# The experience of individuals with insurance through superannuation

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# Executive summary

## Purpose of the paper

This paper has been prepared in the context of recent debate about the role of insurance cover, particularly default insurance cover, provided through superannuation. The paper is a contribution to that policy debate through providing additional data and analysis, and focuses on the beneficial experiences of individuals with insurance through superannuation, not just the costs of coverage.

## The role of insurance linked to superannuation fund membership

Rather than being an unrelated add-on to superannuation, the purpose of insurance in superannuation is, in effect, to cover the 'future service' period between an event, such as disablement or death, and retirement age. It helps put the member (or beneficiaries) in a financial position closer to where they would have been but for the occurrence of the insured event.

## Receiving an insurance payout is not a rare event

The Association of Superannuation Funds of Australia (ASFA) analysis of claims data indicates that over a working life of around 40 years:

- a fund member on average has a 25 per cent chance of having an income protection benefit being paid to them in the context of a temporary disability or medical condition
- around five per cent of fund members over a working life will claim a total and permanent disability (TPD) benefit
- around five per cent of fund members will have an insurance policy death benefit paid to the fund member's beneficiary or beneficiaries, or to the individual in the form of a terminal condition payment.

In some industries or professions, the chance of being paid a TPD benefit is much higher, further increasing the value of insurance cover.

## Most death, disability and income protection insurance is provided through superannuation

Insurance through superannuation amounts to:

- seventy-one per cent of total death sums insured
- eighty-eight per cent of TPD sums insured
- fifty-nine per cent of total income protection/salary continuance/temporary disability benefits insured.

## Insurance through superannuation provides better and less expensive cover than policies held outside of superannuation

Life and disability insurance cover held in superannuation accounts typically has lower premiums than comparable policies held outside superannuation.

Premiums for a given level of cover are lower across age categories between 30 to 60 years, for both genders. For women, the difference in premiums ranges from approximately 25 per cent to 55 per cent – increasing with age. Similarly for males, the difference ranges from approximately 35 per cent to over 60 per cent – also increasing with age.

Access through group arrangements is at an affordable price without the imposition of restrictions, exclusions, or premium loadings (or even denial of cover), that might be imposed with insurance that is individually underwritten. Members who may have pre-existing medical conditions, work casually or part-time, or work in high risk occupations, are generally able to access insurance cover.

## Insurance provides individuals with support beyond financial benefits

The benefits delivered under group life insurance are more than just the amount of the financial benefit paid to the member or their dependants. Superannuation funds, together with insurers, have increasingly extended the support services offered to members through occupational rehabilitation and return to work support. In part, this has been delivered by life insurer claims assessors themselves, many of whom have allied health experience.

## The aggregate amount of insurance benefits paid to fund members

In the 2015–16 financial year, around 16,900 TPD benefit payments were made from superannuation funds amounting to over $1.7 billion being received by fund members, according to APRA statistics. There were over 18,500 life insurance claims paid and nearly 37,000 income protection claims paid. Total benefits paid amounted to some $5 billion.

## Benefits to the community more generally

Insurance in superannuation reduces the burden of underinsurance on society and government resources. In particular, insurance in superannuation reduces the level of social security benefits payable due to a lack of coverage. Currently, underinsurance in relation to death, TPD, and income protection costs the government over $1 billion per annum in additional social security payments.

## Funds and the sector more generally are working to improve insurance arrangements linked to superannuation

Funds' use of new communication technologies, combined with the advent of intra fund advice, are increasing members' levels of engagement with their insurance, mitigating the potential for unintentional duplicate policies. Recent implemented regulatory mechanisms are also driving measurably higher levels of account consolidation.

Many funds have also reviewed and revised their insurance arrangements to better align with the needs and circumstances of their fund members.

With respect to industry-based initiatives, ASFA is one of the superannuation associations represented on the Insurance in Superannuation Working Group (ISWG) that is developing an Insurance in Superannuation Code of Practice.

Funds also are working to make it even easier for members to opt out from, or otherwise change, their insurance cover using a variety of easily accessed methods. Sending a signed form, phoning or emailing a fund is generally sufficient. Many funds now also have online accounts which permit fund members to alter their insurance cover or investment choice.

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# Introduction

The benefits of insurance in superannuation are well known and recognised as being an integral element of Australia's superannuation system. Rather than being an unrelated add-on to superannuation, the purpose of insurance in superannuation is, in effect, to cover the 'future service' period between the event (disablement or death) and retirement age. It helps put the member (or beneficiaries) in a financial position closer to where they would have been but for the occurrence of the insured event.

