September 2020

Superannuation Insurance Cost Assessment

Technical Paper

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1 STATUS OF TECHNICAL PAPER

1. In this Technical Paper:

   - **Age Pension** refers to the means tested pension provided by the Australian Government to people meeting the age (currently age 66) and residency requirements.
   - **Cohort/ Member Cohort** means a particular group or segment of Fund Members based on a factual characteristic.
   - **Default Insurance** means the insurance cover provided to a member under a fund's default arrangements. It excludes insurance where the premiums are wholly paid by the Fund Member's employer and insurance for defined benefit members.[1]
   - **Default Insurance Member** means a Fund Member who is provided with insurance cover under a fund's default arrangements and retains the default arrangement without change to cover or insurance category.
   - **Default Member** means Fund Members who join a fund as a result of the fund being nominated by their employer, usually under an Award, EBA, an employer participation agreement or Commonwealth or State legislation (for public sector funds).
   - **Fund Member** refers to the member of a superannuation fund.
   - **Member** is a member of the Actuaries Institute.
   - **Opt In** in relation to cover refers to the situation where a Fund Member who would not otherwise have been provided with insurance cover upon joining the fund (usually because they have less than $6,000 in their account or they are under age 25) nevertheless chooses cover offered by the fund.
   - **Opt Out** in relation to cover refers to the situation where a fund automatically provides insurance cover to Fund Members upon joining the fund (usually subject only to an employment test). This arrangement requires a Fund Member to 'opt out' of insurance if the Fund Member considers the insurance to be inappropriate for them.
   - **Premium(s)** means the premium paid by a Fund Member for the insured benefits provided by their fund. This may be higher or lower than the premium paid by the fund to the insurer.
   - **SIS Act** is the Superannuation Industry (Supervision) Act 1993
   - **SPS 250** is the APRA prudential standard SPS 250 Insurance in Superannuation
   - **SPS 515** is the APRA prudential standard SPS 515 Strategic Planning and Member Outcomes
   - **Trustee** means the RSE licensee in relation to a superannuation fund
   - **VCoP** means the Insurance in Superannuation Voluntary Code of Practice.

2. This Technical Paper was prepared by the Insurance in Super Working Group, which reports to the Superannuation Practice Committee and Life Insurance and Wealth Management Practice Committee of the Actuaries Institute.

3. This Technical Paper has been approved by the two Practice Committees.

4. Its purpose is to inform Members about the requirements and considerations for advice provided to trustees when assessing the cost of insurance for Default Members, including:

   - The measures to be used.
   - Whether the insurance costs are appropriate for the membership.

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[1] The 1 March 2020 VCoP defines Default Insurance Cover (or Automatic Insurance Cover) to include both cover provided automatically to members and cover provided to members who elect to adopt a trustee selected or standard level of insurance cover. This Technical Paper has effect irrespective of the definitions in the VCoP.

- Approaches where the insurance cost is no longer appropriate.
- The relevant legislation, regulations, prudential standards and VCoP.

5. The trustee's determination of the cost of insurance for Default Members will generally form part of the Insurance Management Framework and Insurance Strategy of the trustee.

6. Members may be asked by a trustee to provide advice on insurance arrangements for the fund and, in particular:

   - the types and levels of Default Insurance and the terms and conditions attaching to the benefits;
   - the appropriateness of the amounts charged by the insurer to the fund;
   - the appropriateness of the Premiums including the trade off with retirement income for those Fund Members who do not die or become disabled; and
   - the assessment of member outcomes under SPS 515 and the measurement of those outcomes.

   This Technical Paper is intended to assist Members in providing advice in relation to the appropriateness of the Premiums.

7. The focus of this Technical Paper is on Default Insurance funded by the Fund Member, although it is important to note that the SIS Act also places significant obligations on trustees in relation to insured benefits for other Fund Members.

8. This Technical Paper is not a Professional Standard or Practice Guideline and it is not mandatory. It is not legal advice and has been prepared without a legal review or opinion. References to legislation and regulatory requirements are current at the date of the Technical Paper. Members should check that there have been no subsequent changes.

9. This is the first version of this Technical Paper.

10. This Technical Paper does not constitute legal advice. Any interpretation or commentary within this Technical Paper regarding specific legislative or regulatory requirements reflects the expectations of the Institute but does not guarantee compliance under applicable legislation or regulations. Accordingly, Members should seek clarification from the relevant regulator and/or seek legal advice in the event they are unsure or require specific guidance regarding their legal or regulatory obligations.

11. Feedback from Members is encouraged and should be forwarded to the Insurance in Super Working Group through:

    Jeff Humphreys, jeffh@chrc.com.au

2 LEGISLATION

12. The SIS Act, prudential standards and the VCoP may have a bearing on the design of insurance arrangements for superannuation funds and, in particular, the cost of those insurance arrangements to Fund Members.

Summary

13. A summary of these instruments in relation to insurance arrangements is set out below:

SIS Act

- The SIS Act Section 52(2)(c) states trustee's overriding obligation to perform its duties and exercise its powers in the best interests of the beneficiaries.
- The SIS Act Section 52(7)(a)i&ii require the trustee to determine appropriate kinds and levels of insurance benefits for Fund Members.
- The SIS Act Section 52(7)(c) requires the trustee to ensure that the resulting cost of the insurance does not inappropriately erode the retirement income of beneficiaries.
- The SIS Act Section 52(9)(a) requires the trustee to determine, in writing, on an annual basis, whether the financial interests of the beneficiaries of the entity are being promoted by the trustee. Section 52(10) goes on to state that, in making this determination, the trustee must assess, amongst other things, whether any insurance fees charged in relation to the product inappropriately erode the retirement income of those beneficiaries.

APRA

- SPS 250 and SPG 250 (Insurance in Superannuation)[2] provide further details regarding the insurance covenants in Section 52(7) of the SIS Act.
- SPS 515 (Strategic Planning and Member Outcomes)[3] Section 14 requires the trustee, on an annual basis, to review its performance in achieving its strategic objectives (business performance review) and use the results of the review to make improvements to its business operations. Section 15 goes on to state that this review must have regard to (amongst other things):
  - the outcomes achieved for different **cohorts** of beneficiaries (such that all beneficiaries are covered) against objective internal and external benchmarks; and
  - the outcomes assessments under section 52(9) of the SIS Act.
- SPG 516 (Business Performance Review)[4] provides further details on the member outcomes assessment and the selection of Fund Member **cohorts**. In particular, Section 17 states that, for MySuper Fund Members, it would be appropriate to consider setting cohorts based on demographic data (e.g. age, gender), balance size or occupation-type. Section 20 states that individual Fund Members may be included within multiple different cohorts based on their particular attributes. Section 21 states that separate cohorts for low account balance and retained Fund Members are likely to be appropriate, particularly when considering fees or premiums and possible cross subsidies.

