Oreana
FINANCIAL SERVICES

Additional Information Flyers
Risk Management

1st July 2020

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Term Life Insurance

Term Life insurance protects your family and dependants by paying a lump sum if you die, or in some cases, the benefit can be paid earlier if you are diagnosed as being terminally ill.

Benefits

It is important to work out individually what you need to protect and how much cover you need. But the lump sum payment can be used for goals such as:

- cover the cost of funeral expenses
- repay your mortgage, credit card and other debts so you can pass on the full value of assets to your dependents
- generate an ongoing income stream to help your family to meet their future living expenses and maintain their lifestyle
- set money aside for future education costs for your children or grandchildren
- enable your estate to treat your beneficiaries equitably without the need to sell particular assets
- make charitable bequests
- cover other expenses such as childcare and housekeeping.

Without insurance, your family or dependants may need to run down their savings, sell assets, and/or rely on family or Centrelink for assistance. They may also find it difficult to maintain their standard of living.

How it works

Life insurance can be owned either in your own name or within your super fund.

Self-ownership

Owning your life insurance in your own name means you pay the premium from your cashflow and the proceeds are paid to your nominated beneficiary or to your estate. Self-ownership gives you control over the policy, the right to nominate who receives the proceeds and the right to cancel if the need arises. The premiums for self-owned life insurance are not tax deductible but then the benefits paid are tax-free.

This may be suitable for you if you have the cashflow available to pay the premium and you want to ensure the proceeds will be tax-free. It may also suit if you want the benefits to bypass your estate so you can be certain that they are paid directly to your nominated beneficiary.

Superannuation ownership

Alternatively you can apply for cover within your superannuation fund. This allows the premium to be paid by making contributions to super or simply be deducted from your superannuation account balance so it does not affect your cashflow. The premium is a deductible expense to your superannuation fund and can reduce the tax payable on contributions and investment income. The benefit to you will depend on your superannuation fund.

In the event of your death, the insurance proceeds will be paid into your superannuation fund and form part of your account balance. The trustees of your fund will then pay a death benefit to your beneficiaries or estate. You may be able to make a binding nomination to ensure the trustees pay in accordance with your wishes. However, restrictions do apply as to who can be nominated as a beneficiary. Also, tax may be

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payable on the death benefit depending on how the benefit is paid (lump sum or pension), who the beneficiary is and the age of the beneficiary. This can make superannuation ownership a less tax-effective method of policy ownership.

This may be suitable for you if you do not have the cashflow to make the premium payments, receive contributions from an employer into superannuation, are eligible to make salary sacrifice contributions, have a spouse on a low income or are eligible for co-contributions, or are self-employed. Tax concessions can reduce the cost of insurance and may enable certain beneficiaries to receive all or some of the death benefit as a tax-effective income stream. If additional contributions are made into superannuation to cover premiums it is important to ensure you do not exceed the limits on how much can be contributed.

From 1 July 2017 the total amount of super monies used to start pensions will be capped at $1.6 million. All superannuation income streams are assessed against the transfer balance cap regardless of when it first commenced. You can retain excess amounts in your accumulation accounts where tax at 15% continues to apply.

Where your sum insured is large, not all of the benefit may be able to be taken as a tax-effective income stream by your beneficiaries.

Consequences

- For self-owned life cover, if you do not nominate a beneficiary, the proceeds will form part of your estate and will be distributed in accordance with your Will. Directing proceeds to your estate may provide the opportunity to use a testamentary trust to provide a tax-effective future income for dependants particularly if you have young children or grandchildren.
- Funding the premiums from your superannuation balance will reduce the growth of your retirement savings unless you make additional contributions to offset the premiums. These contributions will count towards your contribution caps.
- Where your sum insured is large, not all of the benefit may be able to be taken as a tax-effective income stream by your beneficiaries after 1 July 2017.
- No death benefit will be paid if death is due to suicide in the first 13 months or if you do not fully disclose all required information.
- To be eligible for payment as ‘terminally ill’ a doctor must certify you have less than a set number of months to live, usually 12.
- Superannuation providers must cancel a member’s insurance cover in their super if their super account has been inactive, that is, hasn’t received a contribution or rollover for a continuous period of 16 months, unless the member specifically elects to keep their insurance. If this applies to your insurance in your super account, you’ll be sent a notice before any insurance is cancelled. Please make sure your contact details are up to date.
- It’s important to seek professional legal advice and consider your overall estate planning position to ensure your wishes are carried out upon your death.
- You should always carefully read the Product Disclosure Statement (PDS) and policy document for your selected insurance policy and keep these documents in a safe place.