In particular, the benefits of insurance through superannuation relate to:

- the relatively low cost of the insurance, as polices are purchased in bulk with low distribution costs
- affordability, as premiums do not have to be met by individuals' personal cash flow
- automatic acceptance of individuals, with no health checking or declarations from those covered in the case of standard cover
- flexibility to tailor cover to suit individual needs.

The strength of these benefits has led to group insurance cover on an opt-out basis being prescribed as a mandatory feature of default (MySuper) products. As a result, approximately 70 per cent of life insurance cover in Australia is held within superannuation.[1] More broadly, superannuation insurance arrangements amount to:

- seventy-one per cent of total death sums insured
- eighty-eight per cent of total and permanent disability (TPD) sums insured
- fifty-nine per cent of total income protection/salary continuance/total but temporary disability benefits insured.[2]

For the financial year ending 30 June 2016, approximately 75,000 death and disablement benefit payments—which amounted to approximately $5 billion—were made.[3]
More details of the benefits in practice follow.

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# Benefits of insurance in superannuation

## Cover for individuals who otherwise would not have cover

For most Australians, the life insurance cover they have through superannuation is the only life insurance they hold. This cover enables members (and their families) to manage the financial risks associated with disability and death during their working life, while also supporting substantially improved retirement outcomes for claimants.

The evolution of group insurance over the past 20 years has seen much of the working population afforded some type of insurance cover that otherwise would not be in place. Recent research indicates that almost half of those with life insurance in superannuation believed they would not be covered if it were not provided automatically[4] – that is, they would not purchase insurance for themselves.

In the absence of default cover (offered on an opt-out basis), some employers might purchase cover on behalf of their employees – although this is likely to be limited and confined to large employers. Not only would small business owners be less likely to purchase insurance on behalf of their employees, but they would be less able to negotiate on price.

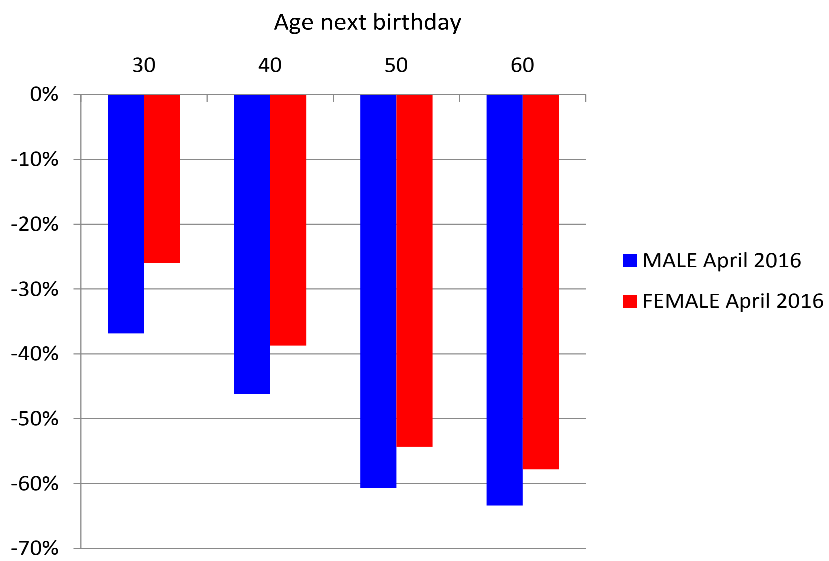
In addition to effects of limited bargaining power, insurance purchased by employers would be more expensive than insurance in superannuation (for a given amount of cover) due to distribution and marketing costs.

## Access to cover on better terms than otherwise would be the case

Life and disability insurance cover held in superannuation accounts typically has lower premiums than comparable policies held outside superannuation.

For insurance in superannuation, premiums for a given level of cover are lower across age categories between 30 to 60 years, for both genders. For women, the difference in premiums ranges from approximately 25 per cent to 55 per cent – increasing with age. Similarly for males, the difference ranges from approximately 35 per cent to over 60 per cent – also increasing with age (Chart 1).

