Insurance

Total and Permanent Disability (TPD)

Total and Permanent Disability (TPD) insurance will provide you with a lump sum payment should you suffer an illness or injury which causes permanent disability (as defined in the policy).

The proceeds are usually used to eliminate debt, pay for medical costs or modifications to the home, and provide a lump sum that can be used to help fund income needs.

Generally a permanent disability means that you are unable to work in your current occupation, a job that you've worked in, or a job that you could do as a result of previous training or study. There are many specialised definitions of TPD and your financial adviser can recommend the one most suitable for you.

Policy definitions

TPD products vary in their definition of total and permanent disablement. It is important you understand the definition that applies to your policy.

You also need to be aware of the difference between "Any" occupation and "Own" occupation. . Under an "own" occupation, you are paid the claim when you are unable to work in your own occupation again. Under the "any" occupation you are paid your claim only if you are unable to work in any occupation suited to you by education, training, and experience

This is a very important distinction. Let's take the example of a surgeon who suffers an injury to their hand which means they can never operate again. Under the "own" occupation the policy is likely to pay out, but this might not occur under the "any" occupation. This is because the surgeon could teach, lecture or still work in the medical field.

TPD through Superannuation

By holding your TPD insurance through superannuation you may be able to reduce your premiums. A further advantage of holding insurance through superannuation is that you may be able to use pre-tax money to fund the premiums. For example, if you are employed you can use salary sacrifice to pay for the annual premium, and if you are self-employed you should be able to claim a tax deduction for the premium. Alternatively you can have the premiums deducted from your superannuation account balance. This will allow you to take out insurance cover with no impact on your cash flow, however it will reduce your retirement savings.

You need to be aware that tax may be payable on the insurance proceeds if paid through superannuation. It is likely that you will receive part of your TPD payment tax-free, however tax may be payable on the balance. The tax-free amount is based on a formula using days you have worked and days until your last retirement date, and as such will change on daily basis. In general, the younger you are the greater the proportion that will be tax free.

In addition, you need to be aware of the policy definition when holding TPD through superannuation. This is because a TPD payment can only be released by the superannuation fund if the “Any” occupation has been met. If an “Own” occupation definition was selected, and you met the definition, the insurance company would pay the insurance proceeds into the superannuation fund. However the superannuation fund would not release the proceeds to you unless you also meet the “Any” occupation definition. Your financial adviser can advise you in this regard.

Example – Benefit of TPD Insurance

Marcus is an electrician, married to Jenny with 2 children. One weekend he was on a ladder cleaning the gutters at home when he fell and broke his back, resulting in paraplegia.

Marcus had TPD cover with an “own” occupation definition. This covered the extensive medical bills, the cost of a wheelchair and modifications to the home, and allowed the mortgage to be repaid in full. Jenny’s income covered their living expenses, which were manageable given the home loan was re-paid.

A couple of years after the accident Marcus was able to return to work part-time as a teacher at TAFE, and this had no impact on his TPD payment.