

Total and Permanent Disablement insurance

July 2006

what is Total and Permanent Disablement Insurance (TPD)?

TPD provides a lump sum benefit payment in the event that you become totally and permanently disabled. The disability definition varies greatly from insurer to insurer. In general, it is defined as the inability, through sickness or accident, to perform your usual occupation, and to be permanent, the person insured would be considered as never being able to work again.

There are four tiers of qualification in TPD:

- ~ permanently unable to work in your “own occupation” or “any occupation”;
- ~ loss of use of limbs or sight;
- ~ suffer significant and cognitive impairment that requires continuous care and supervision; and

constantly and permanently unable to perform at least two of five activities of daily living, such as washing, dressing, feeding, toileting and moving about independently.

what is own or any occupation

There are two common categories or definitions of cover to consider:

any occupation: where you have been away from work through injury or illness and are incapacitated to the extent that you will never work in **any income earning occupation** suited to your education, training and experience.

own occupation: where you have been away from work through injury or illness and you are incapacitated to such an extent that you are unlikely to engage in your **own occupation**.

In the main, if total and permanent disability insurance is offered as a benefit by a superannuation fund, the occupation definition is generally “any” occupation. Due to superannuation fund regulations, this type of definition has limitations when providing the TPD benefit.

The Trustee of the superannuation fund may not pass a disability benefit to a member until it has satisfactory proof that the member will never be able to work again in “any” occupation reasonably suited to education, experience or training.

warning

Permanent incapacity – If a benefit is paid to the member under total and permanent disablement (TPD) insurance held in superannuation, and the member has never been in gainful employment, they will be unable to satisfy the cessation of employment requirement. Any insurance benefit paid will remain in super until a condition of release is satisfied (that is, until retirement after preservation age).

In addition, the post-June 1994 invalidity component potentially payable from superannuation is not available for self-employed members who cease work upon disability

how do you work out how much insurance you need?

The level of sum insured is generally the same as your Term Life sum insured as TPD is usually attached as additional cover with Term Life.

how are premiums calculated?

Generally, premiums are based on the sum insured, age, sex, occupation, hobbies, smoker/non-smoker, general health and option chosen. Premiums can be stepped (they change with age) or level (fixed for an agreed time, with assessment differing from insurer to insurer).

how are premiums paid?

In the main, premiums can be paid as an annual lump sum, six monthly or monthly via direct debit, cheque or credit card. Cash is not accepted as payment for premiums.

is GST payable on premiums?

Unlike general insurance premiums GST is not payable on TPD insurance premiums.

what is the tax position of premium and benefit payments?

For personal cover the premiums are not tax deductible. TPD benefits in your hands will generally not be assessed for income tax provided the benefit is received in the form of a lump sum.

TPD is paid as an Eligible Termination Payment (ETP) and taxed accordingly. One of the crucial aspects of the taxation of an ETP is how much is deemed to be a post-June 1994 invalidity component.

If you are in a business and take TPD cover for revenue purposes, the premiums will generally be tax deductible and any benefits received will generally be assessed for income. You will need to confirm your individual situation with your tax adviser.

when does cover start?

Your cover for Temporary and Permanent Disablement insurance does not commence until the insurer has issued the policy.

when are you not covered?

- ~ the lapse or cancellation of the benefit for any reason;
- ~ the death of the life insured;
- ~ payment of the full benefit sum insured;
- ~ the insured receives a death benefit;
- ~ the insured turns 65;
- ~ request in writing to cease the cover;

if at the time of claim there has been non-disclosure of a pre-existing condition you could put your benefit payment in jeopardy.

what can you expect at the time of claim?

TPD claims are similar to death claims in that they involve the payment of a lump sum. The claims process will generally involve:

- ~ submission of a claim form by the policy owner;
- ~ the obtaining by the insurance company of medical information to substantiate the claim;
- ~ the assessment of the claim; and payment of any validated claims.

It is important to remember that the policy must be in force at the time of the definition of TPD has been satisfied. It is not sufficient that the policy simply be in force when the insured suffers the sickness or injury that eventually leads to the definition being satisfied.

what should you do next?

Call your financial adviser immediately to discuss your needs and ensure that you are adequately covered to fulfil your income needs.

ipac securities limited ABN 30 008 587 595 AFS Licence No. 234656
Level 31, 225 George Street, Sydney NSW 2000 Telephone 02 9373 7000 Facsimile 02 9373 7111

The information provided is of a general nature only and does not take into account the particular needs, objectives or circumstances of any individual. Professional advice should be obtained before implementing any investment Strategy. We believe the information contained in this publication to be accurate and reliable. However, no warranty of accuracy is given and no responsibility arising in any other way for errors or omissions including responsibility to any person by reason of negligence (except as required by law) is accepted by ipac securities limited, its directors or employees nor any other member of the ipac group. The technical information provided is current as at July 2006 and subject to change.

This publication may not, in whole or in part, be lent, copied, photocopied, reproduced, translated or reduced to any electronic medium or machine readable form without express written permission from the publisher.