PANDEMIC BRIEFING

Death and Disability Benefits in Superannuation

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PREPARED BY: Insurance in Super Working Group

Objective

Superannuation funds provide significant death and disability benefits to their members. The trustee is ultimately responsible for the design of these benefits including the terms and conditions. Trustees must also ensure the premium rates and the value proposition for their members are appropriate. The advice of actuaries is often sought to assist trustees in these areas.

The Pandemic and the economic consequences of the Pandemic raise unusual issues in this area. Actuaries may be asked to advise superannuation trustees on appropriate interpretations of the terms and conditions attaching to benefits, either directly or when considering pricing or managing the cover. This Pandemic Briefing discusses these issues.

Major shifts in employment status and salary have occurred due solely to the Pandemic and Australia's response to the Pandemic. These include:

1. employees being stood down;
2. salary reductions with proportionate reduced hours;
3. salary reductions without proportionate reduced hours;
4. salary increases funded through the employer temporarily by JobKeeper;
5. change to job description;
6. loss of job and unemployed;
7. employees taking full or partial Leave without Pay;
8. employees working from home; and
9. forced annual leave.

In addition, the early release COVID-19 payment will result in a number of superannuation accounts being closed due to payment of full account balances or being reduced to the point where cover may lapse. As of 1 June 2020, 1.8 million applications have been paid under the COVID-19 early release scheme.

Some of the implications of these changes to employment status, salary and size of account balance are addressed in the relevant Group Insurance Policy Document and Product Disclosure Statement (PDS), while some may not, or the documentation may be open to interpretation. This may have implications for the commencement, cessation, and amount of the member's cover in superannuation and the terms and conditions that apply to a member's cover.

SPS 250 requires trustees to consider the claims philosophy of their insurer when selecting and monitoring their insurer. Ideally this will result in an alignment with the claims philosophy of the Trustee and therefore the requirements of the SIS Act in relation to insurance covenants and the duty to act in the best interests of beneficiaries. Member outcomes and experience may be improved if trustees and insurers have considered and agreed the claims philosophy implications raised by the Pandemic in relation to cover, premiums and claims.

The Insurance in Superannuation Voluntary Code of Practice may also be a relevant consideration in some areas.

This Briefing paper sets out a table highlighting areas where issues might arise, a brief description of the issue, and some considerations for actuaries providing advice in this area. In general:

- Where the Policy Document or PDS is unclear or does not address the circumstance, policy conditions would be expected to be interpreted fairly. In particular, cover, risk and premium should continue to align. This will help to ensure that the value proposition of the benefit remains, both at the fund level and at the individual member level.
- Where the premium rate paid by the member does not change, the cover and any claim may need to be based on pre-Pandemic salary and employment status even though this is not the strict interpretation of the policy or PDS.
- Where salary, hours worked, or employment status is a permanent change the premium rates may need to be reviewed, and cover adjusted accordingly.
- Communication to members is important. Where possible trustees would look to communicate to members the interpretations they develop with their insurer, clearly and as early as possible. Late communication or communication at claim time is too late in terms of the member experience.

- Claims practices vary between life insurers. Where possible, the industry should try to achieve alignment and ensure a level of consistency in members' experience and outcomes.

FSC

The FSC has released some statements around COVID-19 in relation to death cover (Pandemic exclusions, underwriting), TPD cover (reduced working hours or job loss due to COVID-19) and customer support (health care workers seeking additional cover through individual policies).
The FSC commitments in relation to TPD cover are consistent with this Pandemic Briefing.

Future Design

It is possible that employment status and salary may not return to "normal". While this Pandemic Briefing addresses short term issues actuaries will be considering how the future employment and salary conditions of members may impact not only cover levels and terms and conditions but the whole design of death and disability benefits for members of the fund.

