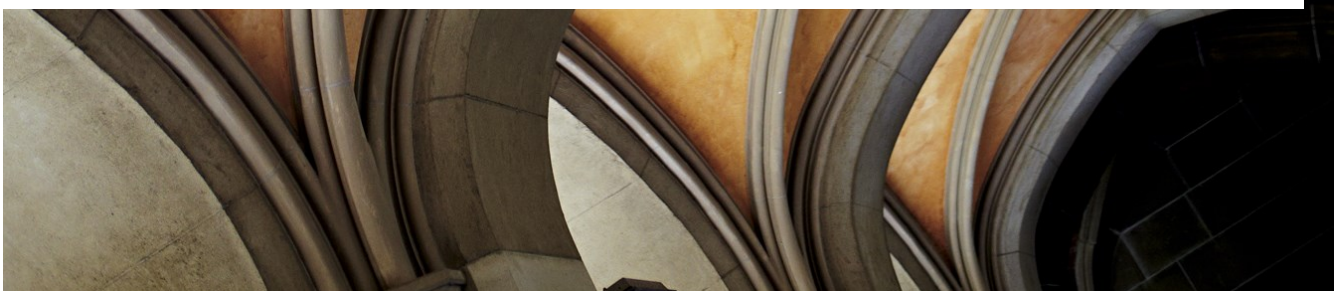




ISWG Discussion Paper one: Account balance erosion due to insurance premiums

Submission by UniSuper

13 April 2017



About UniSuper

UniSuper¹ is the superannuation fund dedicated to people working in Australia's higher education and research sector. With approximately 400,000 members and around \$55 billion in assets under management, UniSuper is one of Australia's largest superannuation funds and has one of the very few open defined benefit schemes.

Death and disability benefits for DB members are currently self-insured. Benefits for Accumulation account members are externally insured. In addition to self-insured benefits, DB members also have access to externally insured death and disability.

Different levels of default cover (which are offered without the need to submit health evidence) are offered to different cohorts of members, e.g. a lower level of default cover offered to SG members (casuals, contractors), and a higher level of cover is offered to permanent employees (who are generally in receipt of 17% employer contributions) who are likely to earn higher salaries and have longer tenure in their roles, leading to higher account balances.

UniSuper Management Pty Ltd would welcome the opportunity to discuss the submission further and to provide additional information in respect of the comments made in this submission. Should you have further queries, please contact Benedict Davies, Public Policy Manager, on 03 8831 6670 or benedict.davies@unisuper.com.au

¹ This submission has been prepared by UniSuper Management Pty Ltd (ABN 91 006 961 799), which acts as the administrator of the Trustee, UniSuper Limited (ABN 54 006 027 121).

Feedback

Establish design principles to be adhered to when determining automatic cover affordable insurance premium levels

UniSuper supports the development of guidance on the determination of appropriate cover levels (Question B.1.1). While there are trade-offs between prescription and flexibility (Question B.1.2), they can also complement each other.

We favour prescription and standardisation in some areas (e.g. definitions of key terms) so long as it is matched with sufficient flexibility for trustees to respond to the needs of their own membership (e.g. different insurance offering for different membership categories based on level of contributions).

Our preference would be for standardised insurance disclosures on an exceptions basis i.e. departures from standard terms, rules and design being the key disclosure requirement for trustees.

A move to more standardisation is not without cost and a transition period is essential. Any new standards should *only* apply to new members (Question B.1.4), otherwise the cost of the change would be too high and there would be unnecessary complexity in administering grandfather insurance offerings.

If new standards require funds to change their insurance offering, we think there should be a transition period that is long enough to allow trustees to renegotiate terms with insurers; the transition period should also take into account periodic insurance reviews. We suggest a period of at least three to five years for any transition.

Age bandings

The insurance of younger members is often debated within the industry, and it is a common presumption that younger members are either over-insured or receive no benefit from being insured. However, our experience suggests some caution before making too many assumptions about younger members. Our claims experience highlights to us that younger members do in fact claim and that claims are often extremely beneficial. By way of example, in 2015 UniSuper received approximately one-in-ten external cover claims from members under the age of 40 for Death, Terminal illness or TPD. Of those claims, one third were from members under 30.