Date: 1 September 2019

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Total and Permanent Disablement (TPD) Insurance

TPD insurance protects you and your family by paying a lump sum payment if you suffer a total and permanent disability and are permanently unable to work.

Benefits

It is important to work out individually what you need to protect and how much cover you need. But the lump sum payment can be used for goals such as:

- reduce or clear your home loan and other debts
- cover medical and rehabilitation expenses
- generate on ongoing income stream to help you to meet your future living expenses
- employ paid carers
- pay for modifications to your home or vehicle
- set money aside for future education costs for your children
- protect your long term wealth accumulation strategy.

Without insurance, you and your family or dependants may need to run down savings, sell assets, and/or rely on family or Centrelink for assistance. You may find it difficult to maintain your standard of living or pay for the care and medical assistance you need. This can place extra stress on you.

How it works

To receive a TPD payment, you must meet the definition in the insurance policy you select. Some policies require that you are unable to work in **any occupation** for which you are ‘reasonably suited by training, education or experience’ while other policies may provide cover if you are permanently unable to work in your **own occupation**.

Generally you need to be working but you may also obtain policies that cover other **modified** definitions. These might trigger payment if you lose limbs or your sight or are unable to undertake activities of daily living unassisted. This may provide cover for homemakers or others who are not working.

TPD cover under an ‘any’ occupation definition is less expensive than cover under an ‘own’ occupation policy but it could be more difficult to meet the requirements for a successful payment because the insurer may take into account other training and experience you may have when determining the extent of your disability.

The ‘any’ occupation definition may be suitable for you if you want to own the cover within your super fund, you have only ever worked in the one occupation or you want the less expensive option.

The ‘own’ occupation option may be suitable for you if you have the cashflow to afford the higher premium and want the more flexible definition, or you have had a varied or specialist occupation history.

Stand-alone TPD Cover

You can buy TPD insurance as a stand-alone policy that includes just TPD cover and no death cover.

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Linked TPD Cover

You can also purchase your cover so that it is 'linked' to your Term Life or Trauma Insurance. With 'linked' covers, if you make a TPD (or Trauma) claim and the claim is paid, the other two cover levels may reduce by this amount. Linking your covers in this way can reduce the cost of your TPD insurance. Most policies include 'buy-back' options to regain the reduced cover amount after a period of time has elapsed.

Policy Ownership

TPD insurance can be owned either in your own name or within your superannuation fund.

Self-ownership

Owning your TPD insurance in your own name means you pay the premium from your cashflow. The premiums for self-owned TPD insurance are not tax deductible. In the event of a successful claim, the proceeds will be paid to you as a tax-free lump sum.

This may be suitable if you have the cashflow available to pay the premium, you want the 'own' occupation TPD definition, or you want to ensure the proceeds will be a tax-free lump sum.

Superannuation ownership

Alternatively you can apply for cover within your superannuation fund. This allows the premium to be paid by making contributions to super or simply be deducted from your superannuation account balance so it does not affect your cashflow. The premium is a deductible expense to your superannuation fund and can reduce the tax payable on contributions and investment income. The premiums for TPD cover may be either fully or partially deductible to the fund depending on the characteristics of the policy as follows:

TPD policy type	Deductible portion
Any occupation	100%
Own occupation standalone	67%
Own occupation bundled with life cover	80%

In the event of your total and permanent disablement, the insurance proceeds will be paid into your superannuation fund and form part of your account balance. You will need to meet a superannuation condition of release (such as permanent incapacity) to access the proceeds. This may restrict access to your benefits compared to a self-owned policy. If you are under age 60 tax may be payable on amounts you take out of superannuation.

This may be suitable for you if you do not have the cashflow to make the premium payments, receive contributions from an employer into superannuation or are eligible to make salary sacrifice contributions, are eligible for co-contributions, or are self-employed. Tax concessions can reduce the cost of insurance. If additional contributions are made into superannuation to cover premiums it is important to ensure you do not exceed the limits on how much can be contributed.