**Chart 1: Price of superannuation life insurance relative to retail life insurance (% discount)***




** For the same level of cover/sum insured. This does not take into account the effect of tax on the end benefit received by the member*
*Note: The data is sourced from a sample of ten, mostly very large, superannuation providers and thirteen insurers. The scenario is for an accountant (professional occupation) with $1,000,000 sum insured for death and TPD 'any' occupation.*
*Source: Rice Warner.*

## Access to cover that may not be otherwise available

Group insurance is based on a pooling of lives that, in the absence of individual medical underwriting, includes a selection of both good and bad risks. This means that members who may have pre-existing medical conditions, work casually or part-time, or work in high-risk occupations, are generally able to access insurance cover. Access is through group arrangements at an affordable price without the imposition of restrictions, exclusions or premium loadings (or even denial of cover) that might be imposed with insurance that is individually underwritten.

## Access to support through their claim, beyond financial benefits

The benefits delivered under group life insurance are more than just the amount of the financial benefit paid to the member or their dependants.

Superannuation funds, together with insurers, have increasingly extended the support services offered to members through occupational rehabilitation and return to work support. In part, this has been delivered by life insurer claims assessors themselves, many of whom have allied health experience. This is a reflection of the focus on the member's ability, rather than their disability, and the desire of all parties involved—the member, the employer, the superannuation fund and the insurer—to see the member return to work in some capacity where possible.

Assisting a member to return to work in some capacity, while also giving the member a sense of purpose, ensures they can continue to earn an income and save for their retirement.

Attachment C provides details of a number of real life cases where funds and insurance companies have assisted fund members through rehabilitation and other personal support.

## Reduces degree of underinsurance and the burden on the social security system

Insurance in superannuation reduces Australia's significant underinsurance problem.

Notwithstanding the wide coverage of insurance provided through superannuation, the level of underinsurance within the Australian community remains high. For instance, the median level of life cover meets about 61 per cent of the basic needs for average households – and for families with children it is a much lower 37 per cent of needs.[5]

Overall, KPMG previously has estimated the level of underinsurance in Australia to be $304 billion per annum in disability cover, while the level of underinsurance of the lives of employed people against premature death in Australian families is estimated to be $800 billion.[6] These figures would be much higher without insurance in superannuation, given the majority of cover across all insurance types is held through superannuation.[7]

More broadly, insurance in superannuation reduces the burden of underinsurance on society and government resources. In particular, insurance in superannuation reduces the level of social security benefits payable due to a lack of coverage.

Currently, underinsurance in relation to death, TPD, and income protection costs the government over $1 billion per annum in additional social security payments.[8] This comprises:

- $60 million per annum for death
- $840 million per annum for TPD
- $140 million per annum for income protection.

Given the degree of underinsurance would increase markedly in the absence of default cover on an opt-out basis, so would the burden on the social security system.

## The amount of insurance benefit payments and the number of individuals receiving payments

In the 2015–16 financial year, around 16,900 TPD benefit payments were made from superannuation funds amounting to over $1.7 billion being received by fund members, according to APRA statistics. There were over 18,500 life insurance claims paid and nearly 37,000 income protection claims paid (Table 1). Total benefits paid amounted to some $5 billion.

| Table 1: Insurance claims by insurance type | | | |
|---|---|---|---|
| Entities with more than four members | | | |
| | Total | | |
| **Life insurance** | **2013-14** | **2014-15** | **2015-16** |
| Number of claims paid, admitted this year | 12,972 | 15,065 | 14,848 |
| Value of claims paid, admitted this year ($m) | 1,558 | 2,035 | 2,119 |
| Number of claims paid, admitted in previous years | 4,475 | 2,193 | 3,745 |
| Value of claims paid, admitted in previous years ($m) | 397 | 235 | 300 |
| **Total and permanent disability insurance** | | | |
| Number of claims paid, admitted this year | 11,707 | 12,778 | 13,537 |
| Value of claims paid, admitted this year ($m) | 1,899 | 1,265 | 1,499 |
| Number of claims paid, admitted in previous years | 4,641 | 2,938 | 3,336 |
| Value of claims paid, admitted in previous years ($m) | * | 183 | 199 |
| **Income protection** | | | |
| Number of claims paid, admitted this year | 18,217 | 22,140 | 20,692 |
| Value of claims paid, admitted this year ($m) | 391 | 391 | 458 |
| Number of claims paid, admitted in previous years | 10,191 | 15,082 | 16,216 |
| Value of claims paid, admitted in previous years ($m) | 219 | 271 | 362 |

*Source: APRA annual statistics 2016.*

While much commentary focuses on the costs to individuals of insurance cover, arguably it is the benefits flowing to members which should receive the greatest attention.

