

# Social security insurances for expatriates in Australia

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How are expatriates working in Australia covered for expenses relating to ill health, accidents and unemployment, and are any of these insurances tax deductible? Below is a summary of the types of insurance and their tax status.

Overseas business sending staff to Australia and employees relocating here need to account for these contributions in their income tax returns to ensure that the correct tax is paid in their own countries as well as in Australia.

In Australia, the following types of social security insurances are available for expat employees through the payment of various contributions, levies and insurances to the government and/or private insurers.

- + **Health and illness** – for medical costs
- + **Old age** – retirement income, known as 'Pensions' in many countries and 'Superannuation' in Australia
- + **Disability** – for long-term care if you become disabled
- + **Unemployment** – to replace income lost if you are not able to work.

## 1. Health Insurance – public and private

Australia has a Medicare system which covers many health care costs. An employee can choose whether to have Medicare cover only, or a combination of Medicare and private health insurance. Citizens and most permanent Australian residents are eligible for Medicare.

When you visit a doctor, Medicare will reimburse up to 100% of the standard fee for a general practitioner and 85% for a specialist. If you purchase additional private health insurance, you will be partially reimbursed for extras like dental, optical and private hospital expenses.

The **Medicare Levy Surcharge (MLS)** is a levy paid by Australian taxpayers who do not have private health insurance and who earn over a certain income. It's designed to incentivise high income earners to take out private health insurance. The surcharge is 1% - 1.5% of an employee's income, which is in addition to the Medicare Levy of 2% of an employee's income paid by most Australian employees.

Employees on temporary Australian visas can be exempt from paying the Medicare Levy and Surcharge if they obtain a certificate stating they are not entitled to Medicare benefits while in Australia.

**TAX:** The Medicare Levy Surcharge and Medicare Levy are private employee expenses and are generally **not tax deductible** by either the employer or employee.

Note that employers are required to obtain insurance to cover claims from their staff for work-related injuries or illnesses. This is organised separately in the Australian state where staff are employed.

## 2. Contributions to fund old age retirement income

In Australia, retirement income is funded through a mix of personal savings, a government pension and superannuation.

The superannuation component is made up of employer contributions and an employee's own personal contributions. Money deposited into superannuation is invested by the fund's trustee (an external fund manager), who aims to grow an individual's account balance while an employee is still working. When an employee stops working, their superannuation balance is usually converted into a pension to provide income to fund their retirement.

### + During Employment

While an employee is working, the employer must put an amount equal to 9.5% of the employee's regular wage or salary, as a minimum, into the employee's super fund. This is an extra payment on top of an employee's wages or salary, known as the Super Guarantee Contribution (SGC). An employee can top up their super savings by making personal contributions to their super fund.

### + Before Retirement

An employee cannot withdraw their super until they reach preservation age. This is between 55 and 60, depending on when the employee was born. The employee must also either be transitioning to retirement or retiring completely to legally access these funds.

### + At Retirement

When an employee reaches retirement they can take their super as a lump sum, roll it over into an income stream, or a combination of both. Most people choose to have their income from super paid to them in some form of income stream to provide a regular income once they stop working.

## + Upon permanently leaving the country

An employee on a temporary visa that permanently leaves Australia can ask to draw out their superannuation payment. Tax will be withheld on the payment by the fund before release.

**TAX:** Superannuation contributions form part of an employee's remuneration package and are generally **tax deductible** to the employer.

## 3. Disability insurance

Individuals can take out Total & Permanent Disability (TPD) Insurance to provide cover if they are totally and permanently disabled. TPD insurance helps cover the costs of rehabilitation, debt repayments and the future cost of living. There are many issues to consider to ensure the right cover is selected for the employee's needs.

**TAX:** The costs associated with Total & Permanent Disability (TPD) Insurance are private employee expenses and generally **not tax deductible** because these type of insurance proceeds are generally not taxable. However, there are benefits of holding this cover through your superannuation, in which case the proceeds would be taxable.

## 4. Income protection insurance

Individuals can also purchase Income Protection Insurance in Australia to replace the income lost if they are unable to work for a long period due to injury or sickness.

**TAX:** The costs associated with Income Protection Insurance are private employee expenses and generally **tax deductible** for the employee because the income from these type of insurance proceeds is generally taxable. However, if the employer pays for this insurance, it is tax deductible for the employer as it is a fringe benefit to the employee.

## Professional assistance for expatriate insurances and salary-packaging

The choice of insurances for expat employees in Australia can be complex and there are several factors to consider to ensure policies are tax-effective and not invalidated when you need it. Accru's wealth management divisions specialise in this area and can assist you to make the best choices for specific needs.

Accru Felsers assists many international businesses to establish in Australia, including tax-effective salary packaging for key expatriate personnel. If you would like to know more about how we can help, please contact us or your local Accru advisor.

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