From 1 July 2017 the total amount of super monies used to start pensions will be capped at $1.6 million. All superannuation income streams are assessed against the transfer balance cap regardless of when it first commenced. You can retain excess amounts in your accumulation accounts where tax at 15% continues to apply.

Where your sum insured is large, not all of the benefit may be able to be taken as a tax-effective income stream by your beneficiaries.

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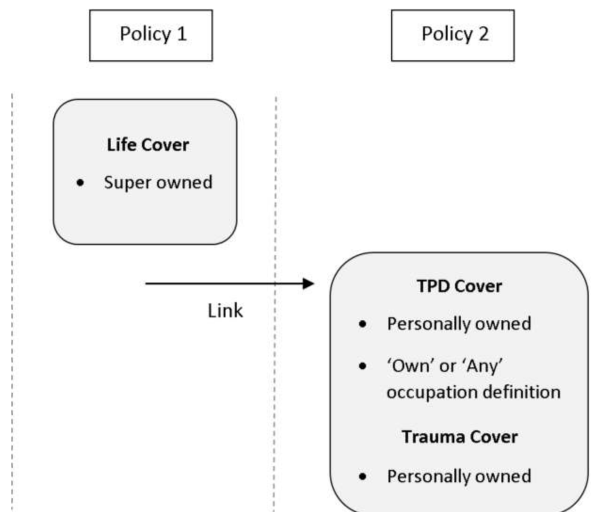
How does 'Flexi-linked' TPD work?



How does "Super-linked" TPD work?

With TPD insurance, there are two basic styles of policy you can select from:

- 'Any' occupation: You can claim if you are permanently disabled and cannot work in any occupation you are suited to by education, training, or experience. This definition is more difficult to meet as you must prove that you can't work in a wide range of occupations (not just your current one) and because of this, premiums are cheaper.
- 'Own' occupation: You can claim if you're unable to work in your usual occupation or your chosen field of employment. This definition is easier to meet (as you only need to prove you cannot work in your current occupation) and because of this, premiums are more expensive. "Own" occupation TPD policies cannot be owned through superannuation.

Under a 'Super-Linked' TPD structure, you have two TPD policies in place — one owned through superannuation (with an 'Any' Occupation definition) and another owned personally (with an 'Own' occupation definition). In the event of a TPD claim, you are first assessed under the 'Any' occupation super owned policy. If you meet this definition the benefit is paid out via superannuation. If you do not meet this definition, you are then assessed under the 'Own' occupation definition under your personally owned policy and paid out under this policy.

Consequences

- Funding the premiums from your superannuation balance will reduce the growth of your retirement savings unless you make additional contributions to offset the premiums. These contributions will count towards your contribution caps.
- If your policy is held within your super fund you may not be able to transfer all of the benefit to a tax-effective income stream.
- Benefit payment is usually excluded if you become totally and permanently disabled as a result of war (or act of war) or a self-inflicted act.
- Superannuation providers must cancel a member's insurance cover in their super if their super account has been inactive, that is, hasn't received a contribution or rollover for a continuous period of 16 months, unless the member specifically elects to keep their insurance. If this applies to your insurance in your super account, you'll be sent a notice before any insurance is cancelled. Please make sure your contact details are up to date.

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- You should always carefully read the Product Disclosure Statement (PDS) and policy document for your selected insurance policy and keep these documents in a safe place.

Date: 1 September 2019

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Trauma (or Critical Illness) Insurance

Trauma insurance protects you by paying a lump sum if you suffer a major illness or injury such as cancer, heart attack or stroke.

Benefits

It is important to work out individually what you need to protect and how much cover you need. But the lump sum payment can be used for goals such as:

- pay for your treatment and care
- gain access to the full range of rehabilitation services
- relieve financial pressure by reducing debt
- allow your spouse to take time off work to be with you or look after the children
- employ a carer, nanny or home help
- fund the gap between what you earn and the 75% cover from income protection
- give flexibility to amend your lifestyle or spend more time with family.

Without insurance, you and your family or dependants may need to run down savings, sell assets, and/or rely on family or Centrelink for assistance. You may find it difficult to maintain your standard of living or pay for the care and medical assistance you need. This can place extra stress on your recovery.