It is unrealistic to assume that every member should receive a direct benefit from insurance cover every year. By its very nature, insurance shares risks across the individuals who are insured. This is the case across the range of insurance policies available. Fortunately, individuals do not have their house burn down every year, nor their car written off regularly. Over a working life, there is a much greater probability of receiving a superannuation related insurance payout than in a single year, which reinforces the value of insurance cover through superannuation.

ASFA analysis of claims data indicates that over a working life of around 40 years:

- a fund member, on average, has a 25 per cent chance of having an income protection benefit being paid to them in the context of a temporary disability or medical condition
- around five per cent of fund members over a working life will claim a TPD benefit
- around five per cent of fund members will have an insurance death benefit paid to the fund member's beneficiary or beneficiaries or to the individual in the form of a terminal medical condition benefit.

The figures above are based on the overall averages for persons with superannuation. Some individuals, depending on their occupation and health status, will have a much higher incidence of claims. For example, individuals working in heavy manual jobs, in mining, in emergency services, or in a police force tend to be much more likely to receive a superannuation related insurance payout. This can impact on the premiums and benefit design of insurance arrangements relating to such individuals.

There also are differences between men and women in terms of their insurance claim experience. Men on average have higher death rates then women across a broad range of ages.

Attachments A and B provide examples of individuals and testimonials from individuals who have substantially benefitted from insurance cover through superannuation.

## Initiatives to reduce duplicate insurance cover

Although it is true that unintentional duplicate insurance policies unnecessarily reduce member balances, the issues around duplicate insurance are complex.

The number of people with multiple accounts has declined over last decade – on average people have approximately 1.9 accounts, down from 2.5 accounts a decade ago.[9]

Approximately 43 per cent of the 14.8 million Australians that have a superannuation fund account have more than one account.[10]

Recently implemented regulatory mechanisms are driving measurably higher levels of account consolidation, thus reducing unintentional duplicate insurance policies. For members, account consolidation is easier to undertake as a result of a range of implemented regulatory mechanisms, such as through myGov, and the provision of information on how to consolidate superannuation accounts readily available on ASIC's MoneySmart website.[11]

However, some members make a conscious choice to pay multiple premiums for higher levels of aggregate cover where multiple policies would respond in the case of an insurable event (typically the case for death and TPD). This includes maintaining default levels of insurance cover offered by one or more providers.

Furthermore, many trustees have arrangements in place to either cancel, or engage with members to confirm cover is still required, in certain circumstances, such as when accounts become inactive or reach a low balance threshold. Overall, the risk of extinguishment of insurance rights without explicit member consent, leaving affected members and their families without insurance cover to protect them from misfortune as a result of injury, illness or premature death, should be contrasted with the risk presented by duplicate insurance policies of paying more in premiums. Careful design of insurance arrangements is needed to balance these risks.

Funds' use of new communication technologies, combined with the advent of intra-fund advice, are gradually leading to increased levels of member engagement with their insurance, mitigating the potential for unintentional duplicate policies.

Many funds have also reviewed and revised their insurance arrangements to better align with the needs and circumstances of their fund members. Attachment D provides further details. Funds are also allowing members to opt-out from or otherwise change their insurance cover using a variety of easily accessed methods. Attachment E provides further details.

A number of funds have also foreshadowed that they will revise insurance arrangements in line with any industry-wide initiatives that are implemented.

With respect to industry based initiatives, ASFA is one of the superannuation associations represented on the Insurance in Superannuation Working Group (ISWG) that is developing an Insurance in Superannuation Code of Practice.

The ISWG is also working closely with the Australian Taxation Office (ATO) to ensure future iterations of SuperStream and the introduction of Single Touch Payroll capitalise on the opportunity of improving the level of visibility and access to information that individuals could have from enhanced data management and data sharing across the industry.

# Attachment A: Case studies of insurance benefit payments provided by ASFA member funds*

## Example 1

Income protection provided the financial support and breathing space for a young member who needed time to concentrate on getting her health back after a diagnosis of stage 3 cancer. The regular income provided by the income protection insurance benefit has taken away the stress of having to return to work when the member was not ready or able to return to work.

## Example 2

A member with mental health issues was successful in claiming an income protection benefit. The member had limited financial resources and was able to use the monthly benefit to seek rehabilitation services and appropriate treatment.

## Example 3

A member with terminal cancer was extremely thankful to be able to claim both income protection and the terminal illness benefit. The insurance payments assisted the family with easing the financial burden and allowed them to spend quality time together.