[2] 15 November 2012 and draft November 2019
[3] January 2020
[4] November 2019

- SPG 516 (Business Performance Review)[5] Section 97 states that, in assessing the impact of insurance premiums on retirement incomes (for the purpose of the Annual Outcomes Assessment), the trustee should:
  - determine affordability measures, including benchmarks such as those established in relevant industry codes.
  - utilise internal data on the unique characteristics of Fund Members.

VCoP

- Section 4.8 of the VCoP (for those trustees who have signed up) requires that when a trustee designs insurance benefits for Default Members, premiums for that benefit design will be set at a level that does not generally exceed 1% of an estimated level of salary for the fund membership and/or for segments within the membership except in the particular circumstances that the trustee determines.

14. Attachments 2 to 5 set out relevant wording from the various instruments. However, they are not necessarily a complete cut of all the relevant wording.
15. The trustee operates within the hierarchy of these instruments when determining insurance design and assessing its cost. At the top of the hierarchy are the legislative requirements (the best interests' duty and the Insurance Covenants) and at the bottom is the VCoP. When advising the trustee on appropriate insurance costs, the Member may also consider each of the instruments and the hierarchy, reflecting this in their advice.

VCoP

16. The VCoP may be interpreted to require more detail than simply stating the target cost or capped cost to be for example "1% of salary". The detail may include consideration of fiduciary duties to Fund Members. It may also include consideration of the circumstances of relevant cohorts.
17. The VCoP envisages that a rate higher than 1% of salary may be appropriate "due to the identification of particular circumstances relating to the membership generally and/or cohorts within the membership".
18. This Technical Paper includes references to elements of the current VCoP.
19. Where the trustee is not a signatory to the VCoP, references to the VCoP in this Technical Paper may be less relevant.

Value Proposition

20. This Technical Paper assumes that the value proposition provided by the life insurance industry is appropriate and fair to the Fund Members concerned. If this is not the case then it is likely that premiums set at any level will inappropriately erode the retirement income of beneficiaries and in the extreme the trustee may withdraw the insured benefits or provide only the minimum required under Superannuation Guarantee legislation.

[5] November 2019

3 INSURANCE COST ASSESSMENT – CONSIDERATIONS

Background

21. The understanding and determination of the appropriate trade off or balance between insured benefits, the cost of insured benefits and retirement income is a core function of the trustee for its Default Members who may or may not have considered their personal circumstances in relation to their superannuation benefits. This can be seen as a trade-off between the risk management of the financial consequences of the unknown date of death or disability of a Fund Member.
22. Superannuation legislation recognises the need for Fund Members to be covered against death and disability risks in the covenants in 52(7)(a)i&ii of the SIS Act which require the trustee to establish an insurance strategy setting out, amongst other things, the kinds and levels of insurance to be provided. This includes the kinds and levels of Default Insurance. General practice is for trustees to set these based on analysis of the insurance needs of the Fund Members concerned. That analysis is beyond the scope of this Technical Paper but insurance needs form a benchmark against which possible kinds / levels of Default Insurance are assessed, including assessment of the trade-offs between retirement income and mortality and morbidity risk.
23. Section 52(7)(c) of the SIS Act recognises the trustee's role in determining the appropriate trade-off for Fund Members between the cost of death and disability benefits and the level of retirement income (for those Fund Members who do not die or become disabled).
24. Superannuation legislation recognises these two aspects in the Sole Purpose Test (section 62 of the SIS Act). Retirement income, death and disability benefits form part of the sole purpose of superannuation, with retirement income and death benefits both being core benefits.
25. Benefit design (terms, disability definitions, cover types and cover levels) is generally set to provide long-term stability, sustainability and durability with premium rates used as the adjustment mechanism for fluctuating experience.

Check List of Considerations

26. There are many possible approaches and methodologies available when determining an appropriate insurance cost. Similarly, there are many possible approaches to keeping premiums within the bounds of the appropriate insurance cost. These may vary between funds because of their circumstances. However, when advising trustees on the appropriateness of the cost of Default Insurance, the Member may consider such issues as:

    a) The cohorts of the membership to be considered.
    b) The appropriate balance between insurance cover and retirement income and the resulting reduction in retirement income that is appropriate for each cohort.
    c) Whether to set the cost as a target or alternatively as a cap or ceiling
    d) The sources of retirement income to be taken into account.
    e) How the reduction in retirement income may be alternatively expressed, e.g. against an appropriate metric(s) such as salary (as used in the VCoP), contributions or account balance.
    f) The detailed definition of the metric.
    g) The measure of insurance cost to be adopted.
    h) The Fund Member timeframe(s) over which the cost is to be measured.

i) Whether future salary increases and/or investment earnings should be taken into account.
j) The approach to be adopted for new members.
k) Any exceptional/particular circumstances relating to one or more of the cohorts which might lead the trustee to adopt a different approach for that cohort.
l) The methods available and timeframes for correction where the insurance cost moves outside the desired level.

27. These considerations are discussed in the following sub-sections. Attachment 1 contains an example of a methodology that a Member might develop based on these considerations, as they apply to a hypothetical fund.

3.1 Choosing Fund Member cohorts

28. SPS 515 requires the trustee to assess whether the outcomes it seeks to provide beneficiaries have been, and will be, provided, and whether and how those outcomes could be improved (outcomes assessment). It requires assessment for different Fund Member cohorts and an explanation to be provided of how the trustee has decided to segment its business into cohorts such that outcomes provided for different cohorts are able to be appropriately assessed.

29. The outcomes assessment for Default Insurance may be considered in two parts:

- the design (for example cover levels, cover types, terms and conditions), so SIS Act Section 52(7)(a)iⅈ and
- the resulting cost of the Default Insurance design - does it inappropriately erode the retirement income of beneficiaries.

The cohorts used for these two parts may be different.

30. Cohort determination may be an iterative process. Cohort determination may also depend on the data available to the trustee and its accuracy.

