Fact sheet

180 YEARS | Australian Unity Real Wellbeing

What is term life insurance?

Sometimes known as death cover, this type of insurance helps protect your family's financial future by paying a lump sum in the event of your death or on diagnosis of a terminal illness.

What does it cover?

The name 'term' life insurance refers to the fact that this kind of policy only provides coverage for a set term. If you pass away or develop a terminal illness (diagnosed with less than 24 months to live) within the covered term, you or your nominated beneficiary/ies under the policy can make a claim and – if approved- receive a lump sum.

It helps provide financial security for loved ones as the lump sum can be used to pay any outstanding debts such as a mortgage, provide for future needs such as children's education costs and can be used to improve the retirement savings of a surviving spouse.

These descriptions are general as what's covered under a term life insurance policy can be different between insurers. To understand what's covered under an insurance policy, read the product disclosure statement (PDS) or speak to a financial adviser.

Do you need term life insurance?

Would your family be able to maintain their lifestyle if you unexpectedly passed away or were diagnosed with a terminal illness?

To determine whether you need term life insurance, consider:

- Outstanding debts such as a mortgage
- How much income your family would need to maintain their current lifestyle if you were to pass away
- Future expenses you would like to provide for such as education costs, future wedding of an adult child, family holidays
- Whether support from friends and family may be available
- Available savings and investments

Did you know...

The average basic level of term life insurance needed for a parent aged 30 is $561,000 and $207,000 if aged 50[1].

How to buy term life insurance

The two most common ways to purchase insurance are outlined below.

You can arrange insurance directly in your own capacity. You are responsible for contacting insurers, comparing policy features and premiums etc. You should familiarise yourself with the pros and cons of purchasing insurance inside or outside of superannuation and structure your insurance accordingly.

You can work with a financial adviser who compares all the policies on offer and recommends one best suited to your circumstances. They will enquire about your finances, living situation, details about your family and more to determine cover appropriate to your needs.

They can also assist with the application and claims process, review your insurance needs each year and keep you up to date with the latest insurance news and regulatory change that may impact your future insurance needs.

Whether you choose to arrange your insurance directly in your own capacity or work with a financial adviser, the following factors are a consideration.

For more information, refer to 'What is personal insurance' fact sheet.

[1]Rice Warner. Under Insurance in Australia 2020. Available from: https://www.ricewarner.com/new-research-shows-a-larger-underinsurance-gap/ [Accessed June 2021].

Inside or outside of superannuation

You can hold term life insurance in your name, or in your superannuation fund. When it is held inside superannuation, the trustee of the superannuation fund is the policy owner.

Both options have pros and cons as outlined below:

	Advantages	Disadvantages
Insurance inside superannuation	• Term life insurance premiums are generally tax deductible to your superannuation fund. • You can pay your premiums using accumulated superannuation money or by making additional superannuation contributions – which may come from your before-tax income. This can be good for your budget because the cost doesn't reduce your take-home pay. • Your salary sacrifice and personal deductible contributions are taxed at 15%. This is lower than the marginal tax rate for most people and can make paying for insurance through super tax effective. • In the event of claim, certain beneficiaries such as your spouse will have the option to commence a pension inside the tax effective superannuation environment.	• While most insurance events for term life insurance result in a condition of release, there are some limited situations where you may not be able to access the insurance benefits until you retire. • Funding insurance premiums from your superannuation can erode your retirement savings unless you top up your superannuation with additional contributions. • Tax is payable on a death benefit paid to non-dependants (see section below).
Insurance outside superannuation	• Term life benefits are generally tax free.* • Insurance benefits are paid directly to you or your nominated beneficiary/ies	• Term life insurance premiums are generally not tax deductible when paid personally.

*Term life insurance proceeds are subject to CGT if paid to someone other than the original beneficial owner and that person/entity acquired the policy for consideration.

Taxation of premiums and benefits

Where you hold your insurance also influences how premiums and benefits are treated as outlined below:

	Are premiums tax deductible?	Are benefits taxed??
Insurance inside superannuation	Contributions you make to super to cover premiums may be claimed as a tax deduction*.	• Tax-free to dependants** • Taxable at up to 30% if paid to non-dependants** (with concessions).
Insurance outside superannuation	No	Generally, tax free

*For the 2021-22 financial year, the maximum amount of contributions you can claim as a tax deduction is $27,500 (subject to catch up concessional contributions).

**A dependant for tax purposes includes a spouse, a child under 18 or anyone who's substantially financially dependent on the deceased at the time of death.

Where insurance benefits are paid to people who aren't your dependants for tax purpose the portion subject to tax is calculated using a statutory formula based on your age, retirement age, service period and date of death.

For more information, visit www.ato.gov.au and search 'Personal deductible contributions', refer to 'What are the limits on superannuation contributions ?' fact sheet.

You can also speak to a financial adviser to work out how much extra insurance you should purchase to ensure your benefit, net of tax, is the desired amount.

How your benefit is paid

If insurance is purchased through your superannuation fund, the insurer pays insurance benefits to the trustee of your superannuation fund who will then on pay the proceeds depending on whether a valid death benefit nomination applies:

Where there is a valid nomination, the trustee must pay benefits in line with the nomination. Otherwise, the trustee can apply discretion when determining whether to your estate or to your dependants.

If benefits are paid to your estate, it is then distributed in accordance with your Will. Where there is no Will, it must be distributed in accordance with the intestacy law of your state and territory.

If insurance is purchased outside superannuation and owned directly in your name, benefits are paid to beneficiaries directly.

For more information, please also refer to 'What is personal insurance' and other fact sheets available on the Client education website.

Case study 1

Sandra has just recently purchased her first home. After meeting with a financial adviser, she agrees to purchase additional term life insurance as her existing policy amount was not sufficient to meet her needs.

Two years later, Sandra after feeling unwell for several months was diagnosed with late stage cervical cancer.

While still coming to grips with her diagnosis, Sandra, with the help of her financial adviser, was able to claim on her term life insurance policy. She used the lump sum to pay out her mortgage and fund ongoing medical expenses.

As her estate planning goals had always been to give her parents an unencumbered property to help fund their retirement, she was grateful to have increased her term life insurance to the amount recommended by her financial adviser.

Case study 2

Kevin and Patricia are a married couple in their early forties with two children, ages eight and eleven. They own their own home which has an outstanding mortgage of $500,000. They also have a family car with an outstanding loan amount of $10,000.

They are both employed however only Kevin has a $200,000 term life insurance policy purchased through the default superannuation fund offered by his employer.

Overwhelmed with the insurance options available in the market, they meet with a financial adviser who recommends an insurance strategy suited to their circumstances and long-term financial goals.

Going forward, in the event either Kevin or Patricia dies first, the surviving spouse will receive a term life insurance lump sum that covers the outstanding mortgage, car loan and education expenses of the children until they are 21.

The lump sum also includes an additional buffer to cover to give the surviving spouse the option of leaving work for a short period to care for their children.

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