How it works

What conditions are covered?

The actual conditions covered vary between insurers but generally include:

- blood disorders including aplastic anaemia and medically acquired HIV
- cancer
- heart conditions including heart attack and coronary artery bypass surgery
- neurological conditions including multiple sclerosis and stroke
- permanent conditions such as blindness and loss of limbs
- organ disorders including chronic kidney and major organ transplant.

For a trauma claim to be successful the diagnosis must meet the policy definition of the condition as outlined in the insurance contract. For example, it is not sufficient to be diagnosed as having cancer. You must meet the definition in terms of type and severity.

Stand-alone Trauma Cover

You can buy Trauma insurance as a stand-alone policy that includes just trauma cover and no death or total and permanent disability (TPD) cover. These products have a ‘survival period’ and no benefit is payable if you do not survive this period.

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Linked Trauma Cover

You can also purchase your cover so that it is 'linked' to your death or TPD insurance. With 'linked' covers, if you make a Trauma claim and the claim is paid, the other cover levels will reduce by this amount. Linking your cover in this way can reduce the cost of your trauma insurance. Most policies include 'buy-back' options to regain the reduced cover amount after a period of time has elapsed.

Child Trauma Cover

When a child suffers a serious illness during their childhood, the effects can be devastating for the family's financial security. Child Trauma cover can be added to your policy to pay a lump sum to help with medical costs and gives the flexibility to afford time off work so you can be with your child.

Policy ownership

Trauma insurance is usually owned in your own name. The premium is not tax deductible and the proceeds from a successful claim are paid directly to you as a tax-free lump sum.

Trauma insurance is not available through superannuation.

Consequences

- You will not be able to claim a trauma benefit if you suffer certain conditions within a certain period (usually 3 months) from the date the policy commences or you do not fully disclose the required information.
- You should always carefully read the Product Disclosure Statement (PDS) and policy document for your selected insurance policy and keep these documents in a safe place.

Date: 1 April 2018

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Income Protection Insurance

Income Protection Insurance protects you by paying an ongoing income if you are unable to work due to illness or injury.

Benefits

Income protection cover pays an ongoing monthly benefit to protect:

- your lifestyle by replacing your lost salary so you can continue to meet your living expenses and debt repayments, and
- your wealth by reducing or removing the need to sell assets to generate cash.

Without insurance, you may need to run down your savings, sell assets, and/or rely on family or Centrelink for assistance. You may find it difficult to maintain your standard of living or pay for the care and medical assistance you need. This can place extra stress on your recovery.

How it works

You can usually apply for cover of up to 75% of your earnings. For business owners this is income after business expenses but before tax. You may also be able to have an additional amount paid as contributions into your superannuation account and other ancillary benefits to help with your recovery.

The payments are taxable income but tax may not be deducted from each payment. So you should seek tax advice and make sure you set aside money to pay your tax liabilities. If paid through superannuation, tax is usually deducted from each payment to help you manage this obligation.

The amount you receive may also be reduced if you receive payments from sick leave, social security, workers compensation or other legislative sources.

Indemnity policies

With an 'Indemnity' policy the amount you receive at the time of a successful claim will be assessed on the basis of your earnings in the 12 months prior to the disability. You will need to provide proof of income at time of claim and if your income has reduced you may receive less than expected.

Effective 1 April 2020, the Australian Prudential Regulation Authority (APRA) implemented measures to address the poor performance of personal income insurance policies. As a result, 'Agreed Value' income protection policies are no longer to be offered by life insurance companies. 'Agreed Value' policies were found to violate the principle of indemnity, insomuch that an insurance policy benefit should not exceed a policyholder's economic loss, and an 'Agreed Value' policy may enable this.

This change enables income at risk to be closely tied to the individual's earnings at the time of a claim and further encourage claimants to return to work (where possible).

'Agreed Value' income protection policies established (or in force) prior to 1 April 2020 may continue.