31. The Member may consider the factors below to be relevant in determining the cohorts for the cost assessment. If cohorts were to be established for each level of each of the factors, the assessment would be extremely complex and the number of Fund Members in each cohort may be small. A simpler cohort analysis may provide more meaningful and actionable results than a complex cohort analysis. In determining appropriate cohorts, the Member may consider:

a) Which combinations of factors are the most material in terms of number of Default Insurance Members.
b) Which combinations of factors are the most significant in terms of variations in member outcomes.
c) The potential for adverse outcomes if Fund Members move from one cohort to another.
d) That it is acceptable for cohorts to "overlap" so that a particular Fund Member may be included in two or more cohorts.

- **Age**. Claims risk and the cost of providing Default Insurance vary by age**.** The importance of insurance relative to retirement income also varies with retirement age and life expectancy. This suggests that different cohorts for different ages or age groups may be considered appropriate.
- **Salary**. The cost of Default Insurance relative to retirement income will vary according to the member's salary because a member's salary affects their Superannuation Guarantee contributions (and the ability to make additional contributions) which, in

turn, affects their retirement income from superannuation and, as a result, also their retirement income from the Age Pension. This may be particularly the case where dollar value Default Insurance is provided. Salary is also linked to employment status (casual, permanent, full time, part time).

- **Occupation.** Claims risk and the cost of providing Default Insurance may vary with occupation and this suggests that different cohorts may be appropriate for Fund Members in different occupation groups.
- **Gender**. Claims risk and the cost of providing Default Insurance may vary by gender. Under some Default Insurance designs there may be offsetting impacts, for example typically for males, death and TPD risk is higher than for females, but for Income Protection cover it is lower than for females.
- **Insurance Category**. The fund may have different insurance categories including tailored insurance arrangements for particular employers. These categories may have different Default Insurance designs and/or Premiums and a separate cohort may be considered appropriate for each arrangement or group of similar arrangements.
- **Contributions**. The impact on retirement income may vary with the amount of contributions made over the period of membership of the Fund Member. Contributions are a function of both the contribution rate and the salary of the Fund Member.
- **Account Balance**. The impact on retirement income may vary with the account balance over the period of membership of the Fund Member. The account balance is a function of many factors. The account balance at retirement may also determine the level of retirement income derived from the Age Pension.
- **Grandfathered Default Insurance.** Where these vary from the Default Insurance arrangements for new Fund Members it may be appropriate to treat these arrangements as separate cohorts, particularly if cover levels or rates used to determine Premiums vary from the Default Insurance arrangement.
- **Change of design**. Where the design is going to change, future new Fund Members may have different cover levels or rates used to determine Premiums to current Fund Members and may therefore be considered as a separate cohort.

32. Some factors may be relevant when considering design outcomes but not as relevant when considering the cost of the design. These may include:

- **Family Status and financial dependents.**
- **Employment Status** (e.g. permanent full time, permanent part time, casual, contractor, unemployed).

33. Many Default Insurance Members do not advise the trustee of their circumstances when requested and do not obtain the advantage of lower premiums and/or high cover. For example, members who are provided with Default Insurance based on a "General" occupation may be eligible to move to lower risk, lower premium insurance categories but do not elect to do so. It may be that it is appropriate to consider these members as a separate cohort.

34. Where the fund does not hold the appropriate and/or accurate data required to assess member outcomes for a particular cohort, the Member may consider using estimation methods. For example, where the fund has incomplete data regarding Fund Members' occupations, these may be estimated by considering the industry of the employer which made the most recent Superannuation Guarantee contribution(s) or the occupation the Fund Member may have advised when they first joined, or the occupation of claimants (adjusted for occupation expected claim relativities).

3.2 Determining the appropriate balance between the level of insurance cover and the level of retirement income

35. In general, no one knows the date on which they will die. People live with a financial risk because of their unknown mortality. The risk requires them to both save, assuming a late death, and hedge against the possibility of an early death. This means diverting part of personal exertion income (earned over the working life) into retirement savings and part into insurance premiums for death cover.

36. The trade-off between retirement savings and the mortality and morbidity risk varies greatly when considering possible cohorts of Fund Members. The trade-off applies during the accumulation phase and in the length of the retirement phase. For example:

- People working in Dangerous Occupations compared with those working in white collar jobs;
- People living in cities compared with people living outside cities; and
- People with higher income compared with people with lower income.

37. The determination of what is inappropriate or appropriate and where the two cross over is not straight forward and is to some extent subjective. It is likely that a trustee will find there is a range of results that are appropriate/not inappropriate. Actuarial advice may assist the trustee in its deliberations by quantifying the trade-off more precisely and tailored to the Fund's membership and/or cohorts of membership. Some of the considerations that may be taken into account when determining the appropriate reduction for each Fund Member cohort are:

- Mortality and morbidity rates before and after retirement age.
- The profile of the age at which Fund Members retire.
- Income levels.

38. The requirement to ensure that premiums do not inappropriately erode the retirement income of Fund Members may be considered similarly, or more simply, as a requirement to ensure that the reduction in retirement income due to premiums is appropriate for the circumstances of the Fund Members or cohort of Fund Members as the case may be.

39. In Australia, the government provides a low level safety net for insufficient retirement savings to all Australians but no general safety net, on death, for the financial dependents of the deceased. The financial consequences for the dependants of Fund Members who die during the working ages are likely to be severe. The Australian Life Tables show that there are approximately 26,000 deaths p.a. of people aged 25 to 64 in Australia.

40. The government funded retirement safety net phases out with assets (including superannuation account balance), amongst other things, and the marginal rate of reduction is very high.

41. The financial consequences for a person and his or her financial dependents of permanent disability are also severe, arguably more severe than on death. However, there is a low level government safety net in these circumstances.

42. When advising a trustee on the appropriate trade-off for Fund Members between the cost of death and disability benefits and the level of retirement income, the Member may consider the various sources of retirement income. These include:

- superannuation,
- Age Pension,

- other savings and investments, and
- utilising the value of the family home.

43. The proportion of retirement income attributable to each of these sources may vary widely between cohorts of Fund Members, particularly with the Age Pension which can make up between 0% and 100% of a Fund Member's retirement income. Premiums affect only the superannuation component of retirement income. The impact of Premiums on retirement income may therefore vary widely within a fund's membership.

44. The test of inappropriate erosion is more relevant for those Fund Members who are fortunate enough not to die or become disabled. For those Fund Members who do die or become disabled and receive a benefit, their/their dependents' retirement income is in most cases improved rather than reduced as the benefit will substantially exceed the premiums paid.

