

## total and permanent disablement insurance

### 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 ever engage in your **own occupation** again.

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 in 'any' occupation reasonably suited to by education, experience or training.

### how do you work out how much insurance you need?

The level of sum insured is related to your debt, initial out of pocket costs to cover medical expenses and/or modifications to the home, plus sufficient funds to provide adequate long term care.

### how are premiums calculated?

Generally, premiums are based on the sum insured, age, sex, occupation, hobbies, smoker/non-smoker, general health and options 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?

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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 benefits paid in cash from superannuation funds will have a tax free and taxable component. The tax free component will include a calculation relating to your future service to age 65. Your financial adviser will be able to provide more information.

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. Interim cover may be available from the date your application is received, however this varies between insurers.

### **when are you not covered?**

- ~ if premiums are not paid in full and on time
- ~ cancellation of the benefit for any reason
- ~ the death of the life insured
- ~ 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 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 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 to ensure suitable insurance coverage is in place for your situation.