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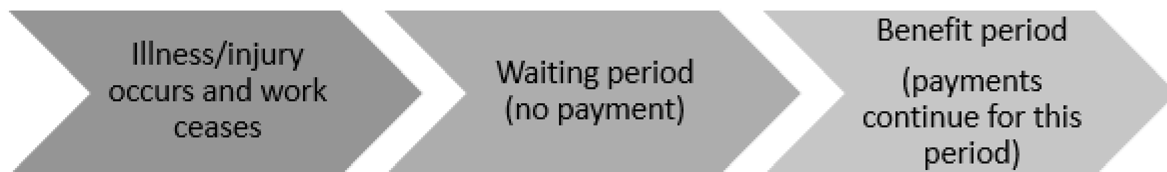
Waiting and Benefit Periods

In the event of a successful claim, benefit payments do not start immediately; a waiting period will apply during which no benefit is payable. The waiting period can be as short as 14 days or as long as two years. When choosing a waiting period, it's important to take into account any sick leave and related benefits provided by your employer. The shorter the waiting period, the higher the premium.

The maximum period of time that payments continue is called the benefit period. A range of benefit periods are available - some as short as one *year*, with the longest continuing through to your 65th or 70th birthday. In general the longer the benefit period, the higher the premium.



Policy Ownership

Income Protection Insurance can be owned either in your own name or within your superannuation fund.

Self-ownership

Owning the policy in your own name may allow you to better tailor the cover to suit your individual requirements (e.g. to obtain more comprehensive benefits and ancillary benefits). With self-owned cover, you pay the premium from your cashflow. The premiums are tax deductible to you and benefits that you receive in the event of a successful claim are treated as taxable income and taxed at your marginal tax rate.

Superannuation ownership

You may also be able to purchase your cover in your superannuation fund. This allows the premium to be paid by making contributions to super or simply be deducted from your superannuation account balance so it does not affect your cashflow. The premium is a deductible expense to your superannuation fund and can reduce the tax payable on contributions and investment income. The benefit to you will depend on your superannuation fund.

If additional contributions are made into superannuation to cover premiums it is important to ensure you do not exceed the limits on how much can be contributed.

The proceeds in the event of a successful claim are paid from your superannuation fund as a temporary illness benefit and will be assessable income that is taxed at your marginal tax rate. You will first need to meet the release definition for superannuation which may be harder to meet than a self-owned policy.

For business owners it may be appropriate for the business to own the cover. This ensures any claim proceeds are paid directly to the business so it can distribute the funds accordingly.

Optional benefits

Income Protection policies may offer important options including:

- an Increasing Claims option that ensures benefit payments are indexed in line with inflation

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- a Superannuation Cover option that allows you to have contributions made to your superannuation fund (above the level of salary cover)
- other ancillary and rehabilitation benefits.

Consequences

- Funding the premiums from your superannuation balance will reduce the growth of your retirement savings unless you make additional contributions to offset the premiums. These contributions will count towards your contribution caps.
- Benefits are paid monthly in arrears so your first payment would be received one month after the end of your waiting period.
- Benefit payment is usually excluded if you suffer sickness or injury as a result of war (or an act of war), a self-inflicted act, or uncomplicated pregnancy.
- Superannuation providers must cancel a member's insurance cover in their super if their super account has been inactive, that is, hasn't received a contribution or rollover for a continuous period of 16 months, unless the member specifically elects to keep their insurance. If this applies to your insurance in your super account, you'll be sent a notice before any insurance is cancelled. Please make sure your contact details are up to date.
- You should always carefully read the Product Disclosure Statement (PDS) and policy document for your selected insurance policy and keep these documents in a safe place.

Date: 1 July 2020

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Business Expenses Insurance

Business Expenses Insurance protects you by reimbursing you for the fixed business expenses that continue to be incurred while you are unable to work due to illness or injury.

Benefits

If you are self-employed or in a small partnership, your extended absence from the business through sickness or injury can have a major impact on the business' ongoing viability and the financial security of your family.

Business Expenses Insurance provides a monthly benefit that can be used to:

- keep on top of your business expenses, and/or
- ensure you have a saleable asset if you are unable to return to work.

This can also protect your wealth as you will be less likely to have to use your own savings to keep the business running in the event of illness or injury.

