

Life insurance: your rights, responsibilities

TONY NEGLINE



Life insurance has been in the news lately for all the wrong reasons. There have been scandals and irregularities at some of the biggest names in the business, including CommInsure at Commonwealth Bank and OnePath at ANZ.

ASIC's review of the sector and its executives' associated comments to a Senate estimates committee have publicised what some have known for years. Standing back from the headlines, there are some everyday realities about life insurance — indeed any insurance — that if more widely known would make everyone's life a bit easier.

Insurance is a contract

All insurance policies are contracts and, in most cases, the contract is written by the insurer. These documents are written by lawyers and it's not unusual to see the use of complex terminology and complex document structures.

No doubt it's hard for people with little understanding of life insurance or the law to understand these documents.

The seeking, offering and acceptance of all insurance products is a legal process and needs to be seen as such by everyone seeking insurance.

About 22 Australian life insurers offer products to retail consumers, sometimes via super funds. For these policies, the insurer also must issue a product disclosure statement that details all the main features of their product. These documents must have a specific structure and are technically easier to understand than the contract document.

The price of anything is important, but it can be a false economy as cheaper policies typically have more restrictive terms and conditions.

Your duty of disclosure

In order for an insurance company to assess if it wants to enter into a contract with you, it needs relevant background information. In relation to life insurance, it wants to know your occupation, age, sex, the medical history — both personal and family — dangerous recreational pursuits and so on.

Under legislation, you have a duty to answer an insurer's questions as honestly and completely as possible. This obligation typically lasts until an

insurer formally issues the contract. That is, you have to tell the insurer anything that may be relevant to its acceptance or rejection of your application until the contract starts.

If you fail to disclose some piece of information about yourself, the insurer can deny a claim on the basis that had it known that information it wouldn't have agreed to issue the policy. Clearly, this step is vital and I suspect many financial advisers and insurance clients do not take it seriously enough.

Underwriting

The next tricky bit is underwriting. This involves an insurer assessing your application and sometimes seeking additional information from you, your doctor, medical specialists and even third-party evidence of financial information.

This can have an unexpected benefit. When applying for life insurance some years ago, my insurer wanted me to have an electrocardiography. This identified an unknown problem with my heart's electrical system, for which I now have regular check-ups.

That said, some life insurers make this process painful, especially when a small business seeks a large insurance amount. Their starting point sometimes seems to be to doubt the validity of all financial information on the basis you may have overstated your income.

Why take out insurance?

For some, the answer will be peace of mind, knowing that their family will have greater financial security if the worst were to happen. This is a nice way of saying we take out insurance to make a claim. And whoever makes that claim wants it paid as quickly as possible.

The best way to deal with this issue occurs before an insurance contract starts. You need to understand the contract including its key terms and you must disclose all information the insurer asks for.

When making a claim, you need to know process.

- Is the information being asked for needed or is it a fishing expedition?
- How to hurry up a claims area that is taking too long.
- When to contact a doctor to hand over documentation.
- When to make a formal complaint because the insurer has made the wrong decision.

For most of us, insurance is a key cost, so it's worth understanding the basics.

Tony Negline is author of The Essential SMSF Guide 2016/17, published by Thomson Reuters.

The China-led price recovery has boosted some listed players

TIM TREADGOLD

If hard coking coal was a runner in today's Melbourne Cup the stewards would already have called an inquiry into how a 100-1 long shot six months ago has become a short-odds favourite.

The explanation, as is often the case with horses that fly out of nowhere, is that someone gave it an artificial boost to speed up the price, which has rocketed along from \$US90 a tonne in March to well over \$US200.

With coal, the hypodermic needle is in the hands of the Chinese government, which forced its domestic coalmining industry to cut the number of days mines can work in a year from 330 to 276.

That classic example of command-economy direction had the desired effect of cutting coal output, partly as an environmental clean-up measure and partly to boost the coal price for loss-making miners.

But it also turned out to be a policy that worked too well, with shortages in the Chinese market for hard coking coal (used to make steel) and thermal coal (used to generate electricity) rising much further than the central government expected.

This has forced coal users into the international market, with Australia a first port of call, especially for hard coking (an Australian specialty).