## Example 4

A 19-year-old male had an accident where a branch fell on him. As a result, he is now paralysed. This was not a workplace accident so no WorkCover payments were applicable. The only insurance cover he had was $150,000 death and TPD through superannuation which has been approved for payment.

## Example 5

A death claim was made by a refugee family who settled in Australia from Vietnam, whereby the mother of the deceased member had little command of English, poor future work prospects, and was substantially reliant on the fund member. Due to the young age of the deceased member and the default death insurance cover, the main component of the death benefit was made up of the insurance cover ($225,000 insurance and only $10,000 account balance).

## Example 6

A member with a family (including four young children) was diagnosed with Parkinson's disease in the prime of his working life. The insurance cover provided protection so the member could still secure his lifestyle and meet his long-term debt needs such as providing for his children's education, servicing and reducing his mortgage and preparing for a future where his health may be unknown.

** names have been changed for privacy purposes.*

## Example 7

The member was under extreme financial distress and her bank threatening foreclosure. The insurer assessed and approved her TPD claim and with the funds she was able to save her home.

## Example 8

A member was under extreme financial distress and also severely distressed by her condition and situation. The insurer assessed and approved the member's salary continuance insurance claim within two weeks of lodgement.

## Example 9

A member suffers from a rare lung condition that will result in premature death. The insurer assessed the claim promptly and this allowed the member to begin the process of settling her bank debts and to set up her allocated pension which will then pass to her spouse. The approval from the insurer relieved a great deal of her stress at this difficult time.

## Example 10

A new super plan was established for a company and the default insurance arrangements were a key selection criteria. About half of the workforce ended up joining the new plan.

Ten months after the plan was implemented, James was killed on his bike whilst riding to work. He was married with children. The payout from the plan, which included the plan value and the life cover component, was in the region of $400,000. This significantly helped his family's financial situation.

## Example 11

A member who had previously declined to opt-in to income protection when first joining some years ago was able to have income protection cover added following the transition to the new arrangements on 1 July 2016. Shortly after, the member became ill with a chronic condition and is now in receipt of income protection benefits for up to five years. In addition, the member's TPD cover increased by around $100,000 on transition as a result of moving to a salary-based design and this claim has also been accepted.

## Example 12

A member had a two year maximum benefit period with the previous (pre-1 July 2016) insurer. As result of the transition, the member now has up to a five year benefit period. She is currently on claim and has also been accepted for a salary-based TPD benefit around twice that with the previous insurer.

## Example 13

Our death benefit is $200,000 up to age 65 (except it is $100,000 in the first year of membership and suicide deaths). It is $35,000 between ages 65 and 70.

We have many dependants, especially spouses, express gratitude when they realise the death benefit they receive. Many were unaware of the benefit.

On several occasions, our claims officer has mentioned the gratitude expressed by some of the beneficiaries of the death benefit when it is paid. It is especially appreciated by young widows with small children, a number of whom had become quite emotional with the relief at the difference a benefit of $200,000 will make to the lives of themselves and their children, while acknowledging nothing can replace the loss they have suffered. In recent years, the ATO has advised us of deaths of members in our fund that we had previously been unaware of and staff go to great lengths to try and track down potential beneficiaries, which can be a challenge if the death occurred many years ago. Once again, beneficiaries who were unaware of this benefit and had been struggling for some time since the death of a loved one appreciated the impact the payment of the death benefit from the fund would have on their lives.

As an industry fund that typically has lower paid workers as our members, we believe the terminal illness and death benefit cover we provide is appreciated and does offer members with a terminal illness the opportunity to sort out their affairs prior to their death. Our claims officer has mentioned that this gives the terminally ill a great level of comfort.

## Example 14

An existing member under the age of 60 was diagnosed with a terminal illness.

The member will continue to receive the insured 75 per cent of her pre-disability salary to age 60 (or more likely until she dies) from the fund. Whilst the disability insurance benefit is paid she will also receive 13 per cent super contributions into her superannuation account.

The trustee approved the member accessing her superannuation and insurance benefits under the terminal medical condition definition.

The member, who is quite young, has since been able to go overseas with her family, purchase a caravan to travel with her young family and pay for the associated medical costs to keep her alive for as long as possible.

The member is extremely grateful to the sponsoring employer for the insurance benefits they have provided her via the employer sponsored corporate fund.

Whilst these insurance benefits will not, unfortunately, keep her alive they will enable her to live out her final months with dignity and with the knowledge that her young family will be looked after for the immediate future. It will also ensure her partner can take time to make the necessary adjustments for the family unit without the financial constraints of needing to get back to work straight away.