How it works

You can insure for reimbursement of up to 100% of 'eligible business expenses' which generally include:

- premises expenses: cleaning, insurance, interest and fees on loan to finance the premises, property rates/taxes, rent, repairs and maintenance, security costs.
- services expenses: electricity, fixed telephone and fax lines, gas, internet, mobile telephone, postage and couriers, water and sewerage.
- equipment: depreciation, motor vehicle leasing, insurance of vehicles and equipment, registration of vehicles, repairs and maintenance.
- salaries and related costs: salaries of employees who do not generate any business income plus payroll tax and superannuation (SG) contributions for these employees.
- other eligible expenses: account keeping fees, accounting and auditing fees, bank fees and charges, business insurances, professional association membership fees, regular advertising costs.

Waiting Period

If a successful claim is made a waiting period will apply before benefits start to be paid. The waiting period may be as short as 14 days but is usually one to three months. The shorter the waiting period, the higher the premium. The maximum time that payments continue is usually 12 months.

Policy Ownership

The insurance policy should be owned by the entity responsible for paying the expenses (i.e. you or your business).

The premiums are tax deductible to the policy owner but claim benefits received are treated as assessable income. This is offset by tax deductions for the expenses paid.

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Consequences

- Benefits are paid monthly in arrears so your first payment would be received one month after the end of your waiting period.
- Benefit payment is usually excluded if you suffer sickness or injury as a result of war (or an act of war), a self-inflicted act, or uncomplicated pregnancy.
- You should always carefully read the Product Disclosure Statement (PDS) and policy document for your selected insurance policy and keep these documents in a safe place.

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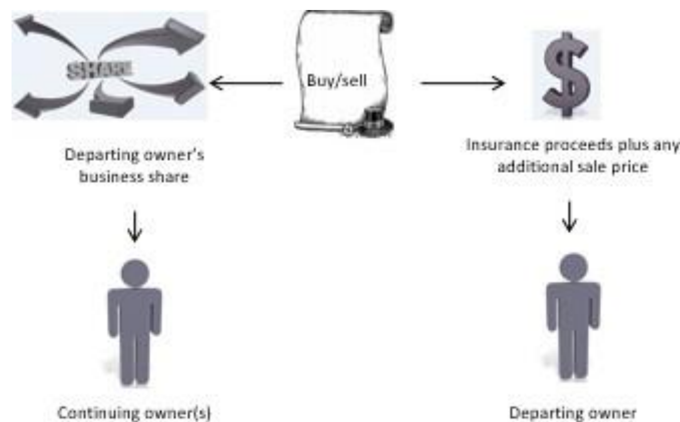
Business Succession Agreement and Funding

The death or permanent disability of an owner in a small-medium business can be detrimental to the ongoing viability of the business as well as the families of all owners.

For business owners, a Business Succession Agreement funded by insurance protects all owners and their families by enabling the timely and orderly transfer of ownership in the event of death, total and permanent disablement or critical illness or injury of one or more of the owners.

A successful strategy has two components: a business succession agreement and a funding mechanism. It is important that these two components are structured together. This may require a financial planner or life insurance broker, lawyer and accountant to work together.



Benefits

This strategy can enable the remaining owners to acquire the interests of the outgoing owner so they can continue to run the business. The outgoing owner (or their estate) to receive adequate compensation in exchange for their share of the business.

How it works

The agreement

A business succession agreement involves the business owners entering into a written legal agreement to detail what will happen to their respective interests in the business should one of them die, become disabled, suffer a trauma, resign or retire. This type of agreement is sometimes referred to as a business Will.

This document ensures the ownership of the business is transferred to the remaining owners. Essentially, the agreement should provide for the departing business owner (or their estate) to sell their interest to the remaining owners, and for the remaining owners to purchase the departing owner's interest in the business.

If the business is operated through a company or trust, the agreement should be structured to require that entity to sell/purchase the business share.

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Funding

The agreement should also recognise the means of funding the buy/sell obligations.

There are generally three options for funding the capital requirements of a business succession plan - sell assets, borrow, or transfer the funding to an alternative mechanism like insurance. Insurance is often the most efficient means of ensuring adequate funds are available if the owner is departing due to death, disability or trauma.

If you have insurance funding in place without an implemented legal agreement, you run the risk of the insurance proceeds being paid to the departing owner, but the remaining owners not receiving control of the business share.

Ideally, the capital required to fund the transfer should reflect:

- each owner's individual (or related party-owned) **equity** holdings; if possible this should allow a cushion for growth over a three year period, particularly if insurance funding is selected as a source of capital
- sufficient capital for the settlement of any **loan accounts**
- permanent cancellation of any **personal guarantees** through the elimination of the borrowings.

