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CLIENT NEWSLETTER

18 December 2009

TRAUMA INSURANCE

As publicised recently in a McPherson Super Consulting Pty Ltd newsletter, the owner of a trauma insurance policy is generally paid a lump sum if the insured person is diagnosed with a range of critical illnesses or suffers injuries as defined in the policy. Cancer, stroke and heart attack are examples of commonly covered conditions.

Where a self-managed superannuation fund purchases a trauma insurance policy, questions may be asked as to whether the fund is then in breach of the sole purpose test. This is because the trauma insurance benefit is typically paid when the diagnosis is confirmed, provided the insured person survives the medical condition for a specified period. Payment is then made regardless of whether the insured person ceases work or becomes permanently disabled because of the illness or injury.

The Australian Taxation Office has recently confirmed in draft SMSFD 2009/D1 that the acquisition of a trauma insurance policy by a SMSF does not automatically lead to a breach of the sole purpose test. Further, trustees may satisfy the sole purpose test provided the following conditions are met:

- any benefits payable under the policy are required to be paid to the fund trustee (not the insured member or the relatives)
- any benefits payable are held in the fund until such time as the member satisfies a condition of release allowing payment (such as total and permanent disablement, or retirement)
- the purpose of acquiring the policy is not to secure some other benefit for a member or relative (eg cheaper premiums on other policies)
- the size of the premiums is not unreasonable in comparison to the size of the fund's assets/contributions

Please contact our office with any queries.

What is "OBM"? Open Book Management

The logic of OBM is simple:

Businesses in which all team members think and act like owners will outperform businesses in which only a few people at the top see that as their job.

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