Research paper

Developments in insurance provided through superannuation

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About ASFA

ASFA, the voice of super, has been operating since 1962 and is the peak policy, research and advocacy body for Australia's superannuation industry. ASFA represents the APRA regulated superannuation industry with over 100 organisations as members from corporate, industry, retail and public sector funds, and service providers.

We develop policy positions through collaboration with our diverse membership base and use our deep technical expertise and research capabilities to assist in advancing outcomes for Australians.

Overview and main findings

Recently published APRA data indicate that there have been substantial changes in the group insurance through superannuation market:

- The Protecting Your Super (PYS) and Putting Members Interests First (PMIF) measures led to a substantial reduction in the number of lives insured through superannuation for death benefits. Between June 2018 and June 2023 there was a 36 per cent decrease in the number of lives insured. There was a similar decline in the number covered for TPD.
- Fund members in aggregate paid less premiums, but for some individuals or their beneficiaries there was a substantial cost in terms of benefits foregone. Some tens of thousands of fund members do not have their super protected or their interests put first by the changes made by the two pieces of legislation.
- The impact on the Australian community was that there were 5,000 sets of beneficiaries of death benefits who missed out on payments of $665 million in aggregate in 2022-23.
- Without the PYS and PMIF changes there would have been an additional 11,000 individuals a year receiving around $1.5 billion in TPD benefits.
- The APRA data also show a large increase in the incidence of TPD claims. Claims related to mental health issues are likely to have played a significant role in this. Average TPD benefits equate to only a year or two or three of wage income. TPD claimants generally would benefit from more from a return to paid employment than from receiving a lump sum payout.
- Insurance cover is at much higher average levels when fund members engage in regard to insurance. Regulatory requirements in regard to the provision of personal financial advice currently can make such engagement challenging.

Background

Most if not all superannuation funds offer life, total and permanent disability (TPD) and income protection insurance for their members. Typically one or more of these types of insurance is provided on an opt-out basis for members during the accumulation phase up to a specified age. TPD insurance cover in superannuation usually ends at age 65. Life cover usually ends at age 70.

The types of insurance that can be provided through superannuation are limited to insurance types with benefits that are consistent with superannuation conditions of release. Other forms of insurance provided by life companies such as Funeral, Accident and Trauma are not permitted to be offered by superannuation funds.

Funds generally allow members to dial up the level of their insurance cover either to an age based automatic acceptance level or subject to individual underwriting. In some cases financial advice in regard to insurance cover is provided by the fund or an external financial adviser. Funds also make available educational material and online calculators to assist members make decisions about appropriate levels of insurance cover.

Insurance cover is also available on an individual basis outside of superannuation. That cover can be obtained directly from life insurers. In many instances the taking out of insurance follows the receipt of personal financial advice from a financial planner. An old adage is that "insurance is sold not bought".

The then Australian Government's *Protecting Your Super Package* (PYS) came into effect on 1 July 2019. The package was designed to protect Australians' superannuation savings from unnecessary erosion by fees and insurance costs.

The legislation included changes to fees, the transfer of inactive low-balance accounts to the Australian Taxation Office (ATO) and cancelling insurance for inactive members.

Under this law, super funds must cancel insurance on inactive super accounts that haven't received contributions for at least 16 months. In addition, some superannuation funds may have their own rules that require the cancellation of insurance on super accounts where balances are too low.

The Treasury Laws Amendment (Putting Members' Interests First) Act 2019 (the PMIF) requires all RSE licensees to cease the provision of insurance to members on an opt-out basis where:

a) the member has an account balance below $6,000 (active low balance accounts); or

b) the member is a new member who is under the age of 25.

The PMIF provisions build on the PYS changes. Both are intended to protect members' account balances from erosion from insurance premiums for cover that members may not want or need. However, members and/or their dependants may subsequently discover that cover was actually needed.