Member Feedback

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

- Rowan Ming rowan@waveactuarial.com.au

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<tr><th>Impact Area</th><th>Policy Terms Impacted</th><th>Context of Item</th><th>Scope & Considerations for Actuaries</th><th>References</th></tr>
<tr><td rowspan="4">Income changes</td><td rowspan="4">Death, TI, TPD, IP

Cover Cessation

Leave Without Pay

Sum Insured / Monthly benefit / Benefit Payable

Cover Commencement</td><td rowspan="4">Pre Disability Income (PDI) definition differs for Income Protection offerings across the market. They can vary from “income immediately before date of disablement including: benefits, bonus, overtime” to “average income over the last X months”.

With a proportion of the population either being stood down, taking leave without pay, or receiving less pay, PDI would be impacted under both of the above definitions if the insured member’s income has reduced.

There is also the possibility that a member’s income could increase temporarily as a result of the Pandemic. Examples include working increased hours, or as a result of JobKeeper in the case where the employee was earning less than $1,500 per fortnight.

Automatic Cover commences under PMIF rules. The implementation of these rules varies between funds. The minimum account balance of $6,000 may take longer to be reach due to lower or no contributions from salary changes. In addition, JobKeeper does not require the employer to make SG contributions. For considerations see sections below on Early Release and JobKeeper.</td><td>General considerations are:

• Awareness of the possibility that salaries within the Membership group have changed, because members do not usually notify super funds and Insurers of employment changes and income changes. This could result in changes to Benefits payable, depending on the how the sum insured and pre-disability income rules work under the Policy.

• Actuaries may need to consider the equity between the sum insured and the premiums received overall and for various segments and cohorts of the membership and consider whether there is fair alignment of these elements.</td><td>1https://treasury.gov.au/sites/default/files/2020-05/Fact_sheet_JobKeeper_Info_for_Employers.pdf</td></tr>
<tr><td>The impact on income may be temporary and a member’s income may stabilise and return to “normal” as the economy recovers. Actuaries may consider whether an approach to managing Pre-disability income that encourages stability of claim time outcomes is the best approach.

This could include taking into account income on a pre-pandemic basis and if an averaging basis is used ignoring the Pandemic period, particularly if premium rates have not changed. This would avoid members paying for cover for which they cannot claim the full benefit.</td><td></td></tr>
<tr><td>The FSC has issued some commitments for dealing with changes in salary brought about due to the pandemic economic impacts.</td><td>[2]https://fsc.org.au/policy/life-insurance/commitments</td></tr>
<tr><td>Actuaries may need to consider the fairness of claim outcomes to different cohorts of claimants, where different groups of claimants may get a higher (or lower) disability income than other groups of claimants simply due to the timing of their disablement or the presence of Government programmes such as JobKeeper (JobKeeper is discussed further below)</td><td></td></tr>
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	Offsets	Workers' Compensation benefits may be based on a different salary definition to the disability Income benefits particularly if the fund uses pre pandemic working arrangements when determining the IP benefit. This will impact members with salary reductions and members with salary increases that are funded through the employer temporarily by JobKeeper.	The WC offset assumption may be inappropriate in the short term because of the ambiguity of application of the salary definition.	
Employees being 'Stood Down' or taking 'Leave without Pay	Leave without Pay (LWOP)	Allowing coverage to continue during LWOP pay is normal within Group Insurance policies, but the policy stance accommodates the small group of members expected to be on LWOP at any given moment in a normally operating labour market. Since the COVID-19 lockdown times, some large sections of the labour force may have been asked to go on LWOP. Policy documents may not envisage such a high proportion of the policy coverage to be on the LWOP provisions.	Many super funds may not know when members have been stood down or taken LWOP because this information is not collected. An exception to this may be larger corporate super funds. An awareness of this shortfall and that definitions may not make a distinction between them is important. The LWOP cohort could become a larger and more significant cohort which may impact the risk level and price Trustees should also consider LWOP end dates which may be uncertain and the impacts this might have on decisions. Consideration may be needed on whether the standard LWOP terms for benefit commencement (from "agreed return to work date") should apply or some earlier date particularly is there is no "agreed return to work" date.	
		A typical IP disability definition (see example below) may not thoroughly manage the current circumstances: *If a Member becomes Totally Disabled or Partially Disabled during a period of Leave Without Pay, the Monthly Benefit will be based on the Members Pre-Disability Income at the date immediately prior to commencing Leave Without Pay. The Total Disability or Partial Disability Benefit will commence on the later of the date after the expiry of the Waiting Period and the documented return to work date.*	Normally when a member is on employer approved LWOP they are eligible to claim, however benefits do not commence until the latter of the end of the waiting period and the pre-agreed return to work date. This date may not be "agreed" because it is dependent on the status of the Pandemic. There is also uncertainty regarding LWOP in the case where an employee is "stood down". Consideration may be needed on whether the standard LWOP terms for benefit commencement (from agreed return to work" date") should apply or some earlier date particularly if there is no "agreed return to work" date.	