The importance of business succession

Properly drafted and funded Business Succession Agreements obviously come into their own during periods of great stress for a business, such as the death or disablement of an owner. The stability that such careful forward planning brings at these times cannot be underestimated.

This stability will also be of considerable comfort to other stakeholders in your business, such as **staff, creditors, customers/clients and financiers** who will know that:

- professional arrangements, and the funds to back up those plans, are in place for the orderly transfer of ownership, and
- the business can continue to operate under the experienced guidance of the remaining owner(s).

Furthermore, having adequate funds available for the settlement of an owner's interest removes the pressure on the business at a time of possible capital vulnerability.

Insurance Policy Ownership

There are a number of alternatives for how to own insurance policies as part of a buy/sell agreement. For example, the policies could be self-owned (by each owner), cross-owned (by each owner on life of the other owners), owned by a business entity or an independent insurance trust. There are benefits and disadvantages with each option and you should seek professional legal advice on this matter.

Self-ownership

Self-ownership is the simplest and most flexible option. The outgoing owner (or their estate) receives the insurance proceeds if a claim is triggered. If you have a spouse, you could nominate your spouse as beneficiary so they receive the payment directly.

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Each owner is responsible for paying the premiums on their own policy but you can come to an agreement to pay these through the business. You should seek tax advice from your accountant. The premiums are not tax deductible and the proceeds are received tax free.

The Business Succession Agreement needs to be drafted to ensure that the share of business is transferred with the insurance payment counting towards to the sale price.

Cross-ownership

Each business owner will own (or jointly own) a policy on each of the other owners. If a claim is paid this gives the remaining owners control over the money to pay for the transfer of the departing owner's share under the terms of the agreement.

This option is less flexible if ownership changes are likely. The premiums are not tax deductible but proceeds may be taxable if paid out for disability claims.

An agreement will be needed on how premiums are to be funded to ensure the policies stay current.

Business Ownership

If the business is run under a company structure the insurance policy could be owned by the company. Under this option any claim proceeds will form part of the company's capital.

The business succession agreement then compels the company to purchase back the departing owner's shares and cancel them. In this way, the value of the remaining owner's shares increase but will also increase their potential capital gains tax liability when their own shares are eventually sold.

The insurance premiums for the policies owned and funded by the business are not tax deductible.

Insurance Trust Ownership

If flexibility is needed to deal with insurance proceeds from a death claim differently to a disability claim to manage tax implications, or there are a large number of owners of the business or changes to business ownership are likely, holding the insurance policies through a special purpose insurance trust may be advantageous.

The claim proceeds are paid to the insurance trust trustees and are distributed in accordance with the trust agreement. This needs to match the required outcomes under the Business Succession Agreement. The Trustee may pay the funds to the departing owner or their estate (in exchange for transfer of that person's business share to the remaining owner), or to the remaining business owners to purchase the departing owner's interest in the business.

The insurance premiums are paid for by the trustee of the insurance trust and are not tax deductible.

Equalising premiums

It is important that the insurance policies continue to have premiums paid so they remain in place.

The policy owner is responsible for payment but the other business owners also have an interest to make sure the premiums are paid. It is common for some form of premium "equalisation" to occur so that effectively the total premium is shared according to shareholder interests.

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Insurance premiums are based on life expectancy, and are more expensive for older lives. There is a greater chance of an insured event happening for an older shareholder than younger counterparts. In the case of the death of the older shareholder, the younger shareholders benefit from the arrangement.

Consequences

- The Business Succession Agreement is a crucial part of your business protection plan. You should seek expert legal advice to have an agreement established and ensure its structure and the insurance policy ownership are consistent with your objectives.
- You should also work with your accountant to consider taxation and business structure implications.
- Business values will regularly change. The Agreement is more likely to specify the approach to calculating the value than a dollar amount. If the transfer is to be funded using insurance it is important to review the insurance levels on a regular basis to ensure they remain adequate.
- Business owners and their families should review and update their own personal Wills on a regular basis to ensure efficient distribution and control of the assets in the event of their death.
- Also, all business owners should have Enduring Powers of Attorney in place to look after their affairs if they become incapacitated.
- Other funding mechanisms should be considered if the Agreement deals with non-insurable events such as retirement.
- You should always carefully read the Product Disclosure Statement (PDS) and policy document for your selected insurance policy and keep these documents in a safe place.