The PMIF reforms also permit RSE licensees to make an election to maintain or take out insurance on an opt-out basis for members employed in a 'dangerous occupation'. The election is required to be made in writing, starts on the day it is submitted to APRA, and must be published on the RSE licensee's website. Only a few funds have made such an election.

These various legislative changes have had a substantial impact on the market for insurance associated with superannuation fund membership. Data recently published by APRA allows for analysis to be undertaken of the impact of the changes.

The number of members with insurance cover through superannuation has declined substantially

As indicated by Table 1 below, after the PYS and PMIF measures came into force there was a substantial reduction in the number of lives insured through superannuation for death benefits. Between June 2018 and June 2023 there was a 36 per cent decrease in the number of lives insured and a 21 per cent decreased in associated total premiums. The average premium increased as a result, but the average sum insured also increased by 34 per cent over the period.

This decrease in the number of lives insured occurred over a period when there was a 12.2 per cent increase in the number of employed persons in the Australian economy from 12.5 million people to 14.1 million.

Table 1: Death benefit insurance

June 2023	Lives insured	8,513,891
	Annual premium	$1,982 million
	Sum insured	$1,877,135 million
	Average sum insured	$141,140
	Average premium per life	$233
	New business rate	1.7%
	Lapse rate	2.8%
June 2018		
	Lives insured	13,353,936
	Annual premium	$2,514 million
	Sum insured	$2,652,539 million
	Average sum insured	$105,510
	Average premium per life	$188
	Lapse rate	14%
	New business rate	10.8%

Source for this and following tables: Life insurance claims and disputes statistics | APRA

The reduction in the number of lives insured has been remarkably in line with ASFA's expectation at the time the PYS and PMIF changes were introduced, which was a reduction of around 5 million individuals after taking into account modest levels of opting in by affected individuals and some funds electing to provide insurance on an opt-out basis for individuals employed in a dangerous occupation[1]. The 5 million figure was made up of just under 3 million individuals losing cover because of the PYS changes and around 2 million because of the PMIF changes. There has been growth in the number of employees in Australia since 2018 as well, albeit with many new entrants aged under 25.

It is also interesting to note that there has been a marked decrease in the annual rate of funds changing their insurer. There would be a number of factors contributing to this, including both consolidation of the number of superannuation funds and also a reduction in the number of life insurance companies active in the group insurance market.

Life cover through group superannuation arrangements largely depends on default arrangements. Opt-out rates are relatively low when cover automatically applies, but opt-in rates for those not automatically covered are typically under 10 per cent of the groups concerned.

While at June 2023 there were around 8.5 million lives covered by group superannuation arrangements, there were nearly 15 million Australians with superannuation who were aged under 70 and/or not in a defined benefit superannuation fund. Around 12 million Australians were receiving the benefit of employer superannuation contributions. This suggests that there is scope for

[1] 1910-Implementing_the_PYS_changes_and_Putting_Members_Interests_First.pdf (superannuation.asn.au)

some millions of Australians to opt-in for insurance cover even when allowance is made for those under 25 and/or with low balances who may not be interested in paying for death cover.

Death cover that is individually advised has also declined since 2018, with a fall in lives insured from 2,037,578 to 1,508,065, a 36 per cent decline. A number of factors would have contributed to this fall, including regulatory changes to the provision of financial advice and a decline in the number of licensed financial advisers.

The decline in financial advisers is likely to have been a factor in the decline in lives insured. Adviser numbers have fallen by around 40 per cent since 2018, with risk advisers disproportionately represented in those departing the sector. Traditional life insurance sales skills do not equate to current requirements for formal education and training for advisers.

Developments in TPD insurance cover

As indicated by Table 2, there was a similar decrease (by 38 per cent) in the number of lives insured by TPD insurance, albeit off a slightly lower base. Some funds offer only Death cover on a default basis, and generally TPD insurance ceases at age 65 rather than age 70 which is the case for Death cover.