Stocks rocket

The miraculous recovery in coal prices has turned a demonised mineral into the resource sector's best-performing commodity, leaving previous leaders such as gold, lithium and graphite in its wake.

An upshot of the Chinese-induced coal-price recovery is that the handful of coalmining stocks listed on the Australian stockmarket have surged higher while a group of private coal companies, mostly run by people from earlier coal booms, are enjoying an unexpected boost.

The tearaway leader among ASX-listed stocks is Whitehaven Coal, which has rocketed up from 35c in January to recent sales around \$3.15.

New Hope Corporation has also reacted positively to the higher coal price, reaching a 12-month high of \$2.13 last week before easing back to \$1.75. Stanmore



Coking coal prices have soared from \$US90 a tonne in March to over \$US200, which analysts say are not sustainable

rushed up from 12c to 84c before easing back to 66c, and Atrium ran from 34c to \$1.07 before settling at 75c.

Investment bank analysts who follow coal — and there aren't many thanks to it being a politically and environmentally incorrect fossil fuel — do not believe that the higher prices are sustainable.

The consensus view of Whitehaven is that it will fall back to \$2.46, with Macquarie leading the negative view with a target-price tip of \$1.50.

Meanwhile, there is a far more interesting race being run in the background with the gathering of old coal hands making a return to an industry where they made fortunes in the last boom.

Return of the barons

Nathan Tinkler, a man who made a billion dollars and then lost it with ill-timed bets, is back in the game despite being officially declared bankrupt.

Tinkler effectively controls 37 per cent of Australian Pacific Coal, which has risen from half-a-cent to 2.6c, valuing the business at \$112 million and his stake at \$41m.

The key to Tinkler's return is the Dartbrook mine in the Hunter Valley of NSW, which was sold to

Australian Pacific by one of the world's mining majors, Anglo American, at the low point in the coal-price cycle as part of a debt reduction drive and because it wanted to focus on diamonds, copper and platinum.

Perhaps the most noteworthy rebound can be found at the ASX-listed Malabar Coal, which has brought together heavy hitters in Hans Mende, Tony Haggarty and Andy Plummer.

Haggarty and Plummer were best known for their leading roles in Excel Coal and the early days of Whitehaven.

Mende is a serial coal and iron ore investor who first made his name as an executive of the German industrial group Thyssen.

In Australia, Mende's master company, AMCI, has held major interests in a range of companies including Aquila, Felix Resources, Whitehaven and Gloucester.

The keys to Malabar are its undeveloped coking coal project in the Hunter Valley called Spur Hill, which is adjacent to another undeveloped project being offered for sale by Anglo Coal called Drayton South.

The combination of Spur Hill and Drayton South could create a world-class coking coal project, and who better to do that than Mende, Haggarty and Plummer? Malabar has gone from 5c in May to about 21c today.

Despite high-profile coalmine closures such as the impending

termination of the Hazelwood mine in Victoria. For true believers in coal the current conditions are the best for five years.

For Australia, the coal-price boom is leading to forecasts of the country's trade deficit being wiped out, thanks to coal representing 10 per cent of national exports, with the extra earnings a potential threat to the value of the dollar which could be pushed up to US90c (and more) if coal prices stay high.

Exchange rate parity with the US dollar is also a possibility if the coal boom continues.

For environmentalists the return of coal is their worst nightmare. Having demonised the industry as a prime cause of climate change they are now struggling to accommodate the price surge.

Ironically, environmental protesters have played a role in the return of coal with their objections to new coalmines being developed and old mines expanded.

The protests have limited supply — and there's no better way to create a price boom than reduced supply meeting strong demand.

Tim Treadgold is resources writer at www.eurekareport.com.au which is owned by InvestSMART.

Reasons for price recovery

1 China cuts off supply

China has moved to greatly reduce the production of coal, and plans to cut production by 500 million tonnes over three years.

The plan involves the loss of more than 1 million jobs and the closure of 5000 coalmines.

To top it off, China also announced it would not approve any new coalmines until 2019. The government planned to cut back on coal activities to reduce oversupply and to help improve the environment, and parallel plans were made to transition workers to new industries.

