

Personal vs Group Life Insurance – Which Policy is Best?

While the majority of Australians remain alarmingly underinsured¹ in terms of life insurance, the tide appears to be turning. With it has come a new wave of insuring through super. As more people realise the financial importance of life insurance, super funds have become largely responsible for the increase in insurance business. This Informer discusses why people are moving away from personal policies to group policies.

Centuries of wisdom

Not content to conquer the world back in 450 AD (and our tastebuds in recent times), it seems we have the Italians to thank for life insurance. Interestingly, the concept emerged with the formation of “burial clubs”, which were designed to help pay for funeral expenses of those prematurely leaving the “club” and assist family members financially.

A sign of the times

Today, while the basic structure of its nascent form continues, the contemporary necessities of risk management have evolved the framework of life insurance to encompass several variations, including permanent and temporary disablement.

Furthermore, with the inclusion of insurance cover within the majority of super funds, the traditional personal policy is getting a run for its money.

Research² shows that super money makes up 90% of Australian life insurance company assets and also accounts for 90% of premium inflows.

So how do personal policies stack up against group insurance policies within super? As with most things in life, there are pros and cons of both. So let's review some key areas of differentiation.

¹The Costs of Underinsurance Project, IFSA, Rice Warner and TNS Consulting, May 2005.

²APRA, Life Insurance Market Statistics, 31 March 2008.

The positives of group policies

1. Cheaper premiums

Super funds have the power to obtain cost-effective insurance for their members. Due to their economies of scale – including assets under management and membership numbers – super funds have enormous financial bargaining power with insurance companies.

This allows them to negotiate wholesale/group premium rates. The upshot for fund members is that the premiums can be significantly lower than the same type and level of cover offered under a personal insurance policy.

In addition, many super funds tender their insurance arrangements every few years. This process promotes continued competitiveness among insurance companies in terms of their rates and offerings.

2. Tax advantages

Insuring through super is more tax-effective than a personal policy.

This is because the premiums are either paid from your employer's contributions or from personal contributions (for the self-employed). In short, you don't pay any tax on the premiums within super.

Personal policies, in contrast, are subject to tax at your Marginal Tax Rate, which can be as high as 46.5% including the Medicare Levy.

3. Automatic acceptance

Automatic acceptance provides automatic cover without having to show medical evidence. And all corporate default funds offer a minimum level of death cover, which can be increased or cancelled.

Although becoming more common among personal policies, super funds have generally provided this feature for many years.

With increased competition among insurers, the Automatic Acceptance Limits (ie the amount you're automatically covered for) within super are also becoming more in line with personal policy limits.

4. AXIS claims administration

One of the benefits of insuring through super is that you have AXIS as your servicing adviser.

AXIS has a dedicated claims administration department. This ensures that your claim is processed promptly and managed by the same person throughout the process. We also liaise with the insurer on your behalf and assist with form completion.

With a personal policy, you may be dealing with numerous people throughout the claims process. In addition, as you are dealing directly with the insurer, it's not uncommon for the process to be subject to lengthy delays.

5. AXIS works for your benefit

Another positive of having AXIS onboard is that we know our members well.

There have been numerous instances where a member has died or fallen terminally ill and the dependants were either unaware that there was cover or uncertain of the amount of cover.

AXIS has been able to assist these dependants and members in obtaining the benefits they were owed, which has significantly lightened their financial burden.

6. AXIS online insurance projection

We make it easy to work out how much insurance you need with our online Insurance Analysis Questionnaire.

Once completed, why not then complete our online Insurance Quotes Questionnaire, which you can email to us for a hassle-free quote on the types of cover you'd like.

Visit our website at www.axisfg.com.au or call us for a copy of the Insurance Analysis Questionnaire.

The positives of personal policies

So how do personal policies stack up compared with group policies?

1. Types of cover

Personal policies tend to offer more types of cover compared with group policies.

Under a personal policy, you can apply for:

- Death;
- Total and permanent disablement;
- Income protection/Salary continuance; and
- Trauma.

Within super, many funds usually only offer death cover and total and permanent disablement cover.

Income protection insurance has become increasingly present within super and **all AXIS clients have this cover** included in their arrangements.

However, many funds still don't provide this cover and, in particular, the option of a long term benefit payment of up to age 65. The majority of funds offering income protection insurance only allow for a maximum two year payment period.

2. Amount of cover

Although the premiums are usually lower when insuring through super, you may also find that the amount of insurance you're covered for also tends to be lower than personal policies.

3. Tax-free benefits

Within super, any insurance payout is only tax-free if the money is paid to a financial dependant, including those in an interdependency relationship.

With a personal policy, the benefit is tax-free regardless of who the recipient is.

4. More certainty with benefit payments

Insurance through super can be either binding or non-binding on the Trustee.

A binding nomination means that the Trustee must pay your benefit to the beneficiary nominated by you. Non-binding nominations mean that the Trustee will be guided by your preference, but has ultimate discretion over the recipient of your benefit.

In a personal policy, there is more certainty, as the benefit is paid by the insurer to those you nominate.

What's best for you?

You can see that both personal and group policies offer various different advantages. Ultimately, the right policy for you will be the one that best suits your personal circumstances.

However, in our experience with members holding personal policies, we've generally found that insuring through super offers more advantages.

As AXIS has almost 15 years' experience in corporate super and insurance, we're able to negotiate highly competitive premiums for members regardless of occupation type. In fact, we've been able to save some clients in excess of \$300,000 a year in premiums.

Is total and permanent disablement cover really necessary?

AXIS always recommends that members have both death and total and permanent disablement cover.

The reason for this is that if you die while a member of your super fund, your dependants receive the benefit, which will greatly assist them financially.

However, if you become completely disabled and unable to work again, you will receive a much-needed financial buffer in the form of a lump sum payout. This is extremely important if you are the sole income provider in your family.

Ask AXIS Financial Group

If you have a personal insurance policy and you're not sure whether you should switch to insuring through your super, please give us a call.

You can speak with our friendly Advisory Group or Technical Services team on **(08) 9426 5800** or **1800 111 299**.

Alternatively, you can email us at: mail@axisfg.com.au

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www.axisfg.com.au

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