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Private Wealth

HOW TO SAVE MONEY WITH YOUR SUPERANNUATION TOTAL AND PERMANENT DISABILITY (TPD) CLAIM

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How to save money with your Superannuation TPD claim

Once Total and Permanent Disability (TPD) claims are approved through superannuation, the vast majority of members withdraw the bulk or their entire superannuation balance. This may result in the member paying thousands of dollars in tax.

There are simple strategies that can be implemented to make the most of any TPD claim, particularly minimising tax payments and maximising other benefit entitlements.
For example, if your TPD and superannuation balance is as low as $50,000, the member will pay a lump sum withdrawal tax on average of approx. $5,000, which potentially could be eliminated by applying the right strategies.

TPD through Superannuation

When a TPD insurance claim is approved, the sum insured is paid into the member's superannuation account, giving them a choice to:

1. Withdraw the entire balance;
2. Make a partial withdrawal and leave the balance in superannuation;
3. Commence an income stream (with all, or a portion of their balance); or
4. Leave the entire balance in superannuation

Each option will lead to very different tax and Centrelink outcomes. In taking Option 1 or 2, the claimant will pay "superannuation lump sum withdrawal tax". Under Option 3, the annual income drawn will be taxable at the claimant's marginal tax rate, with a 15% tax offset.

What if you withdraw the claim from Superannuation?

Under Options 1 and 2 above, when superannuation is withdrawn before a member reaches preservation age (between 56 and 60), they pay superannuation lump sum withdrawal tax on the "taxable component" of 22% (based on tax and Medicare rates during 2016/17 financial year).

When a person is withdrawing super funds under the "permanent incapacity" condition of release, the superannuation trustee completes a calculation to reduce the amount of tax the member will pay, called a "tax-free uplift" calculation.

This calculation is different for everyone, but if a person has multiple funds, the calculation will be different for each superannuation fund they make a withdrawal from.

If the member has minimal or no other taxable income for the financial year then they may be entitled to a portion of this tax back. This can mean deferring a portion of the withdrawal to a later financial year can lead to significant tax savings.

TPD Insurance claimants need to be vigilant when consolidating superannuation funds. Rolling over a superfund into another fund (even if it's only $100) may change the "eligible service date" of the members' superannuation fund and thus mean that the member pays a <u>higher lump sum withdrawal tax rate</u>. Be very careful when consolidating super funds!

Commencing an Income Stream or Account Based Pension

Under option 3 above, the member has the option to start an income stream with a portion of their entire superannuation fund.

Usually when we retire, we convert our superannuation account into an income stream known as an account based pension or allocated pension. Members that meet the TPD definition, have the same ability to commence a superannuation income stream, however the income is drawn taxable if the member is under preservation age. This means the member pays PAYG tax on the income drawn on the taxable component of the income stream with a 15% tax offset.

Assuming the member has no other assessable income, this option may mean the member can draw a significant income (either monthly, quarterly or annually) and pay minimal or no tax.

Important Financial Considerations for Members

Centrelink

Centrelink benefits will apply to different circumstances. If you make a lump sum superannuation withdrawal, this is not treated as income under the Centrelink income test for pension payments (e.g. Disability Support Pension), however the taxable component of the withdrawal is included in a person's "adjusted taxable income". This may affect a member's Family Tax Benefits and other payments. It is important that insurance claimants are aware of any impacts to their Centrelink benefits before making any decisions on what to do with their super and insurance.

Getting the right financial advice for your TPD claim

It is important that insurance claimants have access to the right financial advice, specifically with a TPD specialisation. TPD claimants may only need a one off, piece of advice to look at their tax and Centrelink matters at a low cost.