequently Asked Questions

What are the tax implications of Income Protection insurance?

Scenario	What tax concessions are available?	Are the benefits assessed as income?	Are the benefits subject to Capital Gains Tax?
Where an individual owns the policy on their own life and the premiums are paid by the individual for personal protection purposes	The individual may be able to claim the premium as a tax deduction.	Yes – the benefits are assessable to the individual	No
Where an individual owns the policy on their own life and the premiums are paid by the individual's employer	The employer may be able to claim the premiums. ¹¹	Yes (as above)	No
Where the Trustee of a superannuation fund owns a policy on the life of a fund member	<p>The Trustee may be able to claim the premium as a tax deduction. At the fund member level:</p> <ul style="list-style-type: none"> • Self-employed¹² and other eligible people can claim their personal super contributions as a tax deduction. • Employees can arrange to make pre-tax (salary sacrifice) super contributions. • Certain members may be eligible for Government co-contributions (see Glossary). <p>Note: Super contributions will count towards the member's concessional or non-concessional contribution cap (see Glossary).</p>	Yes (as above)	No

¹¹ Fringe Benefits Tax is not payable, as the premiums are 'otherwise deductible' to the employee.

¹² To qualify as self-employed for this purpose, you must earn less than 10% of your assessable income, reportable fringe benefits and reportable employer super contributions from eligible employment.

Glossary

A

Account based pension

An account in which you can invest your super savings in exchange for a regular and tax-effective income.

Assessable income

Income (including capital gains) you receive before deductions.

C

Capital Gains Tax (CGT)

A tax on the growth in the value of assets generally assessable 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 \$500 from the Government in 2014/15. To qualify for a co-contribution:

- Your income¹ must be less than \$49,488 in 2014/15.
- At least 10% of your income must be from eligible employment or carrying on a business.
- You need to make personal after-tax contributions to your super account. 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 2014/15.

Income ²	Personal after-tax contribution	Co-contribution available
\$34,488 or less	Any amount	50% of your personal contribution (subject to a maximum of \$500)
\$34,488 – \$49,488	\$0 – \$1000	An amount equal to the lesser of: <ul style="list-style-type: none"> • 50% of personal contribution, or • \$500 – [0.03333 x (income¹ – \$34,488)]
\$34,488 – \$49,488	\$1000 or more	\$500 – [0.03333 x (income ¹ – \$34,488)]
\$49,488 or more	Any amount	NIL

The Australian Taxation Office will determine your entitlement based on the data received from your super fund (usually by 31 October each year for the preceding financial year) and the information contained in your tax return.

As a result, there will 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:

- personal contributions claimed as a tax deduction (where eligible), and/or
- contributions from an employer (including salary sacrifice)

In 2014/15 the concessional contribution cap is:²

48 or under on 30 June 2014	\$30,000
49 or over on 30 June 2014	\$35,000

From 1 July 2013, excess concessional are treated as assessable income and taxed at your marginal tax rate. You have the choice to have up to 85% of excess concessional contribution amount refunded, after allowing for 15% concessional contributions tax already paid by the super fund. The excess concessional contribution charge applies due to the timing difference between when you make the contributions and the assessment by the Australian Taxation Office.

If you have the excess concessional contributions refunded, it no longer counts against your cap. If you retain the excess concessional contribution in your super fund, the excess amount counts against the cap and also against the non-concessional contribution cap.

- ¹ Includes assessable income, less business deductions, reportable fringe benefits and reportable employer super contributions.
- ² The \$30,000 cap may be indexed in future years. The higher concessional contribution cap of \$35,000 is unindexed.

Glossary

D

Dependant for tax purposes

Those people eligible to receive unlimited tax-free lump sum payments from a super fund in the event of your death. Includes a spouse (legally married or de facto including same sex), a former spouse, children under age 18, a financial dependant and a person in an interdependency relationship with the deceased.

E

Eligible employment

Broadly any work that classifies you as an employee for Superannuation Guarantee purposes.

Employment Termination Payment (ETP)

A payment made by an employer to an employee on termination of employment. Examples can include a redundancy payment exceeding the tax-free amount, accrued sick leave or an ex gratia payment.