## Example 15

A fund member had an accident that left her with severe physical impairment, followed by depression.

Her husband had to increase his hours at work beyond standard full-time hours to cover the costs of her assorted treatments, such as aqua therapy, psychologist appointments, and rehabilitation.

Her medication also affected her ability to concentrate and hold a basic conversation.
The approval and payment of her TPD claim resulted in her husband being able to return to regular full-time hours, provided mortgage relief, and enabled her to travel to Queensland to visit her elderly parents before they passed away.

## Example 16

A 40-year-old member was diagnosed with cancer and died within four months, leaving behind his young wife and four-year-old child. Fortunately, he had provided for his family adequately by applying for insurance when he joined the fund five years earlier. The insurance proceeds would secure the financial future of his family, so they can focus on getting on with their lives instead of worrying about the financial burdens that result from the death of a young husband and father.

## Example 17

A 51-year-old member was diagnosed with a neurological disorder which led her to being retired on ill-health grounds. She automatically received default death and TPD insurance in her super upon joining her employer. The member was accepted for a TPD claim at a time when she was struggling financially, relying on Newstart benefits. She acknowledged the TPD lump sum will assist her in paying off her debts and will go a long way in relieving the stress that causes her neurological condition to worsen.

# Attachment B: Testimonials about insurance cover provided to funds by their members*

## Testimonial 1

*"Hello Michelle,*
*I hope this email finds you well. It's funny how quickly time passes and I was speaking to Wendy today that we've been in contact for almost 1yr! I can find a lot of words to describe Wendy – but, in the interests of brevity, I will give her every accolade for her tenacity, empathy, passion and putting her customer first.*

*Every month, I have plagued Wendy when it comes to payment time from the insurer and she has dealt with them in a manner that makes me feel she is working towards my best interests and is putting her heart to what she does. Having been a Sales Director myself, I know how hard it is to find, shape and manage the diamonds in a team – Wendy is a diamond in my humble opinion.*

*I would like to recognise Wendy's awesome work, quite often under pressure. The most important attribute that Wendy has is her empathy and genuine understanding of what a claimant like I am going through. You more often than not only hear horror stories of insurers doing the wrong thing by their customers, and I think this is a good news story that extends to the insurer. John, Anna, Simonie and others from the insurer have at all times been fair, flexible, understanding and empathetic.*

*Your team in conjunction with the insurer have done so much for me in the last year, that I cannot ever repay that debt. It's been a team that's worked with me, supported and encouraged me through the darkest parts of my health condition.*

*I am delighted to advise that I'm on the road to recovery, can see the light at the end of tunnel and this is in no small measure to what the team has been able to give me.*

*With sincere gratitude and kudo."*

## Testimonial 2

*"Dear Delma,*
*My beloved hubby Russell, his sister from D and I were at a little café in K this afternoon, preparing to order luncheon, when Donna R 'phoned Russell. He immediately handed his mobile to me – the look on his face quite frightened me. Donna told me of the incredible job you did on our behalf with regards to Russell's access to his super and the insurance no less.*

*I have to tell you that about three (3) seconds into the conversation, my mind went completely blank. On some level I obviously understood what Donna was telling me, however I simply could not comprehend.*

*I stood at the counter of the café, surrounded by people, and began crying. I think at that point Russell took his phone off me, and his sister grabbed me and asked if I was alright. People everywhere looking askance at me, and all I could think of saying was "it's just the best news possible".*

*I was not able to get to my computer when we arrived home as Terry, Russell's sister, wanted this quiet time to have a discussion with Russ and myself, and for the very first time in their lives, they hugged each other. Such a poignant, heart wrenching day.*

*I wish to thank you Delma, from the bottom of my heart. I know you have gone the "whole nine yards" on our behalf. Donna mentioned that this is a good story for insurance companies, and I thoroughly agree.*

*I am humbled Delma. You and Donna have performed a near miracle for Russ and I.*

*Thank you so much,*

*Yours very sincerely, and with much gratitude."*

** names have been changed for privacy purposes.*

# Attachment C: Case studies of occupational rehabilitation linked to insurance cover through superannuation

## Case study – Long-term communication and support

Jack*, a 35 year old with a long-term income protection benefit, was diagnosed with a brain tumour and underwent surgery. He required multidisciplinary rehabilitation post-surgery due to a stroke which caused paralysis and suffered cognitive difficulties. Five years later, as part of the ongoing communication with the member, the group insurer's rehabilitation team developed an extensive occupational rehabilitation program to provide assistance with job seeking and obtaining further education in a Certificate of Administration. Within two years of the rehabilitation program commencing, Jack successfully obtained work in a part-time administration role with a company and also commenced a temporary role.