Date: 1 April 2018

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Business Continuation Insurance

Key person insurance protects a business by providing a lump sum if a 'trigger' event such as death or disability results in the loss of a person who makes a significant contribution towards the profitability or stability of the business.

Benefits

The insurance proceeds protect the ongoing viability of the business and help to maintain its value by providing a lump sum that can be used to:

- offset a reduction in revenue while the business restructures or a replacement is found
- cover the costs associated with finding and training a suitable replacement
- reduce or repay debts
- protect a personal or business asset used as loan security.

How it works

Businesses are not made successful by tangible assets, such as land, buildings, plant, equipment, stock or working capital. Rather, success depends upon the expertise of the people who put these things to work.

Key people are the most valuable asset a business can have. Their departure (especially if unexpected, e.g. due to death, disablement, or critical illness or injury) could cause havoc not only to that person's family, but also to the business and to the lives of all who remain involved in the business.

Key person contingency strategies are designed to provide the business with money to offset the financial loss resulting from the disability or death of a key person.

This money may also be used in conjunction with a business succession plan to ensure that the business remains healthy after a proprietor/key person is unable to remain in the business. This may help to ensure the remaining business owners continue to have a viable business, but does not replace insurance needed to fund a Business Succession Agreement.

Who is a key person?

A key person is someone who:

- Gets things done. They might be a manager, director, company secretary/chief financial officer, accountant, supervisor, foreman or technical specialist.
- Builds goodwill. Their human attributes and qualities inspire confidence, attract custom and build clientele. Goodwill enhances the value of the business and is vital to continued success.
- Improves the credit standing of the business. The confidence and goodwill built up by their skill and efficiency often enhances the credit extended to a business by suppliers and bankers alike.
- Contributes to revenue either directly via sales and client account management or indirectly via technical skills which would be difficult to replace if they involuntarily departed.

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What is the business impact?

The loss of a key person can affect the business. For example:

- Revenue may fall, expenses increase and profits be impacted upon. This may result in immediate loss of revenue as existing contracts may not be able to be satisfied nor new contracts sought until a replacement is found.
- It will take time and money to find a replacement and perhaps months for the new person to become fully effective. In the meantime, momentum flags and profitability may fall. It becomes an opportune time for competitors to grasp an advantage.
- Others in the business may have their attention diverted, causing a decrease in productivity and downward pressure on cash flow.
- Liquidity and credit can be affected. Creditors can be quick to press for payment, debtors slow to pay and lenders reluctant to advance to a business after the loss of a key person.
- Goodwill and credit are closely linked; one tends to follow the other. Cash is often urgently needed for the financial stability of the business.
- The proprietors may feel bound to continue to pay the key person given that they are either a proprietor or at least a valued employee.

To protect the business in the short term, key personnel should be insured to provide sufficient funding to cover the loss in revenue. This will provide the company with some breathing space to restructure for the future, without the financial strain resulting from a reduction in turnover, following their absence due to death, disablement or a critical illness or injury.

In addition, or alternatively, the business may wish to reduce the levels of debt or protect goodwill by providing sufficient funds to cover such capital costs/losses.

Insurance Policy Ownership

The business usually owns and pays the premiums for insurance policies for business continuation insurance policies.

If the cover is obtained for revenue purposes, the premium is tax deductible. Claim proceeds are paid to the business and are generally assessable as income to the business. The expenses it is used to cover may be tax deductible.

Where cover is obtained for capital purposes, the premiums are not tax deductible. Death benefits paid to the business are not assessable but proceeds paid for critical illness or total and permanent disablement are assessable to the business as a capital gain. The insured amount can be grossed-up to cover this expected tax liability.

Consequences

- The taxation treatment of the premium and proceeds depend on the purpose, so it is important that details about the purpose of the policies are documented in the business minutes and reviewed and recorded each year.
- The ownership of the policies should be discussed with and confirmed by your solicitor and/or accountant before implementation.

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- You should always carefully read the Product Disclosure Statement (PDS) and policy document for your selected insurance policy and keep these documents in a safe place.

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