While we believe there are clear benefits to younger members, we also have to consider the cost of these benefits. To do this, we have modelled the effect of premiums on a member's retirement balance. In our case, younger MySuper members (up to age 35) pay weekly premiums – that are lower than our annual administration fee – for \$232,000 of death and TPD cover. Our modelling of retirement outcomes suggests that the premiums do not have a substantial impact on members' retirement balance. There are, however, some short-duration membership problems with smaller, inactive accounts (less than \$1,000). The problem with smaller accounts, however, can be linked, in part, to the removal of member protection. With small accounts, it is a combination of administration fees and insurance

premiums together that erode balances. In many instances, account erosion could be addressed by the reintroduction of member protection.

To that end, we continue to advocate for rules that allow schemes more flexibility for insurance arrangements for short-term casual employees, along with a reintroduction of member protection from administration fees where they are in excess of investment returns.

Establish overarching prescribed maximum premium levels for automatic insurance coverage

We do not support the establishment of maximum premium levels for automatic insurance. There are already existing rules and regulations, including insurance covenants in the SISA, that require trustees of an RSE to consider the cost to all members when offering insurance and whether particular levels of cover inappropriately erode the retirement balances of members (Question B.2.11).

If, however, the ISWG were to develop a policy of maximum premium levels, we would welcome flexibility rather than prescription. Flexible rules should recognise that different insurances will need to be matched to different membership cohorts e.g. members who receive SG contributions only vs members who receive higher contributions under awards, EBAs and related industrial agreements.

Establish an industry standard for cessation of automatic cover due to low contributions, contributions inactivity or low account balances

UniSuper's current rules cease cover after 12 months of inactivity for those with account balances under \$2000. We do this for practical purposes but a standard should consider allowing members with lower balances to actively choose to retain their cover because they may wish to retain an account specifically to keep the insurance.

Formalise protocols between insurers for the treatment of claims against multiple income protection policies

Industry standards for refunding premiums if benefits are reduced for claims made against multiple income protection policies

UniSuper's defined benefit scheme includes a disablement benefit under our trust deed which we are required to pay regardless of any other income protection policies a member may hold. Consequently, where a claim is admitted, our disablement benefit is generally paid in full with any other IP policy being reduced.

It is difficult (and potentially undesirable) for defined benefit schemes to alter existing benefits and benefit design. Therefore, UniSuper would welcome an industry-wide protocol to bring standardisation to claims offsetting.

While there are often good reasons why members have multiple IP policies (e.g. top-ups, waiting period overlaps etc), it is important that protocols establish who is liable in the first instance to pay a claim or the order in which claims will be paid (Question B.4.27).

A standardised process should aim to reduce the need to complete multiple claim forms by members (Questions B.4.26) and their treating doctors. The process should also outline how and when premiums would be refunded where benefits are reduced (Questions B.5).

Encourage and help members to make informed decisions about their insurance cover

An education campaign highlighting the benefits of insurance within superannuation should be considered (Question C.1.34). As this type of market-wide education is a public good, it should be jointly-funded by peak bodies.

The mygov.gov.au portal shows total superannuation balances as well as individual balances if a taxpayer has more than one account. It also states Yes or No if the account has insurance. It does not, however, show the type of insurance. Consideration should be given to including the types of cover held. It is also worth considering a “warning message” if there is more than one account with insurance cover, particularly IP cover.

There are limitations with the portal, including how up-to-date the information displayed will be. The industry should continue to pressure the ATO for reliable, real-time information, otherwise the benefits of the mygov.gov.au superannuation information are limited or, at times, unhelpful. (Question C.1.35).

Funds themselves also have an important role to play in proactively helping members identify where they have multiple insurance (automatic or otherwise). Funds that offer transfers of cover should consider marketing campaigns to target groups of members. Funds should also provide members with information (e.g. educational videos, presentations) on insurance and the importance of reviewing their insurance.

Make better use of SuperStream, Single Touch Payroll and ATO’s superannuation account database to encourage members to make informed decisions about their insurance cover

Consideration should be given to allowing funds to perform supermatch searches without getting a member's express authority (Question C.2.46). Protocols would need to be established to ensure that search results return information limited to the presence of another superannuation holding without disclosing the name of that fund. Even that limited information would then allow funds to communicate directly with members and encourage them to either provide the authority for their “active” fund to arrange a transfer or for members to do it themselves.

We have highlighted above some of the issues that short-term casual employees present when designing default insurance (Question C.2.39). Any industry-wide initiatives that make use of these technologies to address this particular issue would be welcome.