

## Technical Update

### Changes to Insurance Inside SMSFs

*The government has recently issued regulations that will limit the types of insurance cover that super funds (including Self Managed Super Funds ) will be permitted to take out for its members.*

**T**he Australian Government's recently issued regulations mean that insurance coverage inside superannuation will only be allowed where it is consistent with the superannuation death, terminal medical condition, permanent incapacity, and temporary incapacity conditions of release definitions.

Subject to some transitional rules, this new requirement will apply to people who become members of the super fund from 1 July 2014.

Of less relevance, the regulations will, with separate transitional rules, also stop funds from providing insured benefits unless they are supported by an insurance policy from the insurer.

That is, a fund will no longer be able to self-insure.

#### *Permitted types of insurance cover in super*

Currently, it is possible to have insurance cover held inside a superannuation fund that may not be released to a member when an insurance payment is made because the circumstances do not meet a condition of release. Examples include "own occupation" TPD, certain "extra benefits" that can apply to income protection cover, and trauma cover held via SMSFs.

## Adviser Information



During the Stronger Super review, the government announced that it would end this practice as it believes it is in the best interest of members to align insurance cover with the conditions of release so that the insurance proceeds are actually made available to members when the insurer makes a payment to the fund under the relevant policy.

Accordingly, the amending rules have now been finalised and will apply to people who join their fund from 1 July 2014, as well as to existing fund members who were not already covered by these types of benefits as at 1 July 2014.

Importantly, the changes will not apply to members who joined the fund before 1 July 2014 and who were covered in respect of these types of insured benefits before 1 July 2014. That is, existing cover such as “own occupation” TPD, will be allowed to continue beyond 1 July 2014 where a member was actually covered by an insurance policy in respect of that insured benefit prior to 1 July 2014.

In addition, existing members who meet the above exception will be allowed to vary their level of cover. For example, cover could be increased or decreased after 1 July 2014.

An implication of these transitional rules is that super fund members who would like to effect these types of cover arrangement will need to effect the cover before 1 July 2014.

### *Ending self-insurance*

Fund trustees will no longer be able to provide insurance benefits other than by taking out an insurance policy. Effectively, this will bring an end to the practice of some superannuation funds self-insuring.

For funds that do not currently self-insure, this restriction will apply from 1 July 2013. However, under transitional rules, for funds that are self-insuring at 1 July 2013, the new rules will take effect on 1 July 2016.

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