

TAX TALKS

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TPD insurance covers total and permanent disability.

TPD Insurance

So TPD is about total and permanent disability. But what exactly does that mean? How hard does it need to hit you before you qualify? To find an answer we asked Daniel Mikhail of [Partners Wealth Group](#) in Sydney.

Here is what we learned but please listen in as Daniel explains all this much better than we ever could.

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When you look at TPD insurance, look out for the conditions to qualify. Each TPD insurance provider has different conditions and that makes it really hard to compare the policies. So never just look at the sum insured and the premium. That is only half the story. The other half are the conditions to qualify. Do you need to be basically unconscious to qualify?

Industry v Retail

Industry funds tend to have a more narrow definition of TPD. Meaning that it is much harder to qualify. Retail funds tend to be more lenient – lowering the threshold. So it is generally easier to qualify for a retail policy than it is to qualify for an industry policy.

The devil is always into the detail. Your financial adviser will have software that allows them to get easy overviews but also really drill down into the details.

Conditions to Qualify

To qualify for TPD, retail policies commonly require that the insured has not been working in any occupation for three consecutive months. But this is not all. There is more.

To qualify the insured must also – in the insurer's opinion after consideration of medical and any other evidence – be incapacitated to such extent that they are unable to ever work again in any occupation for which they are reasonably suited by training, education or experience.

And the third condition is that whatever they earn must be less than 25% of what they earned before the time of claim in the last 12 months of work.

But there are other criteria that are less cumbersome. Blindness for example qualifies you straight away for TPD. So does the loss of a limb.

Sickness

TPD also covers sickness. It doesn't matter whether it is a sickness or injury that prevents you from working again. The main point is that you can no longer work.

A lot of people miss the sickness part. They don't realise that TPD also covers sickness.

Mental Health

You can be permanently disabled due to mental health. As an example, Daniel had a client who had been a pharmacist. This pharmacist incorrectly dispensed two medications. These medications shouldn't have been taken together. As a result the patient died and the pharmacist suffered mental trauma, unable to work as a pharmacist anymore. He was paid out.

Assessment

Who assess TPD? Most product disclosure statements refer to two medical practitioners, but who and when and how is subject to the individual policy.

Any v Own

This is a very important distinction. Any occupation means that you must be unable to work in any occupation. It is quite hard to qualify for an any occupation. If a dentist for example loses a hand, they could still teach and hence might not qualify under an any occupation policy.

Own occupation means that you can't work in your occupation anymore. So the dentist who lost a hand is more likely to qualify under this policy.

Super

You can only hold an any occupation inside of super. Own occupation must be held outside of super.

And the reason for this is the SIS Act. In order for the trustee to release the money to the insured they need to meet a condition of release as per the SIS Act. But the SIS Act does not see own occupation as meeting a condition of release. So a payment would get paid into the fund but then couldn't get out. So now insurance providers no longer offer own occupations via super funds.

Super Link Product

Super Link Product is one TPD policy split into two components. Any occupation sits inside super. And own occupation sits outside of super.

At the event of a claim the insurer will assess you under the any occupation definition first. If you qualify, the benefit gets paid into super and out to the insured.

However, if you don't qualify under the any occupation, the insurer will then assess you under the own occupation policy which is outside super. If you pass, you receive the benefit directly from the insurer without going through the super fund.

Agreed Value

TPD is an agreed value policy. So there is no link to your income at the time of claim. You work out what you need and then pay the relevant premiums.

However, just because you are willing to pay that premium does not mean you are going to get that cover. You need to justify why you need that level of coverage. And if it does not make sense then you might not get the cover.

Once it is under written it is yours. It doesn't matter whether your health or financial situation changes. It doesn't even matter whether your occupation changes. Once you have the policy, the insurer can't change the terms of the cover.

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