3.3 Expressing the Reduction in Retirement Income as an Appropriate Metric

45. Default Cover levels are often derived from the economic loss of the Fund Member in the event of death or disability, the loss being the lost income from future work. Contribution rates are also related to salary with Superannuation Guarantee (SG) contributions (and most other contributions) expressed as a percentage of earnings. A useful metric to express the appropriate reduction in retirement income may therefore be a salary measure. This is the metric used by the VCoP. Detailed considerations around the salary metric are discussed in some sections below.

46. Where superannuation makes up all of the Fund Member's retirement income, as a rough rule of thumb, a reduction in retirement income of 10% equates to an insurance cost of around 1% of salary[6].

47. Some cohorts will be expected to have other sources of retirement income other than superannuation. This will be a function of for example:

    a) Income level during working ages.

    b) Asset levels both inside and outside superannuation at retirement.

    c) Interaction of the account balance during retirement with the Age Pension.

    A broad adjustment to the rule of thumb percentage can be made to reflect this. For example, if one third of the retirement income is expected to be sourced from outside superannuation for a cohort then the rule of thumb reduction in retirement income of 10% equates to an insurance cost of 1.5% rather than 1%.

48. The Member may consider this rough rule of thumb as a starting point for communication with the trustee and proceed to undertake a more accurate assessment for each cohort.

[6] For example, this applies if the Superannuation Guarantee rate is 10% of salary, there are no administration fees and real (after salary) investment income after investment expenses and tax is zero and superannuation is the only source of retirement income.

3.4 Measures of salary

49. Members may consider determining salaries separately for each cohort that the trustee has chosen for assessing member outcomes (see Section 3.1).

50. In assessing the cost of Default Insurance for a particular cohort, the following considerations may be relevant:

- The source of salary data to be used.
- Where estimated salaries are used, the estimation method adopted.
- The salaries to be used when assessing the cost of Default Insurance for future new Fund Members.

Sources of salary data

51. For some funds or cohorts within a fund, the salary of each Fund Member is known, for example where the design includes salary-based cover levels and/or premiums.

52. However, many funds are not provided with salary data by the employers and it is not a required field for SuperStream. In these circumstances, sources of data that may assist in the determination of salary structures include:

- Salaries derived from Default Insurance Members' history of Superannuation Guarantee contributions.
- For some funds or cohorts, salaries stated in a dominant Award(s) may be used adjusted for overtime and allowances if appropriate.
- Earnings data available from publicly available sources. For example:
  - The ATO provides a series of sample files of individual tax return information[7]
  - The Australian Bureau of Statistics publishes earnings by occupation category and age group[8].

53. In some cases, the fund may not obtain Superannuation Guarantee contributions data separately from overall employer contributions data in SuperStream. In these circumstances, the Member may consider using other data sources and/or making approximate adjustments to contributions data.

54. Where multiple sources of salary data are available, the Member may choose to use a combination of sources and/or use some sources to validate the results from other sources. For example, if Fund Members' Superannuation Guarantee contributions are used as the primary source of salary data, salary levels stated in the relevant Award or ABS data on earnings for individuals working in the relevant industry may be used to validate the results.

7 https://www.ato.gov.au/About-ATO/Research-and-statistics/In-detail/Taxation-statistics/Taxation-statistics-2016-17/?anchor=Individualssamplefiles#Individualssamplefiles

8 63060DO001_201805 Employee Earnings and Hours, Australia, May 2018, Table 8 "ALL EMPLOYEES, Number of employees, Average weekly total cash earnings–Age category, Industry" https://www.abs.gov.au/AUSSTATS/subscriber.nsf/log?openagent&63060do001_201805.xls&6306.0&Data%20Cubes&97069E201F1B76ECCA258389001BCB66&0&May%202018&22.01.2019&Latest

Estimation method

55. Where Superannuation Guarantee contributions are used as the basis for determining salaries, the method of doing this can have a significant impact on the resulting assumed salaries. As such, the Member may consider whether the chosen method is appropriate for those Fund Members who will make up the future insured Default Fund Members of the cohort.

56. For example:

- The method may be based on analysis of Default Insurance Members only. As such it would not be influenced by the different characteristics of Fund Members who have selected different levels of cover or do not have cover because they are under age 25 or have less than $6,000 in their account.
- The method may exclude inactive members as they are likely to be short term due to account consolidation and if they remain inactive will have opted in for cover and can no longer be considered part of the default insured membership.
- Many permanent part time and casual employees have more than one job. The Superannuation Guarantee contributions received by the fund may need to be grossed up to account for the circumstances of these Fund Members. This is particularly the case under the Protecting Your Super (PYS) and Putting Members Interests First (PMIF) legislation which work to remove insurance cover in more than one fund.
- For Fund Members with a short period of fund membership (membership less than the measurement period being used to estimate salary) the Member may gross up the Superannuation Guarantee contributions.
- Mean salaries, median salaries or some other central estimate approach may be adopted when estimating the salary structure. Where the distribution of salaries is skewed (most funds) the median salary may be more appropriate than the average.

57. Where there is significant dispersion of salaries around the mean or median, the Member may use separate salary cohorts to prevent the mean or median being distorted for the majority of Default Insurance Members.

58. Salaries may be increased to allow for salary increases up to the date the cost of insurance will be applied to the membership. For example, premiums applying under a 3 year premium guarantee that commence in 6 months may allow for 2 years' salary increase.

New Fund Members

59. New Fund Members who become eligible for the fund's default insured benefits may have a different profile to the existing Default Insurance Members because for example they may be subject to the PMIF age and account balance tests.

Member Salaries Known

60. Where salaries are known for each Fund Member in a cohort, the Member may determine the cost of insurance for each individual Default Insurance Member.

61. The cost of insurance may then be averaged across the Default Insurance Members in the cohort concerned or a measure may be chosen such as "the cost of insurance should not exceed x% of salary for more than y% of Default Insurance Members".

3.5 Timeframe for measurement

62. The purpose of measuring the cost of insurance is to inform the trustee of the trade-off with retirement income. As such, the primary focus may be on the benefits and cost of insurance over the Default Member's whole accumulation phase membership rather than on the cost of insurance each year or over short periods.