**name has been changed for privacy purposes.*

## Case study – Early intervention in the pre-claim period

Julie suffered serious injuries when a large tree fell on her car during a storm. Julie was lucky to survive with multiple broken bones and lacerations and spent nine weeks in hospital. While she was still in hospital, a recovery consultant from the super fund's insurer contacted Julie to offer support and assistance as part of their early intervention initiative. Julie appreciated the call but advised that she was receiving a lot of support and counselling already. The recovery consultant kept in contact as she knew that Julie's situation was likely to change once she got home. This proved to be the case, as when Julie was discharged from hospital that support ceased, with no help on how to manage with her continuing injuries – how to get out of bed, dress herself and shower. The recovery consultant brought in an occupational rehabilitation specialist to suggest various aids that Julie could use to help her with daily activities. Towards the end of the claim waiting period, the recovery consultant engaged with a claims assessor from the insurer to commence Julie's disablement claim. As a result the claims process was streamlined, with payment commencing immediately following the cessation of Julie's annual leave, ensuring no gap in payments for Julie.

## Case study – Returning to work

Jill cut her hand badly on some glass. It took Jill some time to recover from her injuries and to build up strength in her hand. Jill was keen to get back to work, but due to the safety critical nature of her work was unable to do so until she was fully fit. To assist in her recovery, the super fund's insurer worked with her to imitate her work situation at home, building a trolley that she could use to pour drinks from, as this was the part of her role that required the most dexterity in her hand. Jill worked on this at home for a few weeks until she was ready to go back to work on full duties. This role-playing accelerated Jill's recovery while providing her with purpose and building her confidence during her time off work.

# Attachment D: Recent and prospective refinements of insurance arrangements designed to better meet the needs of fund members

## Fund 1

- Introduction of age based premiums
- Amended premiums to remove cross subsidisation (comparing premiums to claims in different segments)
- Introduction of a reserve specifically for cases of Coal Workers Pneumoconiosis.

## Fund 2

From 1 January 2017, we introduced the following for accumulation members:
- flexible TPD/death cover based on percentage of salary from claim to retirement age – five per cent minimum, 10 per cent, 15 per cent or 21.5 per cent which was the pre-existing default cover
- aged over 55 can opt-out of insurance cover altogether or select death cover only.

## Fund 3

The fund has recently completed a review of the insurance benefit design with the changes implemented on or before 1 July 2017. The key objectives of the review of the insurance benefit design were:
- the suitability of the benefit design
- the sustainability of the insurance benefit design now and into the future
- avoid eroding members' account balances inappropriately
- reduce the risk of adverse selection against the fund.

In addition to the above objectives, a major part of the review was considering whether to retain or change the current TPD definition. It was extremely important to the trustee that genuine claims are not declined because the definition became too restrictive. By changing other components of the fund's insurance benefit design and maintaining the current TPD definition, we were still able to negotiate lower death and TPD premiums.

## Fund 4

In 2015, the fund reviewed the adequacy and affordability of the default insurance arrangements applicable for our members. This was to ensure the following:
- the new default design provided to members is appropriate, based on the demographics of the fund
- the insurance product offered to members is simple and easy to understand
- associated insurance premiums are affordable, competitively priced and do not erode a member's retirement benefit, and
- the new default design is sustainable and innovative.

The review indicated that the level of cover in 2015 for younger members was too high while the cover for older members was too low. As a result, we introduced from 1 December 2015 new default insurance arrangements with a different amount of cover for death and TPD as the insurance needs are different at each age band. The level and type of cover is linked to the age of the member. For example, at age 16 the member receives one unit of death cover of

$28,273 for a weekly cost of $0.26. At age 21, the default cover is two units of death cover ($56,546) and four units of TPD ($113,092) for a weekly cost of $2.00.

Default income protection insurance is not provided to members due to the following:

- the fund has a large number of casuals, part-timers, seasonal and event workers each with different income, different working hours and days of employment
- the fund receives a large number of low value Superannuation Guarantee (SG) contributions which are indicative of low members balances, and
- mandating this type of insurance cover to all members would impose onerous requirements on members in that members would be paying an insurance premium for a benefit that they would most likely never receive or be able to claim.

