

GROUP SALARY CONTINUANCE INSURANCE: INSIDE OR OUTSIDE OF SUPERANNUATION ?



In previous times, the question of whether you should structure your group salary continuance (GSC) cover inside or outside of superannuation was relatively easy, due to the significant differences in the tax treatment.

Prior to the change in the taxation laws, all long term GSC contracts with a benefit period greater than 2 years were not tax deductible to the superannuation fund or employer if arranged within a superannuation fund. As such the general rule was - long term GSC outside super, short term GSC inside super.

Following the change in the tax law however, the tax treatment inside and outside super is now the same, regardless of the benefit term. The insurance premiums are fully deductible to the employer in all instances, and the benefit payments are taxed as regular income in the hands of the recipient or member. As a result, the decision of whether or not you should arrange your GSC cover inside or outside superannuation, now involves issues such as choice of fund and providing a package of benefits for members.

Where GSC benefits are arranged outside of super, arrangements need to be made for the administration of the policy. A broker or administration services provider

can be utilised for this purpose. Many an employer has attempted to administer a GSC policy themselves, adding this chore to the position description of their HR staff. However, this decision can prove problematic. Group insurance is a specialist area and specific knowledge and skills are required to manage it effectively. Particularly with regard to managing claims, this job can also be extremely time consuming. As such, arranging your GSC cover within super can be more cost effective and the administration will be done by your superannuation administration provider.

The problem with having your GSC policy arranged within superannuation arises when 'choice of fund' is thrown into the mix. Now that many employees can choose the fund to which their superannuation guarantee contributions are made, an employer's work force can now belong to a large number of different superannuation funds. If your GSC contract is arranged through your 'default fund', any employee who is not a member of the default fund does not get the insurance cover. A number of employers feel concerned about the equity issues surrounding this. If one employee is covered and the one next to him is not because he chose a different superannuation fund, is this fair?

As with most things, the choice of whether to structure your GSC arrangements inside or outside superannuation is a complex one, and different outcomes will suit different employers and super funds. One thing is for certain, this is an area where employer's need to tread carefully and get expert guidance.

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For Group Risk queries, please call Christine Tona at Willis Employee Benefits on +61 3 8681 9776.

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Contact David Rowell, National Practice Manager of Willis Employee Benefits, to discuss your needs - t: +61 3 8681 9869

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MEET OUR TEAM

Nigel Groome is National Development Manager for Willis Employee Benefits. He has 25 years experience in the financial services industry both in an institutional and advisory capacity. For the last 5 years, Nigel has specialised in corporate superannuation and corporate group insurance.

Contact Nigel on +61 3 9285 4043.