63. Setting an insurance cost that must apply at every age may:

    - Be unnecessary in funds with lower turnover. Turnover rates are likely to be reducing in future years as a result of Choice of Fund, account consolidation and fund mergers.
    - Be unnecessary as designs are by necessity generally focused on Fund Members who retain their membership.
    - Unnecessarily constrain the trustee's duty (SIS Insurance Covenant) to determine "appropriate kinds and levels of insurance benefits" for Fund Members. It may distort designs, providing excessive cover at some ages and insufficient cover at other ages.
    - Force the trustee to adopt premium rates which do not reflect underlying risk at some ages or age groups, creating age cross subsidies.

    On the other hand, a fund with a very high turnover of Default Insurance Members, and this turnover rate is seen as a permanent feature of the fund, may put some focus on the age by age or age group cost.

64. The timeframe over which the cost of Default Insurance is measured may take into account:

    - the age at which Default Insurance Members join the fund and the age at which they retire.
    - the impact of PMIF age and account balance tests if they apply to the fund.

3.6 Salary Increases and Discounting

65. In determining the cost of the default insured benefit design, the Member may allow for increases in salaries associated with economic factors such as inflation, productivity and growth in the economy. All else being equal, these increases in salary imply increases in required cover levels if cover levels are to retain their real value and consistency in these assumptions may be important.

66. Where the chosen timeframe for measurement is the full accumulation phase and premiums are not the same percentage of salary at each year of age, the cost of insurance may allow for both salary increases and discounting.

67. The discount rate may reflect the risk free rate (Government or high quality corporate bond) or the expected post tax returns on the default investment option of the fund.

68. The net impact of discounting and allowing for salary increases may be small, and the Member may consider that it is only appropriate to add complexity to the calculations where it enhances understanding and makes a difference to the result.

3.7 Target v Cap

69. There is no requirement in the legislation or from APRA on how the trustee should implement the trade-off.

70. The VCoP requires premiums to be set "…at a level that does not exceed 1% of an estimated level of salary…" but can "…..exceed 1% due to the identification of particular circumstances relating to the membership generally and/or cohorts within the membership".

71. Benefit design (terms, disability definitions, cover types and cover levels) is generally set to provide long-term sustainability and durability. The Member may consider advising the trustee that:

    - It is in Fund Members' interests to have a stable design and not have cover or terms that may be reduced without consent.
    - Ideally, design changes will not be used instead of premium rate changes to accommodate short term claims experience fluctuations, particularly where this occurs frequently and/or with a short notice period.

72. A fixed ceiling may only accommodate claims cost fluctuations through reduced cover levels, and these may have to be advised to Fund Members on short notice.

73. A target may allow a more considered approach to claims cost fluctuation resulting in a more stable design and more appropriate notice period for Fund Members.

3.8 Actual Insurance Cost

74. The cost of insurance is the sum of all the insurance related charges (positive and negative) to the Fund Members' account as this is the impact on the Fund Member's retirement income of the insurance arrangement for those members who do not die or become disabled. They may sum to be more or less than the amount of premium paid by the fund to the insurer.

75. The cost of insurance to the Fund Member may include one or more of the following:

    - Premium paid to the insurer.
    - Insurance administration fees/charges to cover the trustee's costs of providing insured benefits that are passed directly onto the Fund Member through a premium loading or an administration charge.
    - Costs (positive and negative) of operating a premium adjustment mechanism or rebate process.
    - Tax deductions (negative impact on cost) in respect of each of the above received by the fund where they are passed on to the Fund Member.

3.9 Particular Circumstances

76. The Member may identify particular circumstances[9] relating to the fund or its membership that warrant a different approach overall or for one or more cohorts. For example:

    - Where Fund Members have occupations that make it difficult or impossible to obtain insurance cover elsewhere. This may include those Fund Members for whom a Dangerous Occupation Exception applies.
    - Where the cost of the equivalent insurance cover available elsewhere (e.g. through a retail risk insurance policy) is significantly higher than the fund's.
    - Where the underwriting requirements applied elsewhere mean that a significant proportion of Fund Members would be likely to be declined cover.

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[9] The VCoP also refers to "particular circumstances" identified by the trustee where the VCoP 1% of salary limit does not apply

77. The Member may also identify particular circumstances where the insurance cost target or cap is exceeded but an immediate change to the design or benefit levels to bring premiums back to the desired level is not appropriate. Examples may include:

- An unanticipated increase in premiums as a result of a natural disaster, pandemic, war or indirect legislative change as occurred some years ago with Workers' Compensation changes influencing the activity of lawyers in disability claims for superannuation funds.
- An unexpected trigger of the re-rate clause which leads to a price increase. The trigger may be for example, a fund merger, direct legislative change such as Protecting Your Super (PYS) or Putting Members Interests First (PMIF) or a change in the tax rate for insurers.

3.10 Corrective Action

78. Where Premiums exceed or are going to exceed the target or cap the need for and timing of corrective action to be taken (for example reduction in cover levels or design changes) may depend on a number of factors. For example:

- The term to expiry of the premium guarantee provided by the insurer.
- The nature of the reason for the situation. Small claim fluctuations may not require action whereas changes to underlying claim rates may require design changes.

79. The Member may consider an appropriate restoration plan for the trustee, set up in advance of the need for corrective action.

ATTACHMENT 1 – INSURANCE COST ASSESSMENT – EXAMPLE METHODOLOGY

1. This section sets out a simplified example methodology for the determination of an appropriate premium cost for Default Insurance Members and an example of the application of the methodology. The methodology uses a target approach rather than a ceiling or cap approach.
2. It is important to note that this is one example methodology and by its nature is a simplified example. There are many other methodologies that may be appropriate, but this example is provided:
   - as one interpretation of the information provided in the body of this Technical Paper;
   - as an example that may meet the requirements of the legislation and other instruments listed in Section 2; and
   - to enable comparison with other methodologies that the Member may choose to adopt.

A1.1 Insurance Cost Policy

3. The methodology involves the development of an Insurance Cost Policy for default cover. This may be incorporated into the Insurance Management Framework or the Insurance Strategy (if separate). It includes the following steps:

   (a) Determine:
      i. the factors to be used to calculate the insurance cost;
      ii. appropriate and practical (given the data and system constraints) cohorts of the membership for which the Target Trade-off and Target Cost of automatic insurance is to be separately assessed. This may be iterative.