2 Global demand for Australian coal lifts

The sheer scale and relative speed of the Chinese moves to cut down on coal production immediately changed the balance within the global coal industry. Australian coal, which is among the best quality coal in the world, immediately received a boost.

Nippon Steel of Japan recently agreed to a massive price increase put through by Australian coal producers.

The steelmaker, which had been paying just \$US93 at tonne in September, signed along the dotted line for coal at \$US200 a tonne in the December quarter. Coal remains hugely important to our balance of trade.

According to Austrade, coal represents 11.6 per cent of Australian exports of goods and services.

3 Green opposition hits supplies

Strong community opposition to coal projects, coupled with high-profile rejection of coal investments by some leading funds, has affected coal supply.

Even funds originally linked with fossil fuels, such as the Rockefeller Family Fund or Norway's Sovereign Wealth Fund, have ensured limited development of new coal projects through major divestments. Norway alone announced the sale of \$8 billion worth of coal shares last year.

The reduction in the supply of coal, often driven by environmental activism or "ethical investing", has, at least in the short term, partially underpinned higher prices for the commodity.

Careful! ... not all superannuation death benefits are tax free

MONICA RULE



A common misunderstanding among Self Managed Superannuation Fund (SMSF) members and some accountants is that a superannuation payout resulting from the death of a fund member paid to the deceased member's dependant — such as a spouse — is tax free. This is not entirely correct.

When it comes to an SMSF death benefit pay out, you will need to check first whether the SMSF's trust deed allows for the

benefit to be paid as a lump sum? Or a pension ... or even a combination of the two?

Under tax law, if the Death Benefit is paid to a "death benefit dependant" as a lump sum, then the benefit will be tax free.

A "death benefit dependant" is a spouse, a former spouse, a child under the age of eighteen, a person who was financially dependent on the deceased member prior to their death, or a person who was in

an interdependent relationship with the deceased member prior to their death. However, if the lump sum death benefit is received by a dependant — such as a child over the age of eighteen who was not financially dependent or was not in an interdependent relationship with the deceased prior to their death, then not all components of the lump sum death benefit will be tax free. There will be tax payable at a maximum of fifteen per cent

plus the Medicare levy on the taxable component of the lump sum death benefit.

- Should the death benefit be paid as an income stream, such as an account based pension, then the tax treatment of the benefit will depend on both the age of the deceased member and the dependant recipient. If the late member or the dependant were aged sixty or over at the time of the deceased member's death, then the pension death

benefit will be tax free in the hands of the recipient.

- If the deceased member and the recipient were under the age of sixty, then tax is payable at a maximum of 15 per cent plus the Medicare levy on the taxable component of the income stream benefit.

Please be aware that not all dependants can elect to receive an income stream death benefit. The Superannuation Law was

changed, with effect from 1 July 2007, to limit an income stream death benefit payments to dependants such as the deceased member's spouse, a child under eighteen years of age, a child up to age twenty four who was financially dependent on the deceased prior to their death, or a child of any age with a disability.

Therefore, a child of a deceased member who is not disabled would need to commute a pension to a

lump sum once they turned twenty five years old.

The lump sum would be paid tax free.

When planning how death benefits will be paid it's important to know the tax implications.

Failure to take them into account can leave your loved ones with a hefty tax bill they don't want.

Monica Rule is an SMSF Specialist and author of The Self Managed Superannuation Handbook.



JOIN JOURNALIST AND TELEVISION PRESENTER **GEORGE NEGUS** ON A GUIDED EXPLORATION OF THE INTRIGUING FAR NORTH

GEORGE NEGUS'S GREENLAND AND ICELAND

16 AUGUST - 9 SEPTEMBER 2017

Let George take you on a voyage of exploration and discover the settlements and unique sights of Greenland, the natural wonders of Iceland, the Shetland and Faroe islands, and the Scottish Orkneys.

Cruise wondrous northern waterways, and see icebergs, polar bears and puffins, aboard the Holland America ship MV Prinsendam.

Return airfares, 19 nights aboard MV Prinsendam, one night's accommodation in Amsterdam, guided sightseeing in ports of call.