## Fund 5

The fund has a current process whereby if a member's account is insufficient to pay for insurance premium deductions expected to be payable at the end of the billing quarter, a call to action/reminder letter is issued to the member requesting a contribution within 30 days or the insurance cover on the account will be cancelled.

## Fund 6

The fund uses the approach that if a member with a Salary Continuance Insurance (SCI) policy is no longer is receiving SG contributions after 120 days we will cease the policy. This is to protect superannuation account balances from being eroded in a circumstance where the member isn't employed (and therefore unlikely to receive an SCI benefit) or has started working elsewhere and may be covered by an SCI benefit at the new super fund which is now receiving their contributions.

1. Members are written to after 90 days of no SG highlighting that the SCI cover will cease at 120 days (if no SG received).
2. When the SCI cover does cease at 120 days the fund writes to them informing this.
3. If the member is on leave without pay from their employer, they have the option of continuing their SCI cover and can do this by responding to the letters above.
4. The member is also informed on the letter at point 2, that they can have their SCI cover reinstated without assessment by the insurer if it has ceased during a period of leave without pay subject to certain conditions.

## Fund 7

The fund is currently working with our consultant and insurer to finalise design changes to come into effect in approximately May 2018. While the fund has seen the overriding benefits of default insurance, with many of our members passing away with no other material assets, the fund is cognisant of the erosion of savings particularly for casual, part-time and other members with low balances. We expect that our design review will look to further ensure our insurance design aligns with the demographics of our fund, giving consideration to levels of covers (particularly at younger and older age cohorts), overall fairness (reasonable premiums for cover members can claim against) and sustainability.

## Fund 8

From 1 July 2016, the fund changed its default cover for death and TPD from age-based unitised cover to a multiple of the insured member's salary. The fund believes using salary as a proxy is a better way of matching cover to need. Where we do not have access to salary data, or if members require other than default cover, age-based unitised cover is available. The multiple applied to salary-based cover is lifecycle related, with higher multiples (up to 11 times for death) during years perceived as generally having greater need, and reducing as the member ages. The maximum multiple used to determine TPD benefits is seven times salary. This reflects a greater emphasis on the interaction between TPD and income protection benefits. Income protection is now available to all new members on an opt-out basis with a default five year maximum benefit period with the TPD benefit providing an initial lump sum to meet immediate needs, cover debt and fund lifestyle changes.

A comprehensive review of our lapsing process is currently underway. At this stage, we have not imposed specific account balance or time constraints on cover. The current exercise is focused on providing members with more timely advice about when cover may lapse and what steps they need to take to address this.

## Fund 9

We are not making significant changes to design at this time however we have been able to successfully secure improvements to our existing design with a 10 per cent discount on life and five per cent discount on income protection premiums as a result of our recent life insurance review and re-rate. Effective 1 October 2017, improvements include:

- broadening of default death and TPD insurance eligibility
- broadening and improvement to TPD definitions particularly as they apply to post-employment members
- lengthening of the cooling-off period for both default and underwritten cover from 14 days to 60 days.

# Attachment E: Methods allowed for notifying decision by fund member to opt out from insurance cover

Funds permit opting out through any or all of the following:

- box ticked on form seeking information about the member which is sent to new members of the fund
- box ticked on form for members to make changes to their existing insurance cover
- phone call to call centre
- email message to fund
- fund app
- changing details when logged into fund website
- signed document mailed or otherwise sent.

All funds surveyed by ASFA allow one or more of these methods to be used.

# Endnotes


1. Rice Warner 2016, *Insurance through Superannuation*.
2. Rice Warner 2016, *Insurance through Superannuation*.
3. APRA Annual Statistics.
4. AIA Insurance 2016, *Life Today Study*.
5. Rice Warner 2014, *Insurance Administration Expenses*.
6. KPMG 2013, *Underinsurance: Death Protection Gap in Australia.*
7. Rice Warner 2014, *Insurance Administration Expenses.*
8. Rice Warner 2015, *Under Insurance in Australia.*
9. ASFA derived, based on APRA and ATO data.
10. ATO 2016, *Super Accounts Data Overview* (https://www.ato.gov.au/About-ATO/Research-and-statistics/In-detail/Super-statistics/Super-accounts-data/Super-accounts-data-overview/).
11. For details see, https://www.moneysmart.gov.au/superannuation-and-retirement/keeping-track-and-lost-super/consolidating-super-funds#how.