   (b) For each cohort determine:
      i. the components (see paragraph 42) that are likely to make up the retirement income of the cohort;
      ii. the appropriate Target Trade-off between insurance cost and retirement income for each cohort. The Target Trade-off will be the boundary between appropriate and inappropriate reduction in retirement income;
      iii. the appropriate salary measurement metric(s);
      iv. the method of calculating the metric(s);
      v. the age timeframes (starting age and retirement age) over which the insurance cost and salary is assessed;
      vi. whether to allow for salary increases and design adjustments and a discount rate and if so, the rates that will apply;
      vii. the retirement period (retirement age and period of retirement) for the cohort;
      viii. the Target Cost being the long term cost the trustee determines is appropriate for each membership cohort expressed as a percentage of salary;
      ix. a distribution test, if needed.

   (c) Calculate
      i. the expected insurance cost over the timeframe for each cohort;
      ii. the expected retirement income of each cohort.

(d) Determine

   i. the cost that would provide insured benefits at the most appropriate level if not constrained by the cost. This may be termed the full needs-based cover. The Superannuation Guarantee contribution will not provide sufficient room for a premium that ensures full needs-based cover for default members. Nevertheless, it may be useful to understand the level of the shortfall. In addition, some employers/awards/EBA's contribute at rates that exceed the Superannuation Guarantee or make specific contributions for insurance for their employees and it may be that cover at a full needs-based level is possible in these circumstances;
   ii. the circumstances where the Target Cost may not be met, i.e. the actual cost may be above or below the Target Cost for the membership generally and/or cohorts within the membership and the rationale. This may include provision for the Target Cost to be exceeded in particular circumstances as set out in Section 3.9;
   iii. appropriate Trigger Points above and below the Target that call for action by the trustee to formulate and implement a plan to restore the cost to the Target Cost over an appropriate period (**Premium Restoration Plan**).

A1.2 Target Trade-off - Considerations

4. The legislated test of insurance cost is against retirement income. The Target Trade-off will be the point or range where the appropriate reduction becomes an inappropriate reduction in retirement income.

5. The trade-off determination is the fundamental requirement of what is the appropriate insurance cost for Default Members expressed in terms of forgone retirement income. It will also depend on the characteristics of the membership (and Fund Member cohorts), such as:

   - The relative risks of death/disability versus longevity – Fund Members with lower life expectancies in retirement and/or higher death/disability risk while working may be considered to have a relatively greater need for insurance rather than retirement income.
   - Members' income levels - the correlation between income and life expectancy means that higher income earners face a higher longevity risk than lower income earners.
   - The impact of government benefits – for a retiree with lower income/assets, additional pension assets may result in a reduced Age Pension, potentially making it relatively less valuable than life insurance cover while working.

6. Given that the legislated test is against retirement income, the approach used under this methodology is to first determine what the appropriate reduction in retirement income is, rather than second guess this decision by moving immediately to a salary cost of say 1%. The chosen reduction in retirement income may then be translated into a salary cost, reflecting the considerations set out in Section 3.

7. There is no legislated definition of the word "inappropriate" in this context. In law and in accounting, "material" is sometimes considered to be above 5%. It may be considered reasonable to assume that "inappropriate" should have a higher threshold than "material". "Inappropriate" may be considered to vary depending on the characteristics of the membership (for example, the relative risks of longevity in retirement versus death or disability).

8. The VCoP does not provide any information on a reasonable basis for determining the reduction in retirement income but for a member with no Age Pension it implies a limit of 10% based on the rough rule of thumb in Section 3. However, it also recognises that a higher rate may apply in particular circumstances for the fund as a whole or for cohorts of Fund Members.
9. Determine the proportion of retirement income that it is appropriate to forgo for each of the membership cohorts. The cohorts will be sections of the membership that have significantly different trade-offs as their:
   - mortality rates are different in accumulation and/or retirement phase;
   - typical retirement age differs.

   For example, white collar/blue collar/dangerous occupations or high salary/low salary occupations.
10. The determination may recognise government benefits such as the Age Pension and the disability support pension. As these benefits are means tested the inclusion of these benefits may be more appropriate for some cohorts than others.
11. The trade-off may recognise the relative financial severity or disadvantage to the Fund Member and/or their dependents. For example, the death of a Fund Member with a family will have a far more severe financial impact than the loss of a small part of their ultimate retirement income.

A1.3 Target Cost

12. The Target Cost will be derived from the Target Trade-off and conveniently expressed as a percentage of salary as the VCoP does.
13. Alternatively, it may be felt that the VCoP 1% (or some lesser amount) can be adopted on the basis that it has been determined as appropriate by the organisations that own the VCoP. However, this approach may not be sufficient to establish Fund Member outcomes are reasonable.
14. There is likely to be wide variation in the Target Trade-off between the cohorts and therefore wide variation in the Target Cost between cohorts. If this is not the case cohorts may be merged as this makes the process less complex and less time consuming.
15. For example, the trustee of a hypothetical fund may determine a Target Cost trade-off of 7.5% of retirement income (Cost of say 0.75% of salary) for white collar Fund Members but for a cohort of Fund Members who work in dangerous occupations, a Target Trade-off of 15% of retirement income (Target Cost 1.5% of salary), given their higher risk of death and disablement and their shorter expected period in retirement. A higher Target Trade-off and Target Cost may also be appropriate for a cohort that is unable to obtain cover at a reasonable cost elsewhere.

A1.4 Trigger Points

16. The Trigger Points are determined from the trustee’s tolerance level beyond which some action needs to be taken to ensure Premiums remain appropriate. They indicate to the trustee that action may be required to restore the insurance cost to the Target Cost and the period over which this may be done. The action may include changes to terms and conditions or changes to benefit levels.

17. Premium movement within the Trigger Point range allows the benefits to be retained and any adjustments (to one or more of premium rates, terms and conditions and benefit levels) made with due consideration and process. Moving beyond a Trigger Point requires a more immediate response.
18. Trigger Points provide benefit stability as they remove the need for frequent adjustments to benefit levels as insurance costs change. This is particularly important in the case of benefit reductions which are harsh on claimants.
19. It may be appropriate to have more than one Trigger Point on the higher side so that different actions are put in place depending on the extent to which the insurance cost will move out of line with the Target Cost.
20. The Trigger Points may be reactive or proactive, reflecting actual premium changes when they are determined or anticipated premium changes before they are determined. They may reflect:
    - Expected trends in prices, for example if a lead indicator, such as the unemployment rate, is increasing or decreasing, impacts of legislative change announced with some implementation time.
    - The possibility that a short term deviation is offset in following years (a bringing forward of claims).
    - Offsetting benefits such as death, Terminal Illness and Total and Permanent Disablement benefit.
    - The proximity of the expiry date of the fund's premium rate guarantee, which gives short term certainty regarding prices.
    - Any premium adjustment mechanisms in place.
21. The Trigger Point may be adjusted to ensure that the trustee is not providing cover in excess of the full needs based cover level.

