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What is **Total and Permanent Disability Insurance**?

Total & Permanent Disability (TPD) insurance pays a lump sum on the insured becoming permanently disabled due to illness or accident.

Most families are carrying significant financial risk should the unexpected happen. The big question you have to ask yourself is:

“Would your family be able to maintain their lifestyle if you could no longer earn an income due to you becoming permanently disabled?”

If your answer to this question is no, you need to consider transferring that financial risk to an insurance company.

Our financial adviser can help you do that, as well as answer any questions you have about TPD insurance, and then calculate how much TPD insurance you need to safeguard you and your family in the event

something should happen to you or your spouse. And, if you wish, your adviser will use our sophisticated computer program to ‘broker’ the major insurers to find you the right cover at a competitive price.

What is TPD insurance typically used for?

If you become permanently disabled, a TPD insurance payout can help free you and your family from financial worry by paying for things such as:

- Meeting medical, pharmaceutical, specialised therapies and rehabilitation costs not covered by your health fund,
- Paying for a carer,
- Funding modifications to your home that may be necessary due to permanent disability (e.g. replacing stairs with ramps),
- Repaying debt,

- Topping up your Income Protection policy payments, and
- Using your payment to create a cash reserve to boost your retirement savings.

Why TPD definitions are important?

Most TPD policies generally offer one of two definitions, either 'own occupation' or 'any occupation'. An 'own occupation' definition means your claim will be paid if you are unlikely to ever return to your own occupation, which is the one you were engaged in at the time of the injury or illness.

An 'any occupation' definition means your claim will be paid if you are unlikely to ever

return to any occupation that you may be suited to by experience or education. An 'own occupation' definition is usually preferable, however, its premiums are higher, and this option is not available for all occupations.

Where should your TPD insurance be held?

You can hold TPD insurance in your name, or in your superannuation fund. Both options have pros and cons.

For example, holding TPD insurance in your name means that the payout may usually be directed to you quickly and with certainty, and free of tax.

The facts

2.6 million	2.6 million Australians aged under 65 are living with a physical disability. (Note 1)
60,000	Australians suffer around 60,000 strokes per year or roughly one stroke every 10 minutes. (Note 2)
88%	About 88% of stroke survivors live at home and most have a disability. (Note 3)
Over 1 million	Over one million Australians need assistance with core activities (such as communication, transport and selfcare) due to severe disability. (Note 4)

However, you cannot obtain a tax deduction on the annual premiums you pay. If you paid personally.

Conversely, if your TPD insurance is held in your superannuation fund, paying your annual premiums via employer or self-employed superannuation contributions can provide you with an effective tax deduction on the cost of insurance.

In addition, because your superannuation fund pays those premiums, it means you have cover without eating into your family budget. So, this option is usually the more affordable for most people.

However, the legislation governing superannuation funds provides a strict definition of 'permanent disability' and superfunds can only pay a claim according to an 'any occupation' definition (as described above).

Choice of premium options

'Stepped' premiums increase each year in line with your age. 'Level' premiums generally remain constant until you're 65 or 70, depending on which 'Level' premium option you have selected, at which point they convert to 'Stepped'.

In other words, 'Stepped' premiums are more affordable in the early years, while 'Level' premiums tend to be more affordable in the later years (before they convert to 'Stepped').

How do the insurance companies view you as a risk?

Some insurance companies may charge you significantly less than other companies for the same cover, simply because they see you – or your occupation – as a lower risk.

That's why you should use a financial adviser who has the ability to 'shop around' the reputable insurers to get the best solution for your particular situation.

Case Study

Denise is a surgeon who has permanently lost the use of her hand and obviously can no longer continue as a surgeon.

If Denise has an 'any occupation' definition in her TPD policy, the insurance company could assert that although Denise cannot continue as a surgeon, she could still find suitable employment, for example, as a hospital supervisor or university lecturer. Therefore, the claim would most likely not be paid.

However, if Denise has an 'own occupation' definition in her TPD policy, her claim would be paid. And she could, if she wished, find suitable employment when she was ready. Denise could use the lump sum payout to help her top up her income, pay off her mortgage, and pay for medical and rehabilitation expenses.

1 AIHW (2008) Australia's health 2008, Cat. no. AUS 99, Canberra.

2 Stroke Foundation (2011) Facts, Figures and Statistics, www.strokefoundation.com.au/facts-figures-and-stats, viewed 12 March 2012.

3 Stroke Foundation (2011) Facts, Figures and Statistics, www.strokefoundation.com.au/facts-figures-and-stats, viewed 12 March 2012.

4 AIHW (2008) Australia's health 2008, Cat. no. AUS 99, Canberra.

*Insurance cover is subject to eligibility criteria.

*Disclaimer

Before acting on any information you've may received during a strategic financial consultation, or read about on our websites, email communications, guides including our newsletters, you should consider the appropriateness of the advice, having regard to your own objectives, financial situation and needs.

If any products are discussed, you should obtain a Product Disclosure Statement relating to the products and consider its contents before making any decisions. It is recommended to seek advice from a qualified professional relevant to your particular needs or interests. (For instance, Tax Advice from a Tax Agent, Financial Advice from a Licensed Financial Adviser and so on and so forth).



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