Despite a fall in the number insured, aggregate premiums increased, leading to a large increase in the average premium charged. However, as will be discussed later in this paper there also has been an even larger increase in aggregate claim payments, placing pressure on the profitability and sustainability of group TPD insurance cover through superannuation. There also has been a modest increase in the average sum insured.

Table 2: Total and Permanent Disability insurance

2023	Lives insured	7,597,083
	Annual premium	$2,346 million
	Sum insured	$1,416,510 million
	Average sum insured	$186,450
	Average premium per life	$308
	Lapse rate	3.5%
	New business rate	1.5%
2018	Lives insured	12,170,717
	Annual premium	$2,243 million
	Sum insured	$2,086,645 million
	Average sum insured	$171,450
	Average premium per life	$184
	Lapse rate	7.2
	New business rate	8.1

Developments in Disability Income Insurance

As indicated in Table 3 there also was a reduction in the number of individuals covered by Disability Income Insurance, but the 19 per cent reduction was less than the reduction for Death and TPD insurance. However, substantially fewer individuals are covered by DII insurance compared to Death and TPD.

The increase in average premiums was greater than the increase in average sum insured, leading to greater sustainability of this type of insurance.

Table 3: Disability Income Insurance

2023	Lives insured	4,045,588
	Annual premium	$1,932 million
	Sum insured	$14,660 million
	Average sum insured (monthly amount)	$3,623
	Average premium per life	$477
	Lapse rate	4.4%
	New business rate	1.2%
2018	Lives insured	4,993,946
	Annual premium	$1,790 million
	Sum insured	$17,299 million
	Average sum insured	$3,464
	Average premium per life	$358
	Lapse rate	13.3
	New business rate	11.8

Number of claims paid

Between 2018 and 2023 there was a sharp decline in the number of death benefit claims associated with insurance through superannuation, from 15,367 in the year to June 2018 to 10,178 finalised admitted claims in 2023. This suggests that around 5,000 individuals died without life insurance cover due to the PYS and PMIF changes. This decline is in line with the decline in the number of lives covered. This is not just a statistic – the impact on the Australian community was that there were 5,000 sets of beneficiaries who missed out on payments of $665 million in aggregate.

While some of those beneficiaries would have been parents and siblings of the deceased, there also would be cases of widows, widowers and orphans, particularly in regard to those aged over 25 with a low balance account or an inactive account.

The situation with TPD is more complicated. In the year to June 2018 there were 15,969 finalised TPD claims and in the year to June 2023 there 18,410 finalised claims.

While death age specific death rates were relatively stable over the period there was a marked increase in TPD claims, particularly claims associated with mental health issues. This has led to pressures on the provision of such cover and marked increases in premiums over the period.

However, if it is assumed that the incidence of claims would have been the same for the individuals who lost cover, then without the PYS and PMIF changes there would have been an additional 11,000 individuals receiving around $1.5 billion in TPD benefits. The reduction in the number of death benefit insurance claims following PYS and PMIF suggests that those excluded from default cover were receiving real cover from insurance. Those under 25 and/or with balances below $6,000 or are not immune from motor vehicle accidents, workplace injuries and mental illness. Similarly, those with an inactive account, including the self-employed, face potential risks.

Insurance cover provided through group arrangements in superannuation is cost effective, particularly compared to individual advised cover, which has higher distribution and administration costs.

As indicated by Table 4, the claims paid ratio is higher for Group Super in comparison to Individual Advised. This means that a greater proportion of the premiums paid are returned in the form of benefits to those covered.

Table 4: Claims Paid Ratio (a)

	Death	**TPD**	**DII**	
Individual Advised	44%	54%	50%	
Individual Non-Advised	40%	105%	137%	
Group Super	66%	94%	85%	
Group Ordinary	43%	31%	80%	
Total	**51%**	**78%**	**66%**	

(a) Claims paid ratio refers to the dollar amount of claims paid out in the reporting period as a percentage of the annual premiums receivable in the same period. Claims paid ratio for DII is estimated using a 24 month payment period.