A1.5 Restoration Plan

22. The timeframes for actions under the Premium Restoration Plan may reflect:
    - The trustee's recent experience in terms of the time taken to determine and implement design and price changes.
    - The administrative and operational complexity and cost of implementing changes
    - The schedule of other fund projects over the near future.
    - The current commercial environment, any constraints in the fund's Insurance Management Framework and/or insurance strategy, the duration of the current premium rate guarantee and the fund's profit share arrangements.
    - The anticipated level of insurance expertise that would be available should an insurance change project be initiated at short notice.
    - The remaining term of the premium rate guarantee period.
23. The timeframes may be varied over time. For example:
    - Where there in a backlog of administration changes or the fund is currently pursuing fundamental insurance design changes, longer timeframes may be set and reduced once those other initiatives have progressed sufficiently.
    - The timeframes may be varied if the time required for a market review / tender becomes shorter or longer, triggered by market practice or insurer/reinsurer risk appetites.
    - The timeframes may be varied (reduced) as the remaining term of the current premium rate guarantee period reduces.

A1.6 Insurance Cost Policy - Example 1

24. The trustee has a non-participating policy and does not pass on the tax deduction to Fund Members. It does not have a Dangerous Occupation Exception so default insurance cannot commence prior to age 25.

25. The trustee has determined that the Target Trade-off is 10% of retirement income.

26. For a particular cohort (Division A Fund Members) the Member determines that:

- the only source of retirement income for the cohort is superannuation.
- the measurement period is from age 25 to age 62 (being the average age at which default members retire).
- salary by age can be determined from Superannuation Guarantee contributions of Default Insurance Members, adjusted to remove inactive Fund Members.

27. Based on the above, the Target Cost is 0.9% of salary.

28. The full needs based cover insurance cost is 2.5% of salary and no adjustment will be required for this as it is higher than the Target Cost.

29. The trustee determines trigger points should apply based on:

- a unit insurance cost change of 0.05%.
- two levels above the Target Cost and two levels below the Target Cost.

30. The Premium Restoration Plan is summarised in the table below:

Insurance Cost (% of Salary)	**Redesign of the insurance arrangements to bring insurance cost back to / up to the Target Cost**	**With new design implemented within the later of the end of the premium rate guarantee period and**
Up to 0.80	Yes	9 months
0.80 – 0.85	Yes	18 months
0.85 to 0.95	No	n/a
0.95 – 1.00	Yes	18 months
Greater than 1.00	Yes	9 months

31. The insurer advises the trustee that premiums for this cohort need to increase by 5% across the 3 benefits it provides. The experience justifies a uniform premium increase. The end of the premium rate guarantee period is in 10 months. In this case, if the increase is justified, it can be passed on to Default Insurance Members without having to undertake a full redesign and without changing Fund Members' benefits or benefit levels.

32. If the increase is 12%, the insurance cost will be greater than 1% of salaries and the trustee would undertake a redesign and possibly tender based on a Target Cost of 0.9% of salary and implementation in 10 months, as required under the Premium Restoration Plan.

A1.7 Insurance Cost Policy - Example 2

33. The trustee in Example 1 also has a cohort of Fund Members that are readily identified and have quite different circumstances to other Fund Members. These Division B Fund Members join through a specific group of employers operating in a high risk industry. For these Fund Members, the cost of retail risk insurance is significantly higher than that available through the fund and some occupations are uninsurable. These Fund Members also have fewer years in retirement on average than other Fund Members and slightly below average salaries and lower account balances and the Age Pension is expected to make up 50% of their retirement income.

34. The trustee determines for Division B Fund Members that:

- the Target trade-off is 12% of retirement income.
- the measurement period is from age 18 to age 60 (being the average age at which default members in Division B retire). Default cover commences immediately on employment as these Fund Members are certified as working in dangerous occupations.
- salary by age can be determined from Superannuation Guarantee contributions of Default Insurance Members, adjusted to remove inactive lives.

35. Based on the above the Target Cost is 2.4% of salary.

36. The full needs based level of cover cost is 5% of salary and no adjustment will be required for this.

37. The trustee determines trigger points should apply based on:

- a unit insurance cost change of 0.1%;
- two levels above the Target Cost and two levels below the Target Cost.

38. The Premium Restoration Plan is summarised in the table below:

Insurance Cost **(% of Salary)**	**Redesign of the insurance arrangements to bring insurance cost back to / up to the Target Cost**	**With new design implemented within the later of the end of the premium rate guarantee period and**
Up to 2.20	Yes	9 months
2.20 – 2.30	Yes	18 months
2.30 to 2.50	No	n/a
2.50 – 2.60	Yes	18 months
Greater than 2.60	Yes	9 months

ATTACHMENT 2 – SIS ACT

The SIS Act includes an overarching covenant to act in Fund Members' best interests ("to perform the trustee's duties and exercise the trustee's powers in the best interests of the beneficiaries").

In addition, the following specific sections are relevant to this Technical Paper.

SIS Act Section 52, Subsection 7, 9, 10, 10A and 11 of the Superannuation Industry (Supervision) Act 1993 (current at June 2020)

Insurance covenants

(7) The covenants referred to in subsection (1) include the following covenants by each trustee of the entity:

(a) to formulate, review regularly and give effect to an insurance strategy for the benefit of beneficiaries of the entity that includes provisions addressing each of the following matters:

(i) the kinds of insurance that are to be offered to, or acquired for the benefit of, beneficiaries;

(ii) the level, or levels, of insurance cover to be offered to, or acquired for the benefit of, beneficiaries;

(iii) the basis for the decision to offer or acquire insurance of those kinds, with cover at that level or levels, having regard to the demographic composition of the beneficiaries of the entity;

(iv) the method by which the insurer is, or the insurers are, to be determined;

(b) to consider the cost to all beneficiaries of offering or acquiring insurance of a particular kind, or at a particular level;

(c) to only offer or acquire insurance of a particular kind, or at a particular level, if the cost of the insurance does not inappropriately erode the retirement income of beneficiaries;

(d) to do everything that is reasonable to pursue an insurance claim for the benefit of a beneficiary, if the claim has a reasonable prospect of success.