F

Fringe benefit

A benefit provided to an employee by an employer in respect of that employment. Super contributions made by an employer are excluded from the definition of 'fringe benefit' and therefore outside the scope of 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 47% (increasing to 49% from 1 April 2015 until 31 March 2017).

M

Marginal tax rate

The stepped rate of tax you pay on your taxable income. The table below summarises the tax rates that apply to residents in 2014/15.

Taxable income range	Tax payable ³ in 2014/15
\$0 – \$18,200	Nil
\$18,201 – \$37,000	19% on amount over \$18,200
\$37,001 – \$80,000	\$3,572 + 32.5% on amount over \$37,000
\$80,001 – \$180,000	\$17,547 + 37% on amount over \$80,000
Over \$180,000	\$54,547 + 47% on amount over \$180,000

A Temporary Budget Repair Levy of 2% will be payable on taxable incomes over \$180,000 pa starting 1 July 2014 for the next three financial years.

Medicare levy

A levy of 2% is payable on the whole of your taxable income on top of normal marginal tax rates. In 2014/15, if you earn less than certain limits you're exempt from the levy. If you earn slightly more than these limits, the levy is phased in.

An additional surcharge of up to 1.5% applies to singles with an income over \$90,000⁴ pa (or couples with a combined income of \$180,000⁴ pa) who don't have private health insurance. If applicable, this Medicare levy surcharge will be payable on top of the base Medicare levy of 2%.

N

Non-concessional contribution cap

A cap that applies to certain super contributions. These include, but are not limited to, personal after-tax contributions made and spouse contributions received. In 2014/15, the cap is \$180,000⁵. However, if you are under age 65, it may be possible to contribute up to \$540,000 in 2014/15, provided your total non-concessional contributions in that financial year, and the following two financial years, do not exceed \$540,000. If the cap is exceeded, excess contributions will be taxed at a penalty rate of 46.5%.

P

Pension offset

A tax offset of 15% on the taxable income payments received from an income stream investment purchased with superannuation money between the ages of 55 and 59. The offset is also available before age 55 on death and disability benefits paid as an income stream.

Personal after-tax super contribution

A super contribution made by you from your after-tax pay or savings.

³ Excludes Medicare levy.

⁴ Current for 2014/15 financial year.

⁵ This cap is equal to six times the concessional contribution (CC) cap that is available to people 48 or under on 30/6/2014. (see page 29).

Glossary

R

Reportable employer super contributions

Certain super contributions (including salary sacrifice) that must be identified by an employer and included on an employee's Payment Summary.

Restrictions on non-death benefits from superannuation

Government regulations restricting payments from super funds apply to all non-death benefits paid under the policy. This means the Trustee may not pass benefits to you until they have 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 they are 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.

S

Salary sacrifice

An arrangement made with an employer where you forgo part of your pre-tax salary in exchange for receiving certain benefits (eg superannuation contributions).

Self-employed

To qualify as self-employed, you need to receive less than 10% of your assessable income, reportable fringe benefits and reportable employer super contributions from eligible employment.

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 income⁶, as follows:

Spouse's income ⁷	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	An amount equal to the lesser of: <ul style="list-style-type: none"> • spouse contribution x 18%, or • [(\$3,000 – (spouse's income⁶ – \$10,800))] x 18%
\$13,800 or more	Any amount	Nil

Superannuation Guarantee (SG) contributions

The minimum super contributions an employer is required to make on behalf of eligible employees is 9.5% of ordinary times earnings in (2014/15) up to the maximum super contribution base limit of \$49,430 (2014/15) per quarter.

T

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.

Taxable income

Income (including capital gains) you receive after allowing for tax deductions.

Tax deduction

An amount that is deducted from your assessable income before tax is calculated.

Tax free component

That part of a superannuation benefit that is received tax-free.

⁶ Includes assessable income, less business deductions, reportable fringe benefits and reportable employer super contributions.

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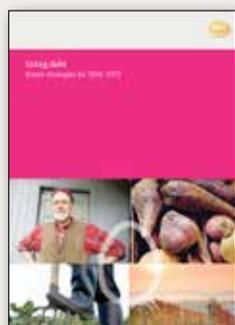
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