Average benefit levels

For group cover through superannuation average payouts were in line with the average sum insured, although a little lower given that default insurance cover generally provides a higher benefit for younger individuals who are less likely to have a claim made in regard to them. The average Death payment in 2022-23 was $133,000, for TPD the average was $141,000 and for DII insurance the average was $4,000 a month.

Large individual superannuation payments made through superannuation are relatively uncommon. Based on data from one major insurance company, in 2022-23 for the entire system there were likely to have been around 350 TPD payouts of $1 million or more, with around 40 of them over $2 million. Many of them would have involved advised individuals using retail platforms.

Large death insurance payouts through superannuation are a bit more common, but most likely in 2022-23 there were likely to have been only around 100 a year which involved payments of more than $2 million.

Payouts are substantially higher for those who are Individually Advised, but average premiums are also much higher. The payout ratio for cover through group arrangements is much higher reflecting lower distribution and administrative costs amongst other factors. For Death cover, average claim payments in 2022-23 for this category were around $495,000, for TPD the average was $657,000 and for Disability Income Insurance the average was $8,000 per month.

Different insurance needs calculators provide different estimates of how much insurance cover a person will need. Some calculators focus on the payment of funeral or care expenses and payment of debt obligations following death or disability while others allow for both such expenses and payments and also make allowance for future reductions in income. Calculated needs restricted to expenses are more in line with default cover provided through group cover. Calculated insurance needs that involve income replacement typically involve much higher estimates, particularly for younger individuals.

Time taken to process benefit applications

Service standards have been very much in the news of late. Much of that focus has been on the time taken by superannuation funds to consider applications for benefit payments and to make payments.

Of course, not every benefit payment involves an insurance payment. Many death benefit payments relate to individuals aged over 70 when cover has ceased.

Some benefit payments also require further consideration by a fund even after an insurance payout is approved. For instance, there may be competing beneficiaries for a death benefit payment. As well, there may be identification and other administrative requirements to be met.

Insurers are generally prompt in the finalising death benefit claims. Only a very small proportion take longer than 12 months to finalise, with the great bulk finalised within 2 months.

In the case of TPD and DII claims there often is a need for medical reports and assessments to be made. While the bulk of such claims are finalised in under six months, around 6 per cent of TPD claims take more than 12 months to be finalised by insurers.

Table 5: Number of claims and time taken to finalise claims, June 2023

Death	**Total Finalised Claims**	**0-2 weeks**	**> 2 weeks to 2 months**	**> 2 months to 6 months**	**> 6 months to 12 months**	**> 12 months**	**Est. average duration (months)**
		%	%	%	%	%	
Death	10,353	72.6%	19.2%	6.7%	1.3%	0.3%	1.1
TPD	19,941	12.7%	19.6%	45.0%	16.3%	6.3%	4.9
DII	19,049	36.2%	43.4%	15.0%	4.1%	1.2%	2.0

Number of disputes and time taken to resolve disputes

Only a small proportion of Death benefit claims lead to a dispute with an insurer (presumably in regard to whether the individual was covered by a policy or in regard to an exclusion that applied such as death by suicide within the first year of cover of the individual).

While the average duration for disputes to be resolved is relatively short (ranging between 1.5 and 2.4 months), in the case of both Death and TPD around 15 per cent of disputes took over 90 days to be resolved.

Table 6: Number and duration of disputes, June 2023

Death	**Total Disputes Resolved**	**0 - 45 days**	**> 45 days to 90 days**	**> 90 days**	**Est. Average Duration (months)**
		%	%	%	
Death	**93**	**76.3%**	**7.5%**	**16.1%**	**2.0**
TPD	**1,593**	**77.7%**	**6.1%**	**16.3%**	**2.4**
DII	**1,995**	**88.6%**	**3.3%**	**8.1%**	**1.5**