Covenants relating to regulated superannuation funds - annual outcomes assessments

(9) If the entity is a regulated superannuation fund (other than a regulated superannuation fund with fewer than 5 members), the covenants referred to in subsection (1) include the following covenants by each trustee of the entity:

(a) to determine, in writing, on an annual basis, for each MySuper product and choice product offered by the entity, whether the financial interests of the beneficiaries of the entity who hold the product are being promoted by the trustee, having regard to:

(i) if the product is a MySuper product--a comparison of the MySuper product with other MySuper products offered by other regulated superannuation funds, based on the factors mentioned in subsection (10), and a comparison of the

MySuper product with any other benchmarks specified in regulations made for the purposes of this subparagraph; and

(ii) if the product is a choice product--a comparison of the choice product with the comparable choice products in relation to the choice product, based on factors mentioned in subsection (10A), and a comparison of the choice product with any other benchmarks specified in regulations made for the purposes of this subparagraph; and

(iii) the factors mentioned in subsection (11);

(aa) to determine, in writing, on an annual basis, whether each trustee of the entity is promoting the financial interests of the beneficiaries of the fund, as assessed against benchmarks specified in regulations made for the purposes of this paragraph;

(b) to make the determination referred to in paragraph (a), and a summary of the assessments and comparisons on which the determination is based, publicly available on the website of the entity;

(c) to do so within 28 days after the determination is made;

(d) to keep the determination, and the summary of the assessments and comparisons on which the determination is based, on the website until a new determination is made as referred to in paragraph (a).

(10) In comparing a MySuper product with other MySuper products, the trustees must compare each of the following:

(a) the fees and costs that affect the return to the beneficiaries holding the MySuper products;

(b) the return for the MySuper products (after the deduction of fees, costs and taxes);

(c) the level of investment risk for the MySuper products;

(d) any other matter set out in the prudential standards.

(10A) In comparing a choice product with the comparable choice products in relation to the choice product, the trustees must compare each of the following:

(a) the fees and costs that affect the return to the beneficiaries holding the choice products;

(b) the return for the choice products;

(c) the level of investment risk for the choice products;

(d) any other matter specified in the prudential standards.

(11) In determining whether the financial interests of the beneficiaries of the entity who hold a MySuper product or choice product are being promoted by the trustee, the trustee must assess each of the following:

(a) whether the options, benefits and facilities offered under the product are appropriate to those beneficiaries;

(b) whether the investment strategy for the product, including the level of investment risk and the return target, is appropriate to those beneficiaries;

(c) whether the insurance strategy for the product is appropriate to those beneficiaries;

(d) whether any insurance fees charged in relation to the product inappropriately erode the retirement income of those beneficiaries;

(e) any other relevant matters, including any matters set out in the prudential standards.

ATTACHMENT 3 – SECTIONS 16 AND 17 OF SPS 515 STRATEGIC PLANNING AND MEMBER OUTCOMES (JANUARY 2020)

Business performance review

16. An RSE licensee must, on an annual basis, review its performance in achieving its strategic objectives (business performance review) and use the results of the review to make improvements to its business operations. The results of the review must be reported to the Board.

17. An RSE licensee's business performance review must include:

(a) analysis of its performance in achieving its strategic objectives, having regard to:

(i) the results of its monitoring of its business plan required under paragraph 13 of this Prudential Standard;

(ii) the outcomes achieved for different cohorts of beneficiaries (such that all beneficiaries are covered) against objective internal and external benchmarks; and

(iii) the outcomes assessments under section 52(9) of the SIS Act;

(b) the key factors identified by the RSE licensee as having affected the results of the analysis under paragraph 15(a) of this Prudential Standard; and

(c) the RSE licensee's conclusions as to whether it achieved, and expects to continue to achieve:

(i) the outcomes it seeks for beneficiaries; and

(ii) the sound and prudent management of its business operations.

ATTACHMENT 4 – SECTIONS 17, 20, 21 AND 97 OF SPG 516 BUSINESS PERFORMANCE REVIEW (NOVEMBER 2019)

17. In APRA's view, it would be appropriate for an RSE licensee to consider setting MySuper cohorts based on demographic data (e.g. age, gender), balance size or occupation-type, to gain a richer understanding of the outcomes delivered to these members. For MySuper lifecycle products, the starting point for cohort construction could be the different lifecycle stages. Lifecycle stages represent age-based cohorts and APRA data on lifecycle-stage performance could provide a useful starting point for undertaking comparisons and benchmarking.

20. Individual members may be included within multiple different cohorts across an RSE based on their particular attributes. For example, a member may be included in a cohort based on an accumulation product balance size and also in a cohort based on a demographic attribute such as age.

21. Understanding outcomes for low account balance and retained members through establishing separate cohorts for these members is likely to be another appropriate consideration for an RSE licensee. This would facilitate enhanced understanding of the impact on the outcomes for these members of different product features, including assessment of the erosion of member benefits due to fees or potential cross-subsidisation in fees and costs across the membership base.

97. In assessing erosion of retirement income from the impact of insurance premiums under the outcomes assessment, an RSE licensee should examine affordability measures determined by the RSE licensee, including benchmarking with comparable RSEs or other indicators, such as those established in relevant industry codes or guidance. Analysis of affordability should utilise internal data on the unique characteristics of members that hold the MySuper or choice product. For example, if the members of a MySuper product have relatively low balances or contribution rates, general industry guidance on affordability may not be sufficient on its own.

ATTACHMENT 5 – VOLUNTARY CODE OF PRACTICE

Paragraph 4.8 of Insurance in Superannuation Voluntary Code of Practice (1 March 2020)

As part of determining affordability when we design insurance benefits for our Default Insurance Members, premiums for this benefit design will be set at a level that does not exceed 1% of an estimated level of salary for our membership generally, and/or for cohorts within the membership, subject to (c) below.

We will document and publish:

a) our basis for determining an affordable level of cover within the 1% of salary limit(s) for our membership generally and/or for cohorts within the membership
b) the measures of salary and timeframes we have used to apply the 1% of salary limit for our membership, including the specific measures we have used for insurance provided to our younger Fund Members
c) the rationale for instances in which cover has been provided to Default Insurance Members with premiums that exceed 1% due to the identification of particular circumstances relating to the membership generally and/or cohorts within the membership.