Returning members to work	IP and TPD Return to Work Partial Disability Offsets	Due to the COVID lockdown, members who were recovering may have been stood down or have become unemployed. Therefore they are no longer earning an income that would have otherwise been a reduction to their monthly benefit or result in the termination of the income protection benefit. A number of income protection policies have a "deeming" provision which allows the insurer to deem that a member has earnt an income where the insurer reasonably believes that the claimant could return to some work or have the capability to do so.	The interpretation of the deeming provision may need to be considered in the circumstances of the Pandemic and the lack of work opportunities for people who are partially disabled. If deeming provisions are not enforced, average claims duration is expected to increase and the partial benefit offset is expected to reduce due to the reduction in employment opportunities in the short term. Particularly in relation to TPD claims, where the opportunity for employment is not available, this is likely to reinforce the ability of a member to claim TPD. Trustees and Insurers may need to consider the current employment market in their assessment of member's eligibility for TPD claims. The "lockdown" has changed attitudes of employers to working from home. This allows members who are able to do their work from home, to return to work more easily (e.g. without having to get to work and being able to more easily stop and start work during the day) in many cases may allow an easier transition to full work and faster cessation of the IP benefit.	
Changes in member status	IP and TPD Disability Definition - Employment Status and Hours Worked	In some insurance policies terms are tailored or cover may cease for insured lives who become: - "unemployed" or - change to "Casual" status or - are working less than a specific number of hours prior to their disability. Depending on the insurance offering, some of these impacted insured members have TPD cover assessed under a narrower disability definition (such as Activities of Daily Living or Activities of Daily Work).	Considerations may include: • Actual experience being different to expected because the proportion of "Casual" or "Unemployed" members becomes materially different to that assumed in the design. • What is the possible experience of unemployed and reduced hours members due to a pandemic compared with the assumed experience of these members? • Insurer's and super funds are responding to the issues which ASIC highlighted in the report "REP 633 Holes in the safety net:	3https://asic.gov.au/regulatory-resources/find-a-document/reports/rep-633-holes-in-the-safety-net-a-review-of-tpd-insurance-claims/

		The narrow/restrictive definition of ADL is widely documented and COVID-19 may result in a significant increase in the application of the ADL definition.	a review of TPD insurance claims". The materiality of these issues could increase as a result of the shifts. • Insurance companies who are Members of the FSC have agreed that for members who have been stood down, lost their employment or have reduced working hours and are disabled prior to 27 September 2020 to assess TPD claims based on a member's working arrangements as at 11 March 2020. Insurers have committed to making ex-gratia assessment. Further details can be found on the provided FSC link.	https://fsc.org.au/policy/life-insurance/commitments#Total

Early Release & Reinstatement	Cover Cessation and Reinstatement	Cover for a member usually ceases on the earliest of: • for death and TPD cover, a claim is made; for TPD cover where the death sum insured exceeds the TPD sum insured death cover continues • Member reaches expiry age • The account is closed • The member is deemed inactive under PYS (i.e. no contribution or rollover for usually but not always 16 months) and has not opted-in • The account is below a minimum threshold • Account balance is insufficient to pay the premium • Trustee is notified by the member that cover is to transfer or cease Reinstatement rules vary between funds. The Voluntary Code of Practice provides some guidance to trustees in "normal" circumstances on reinstatement, but this is currently under review. Where funds close accounts as result of the COVID payment, a member may lose cover even if a new employer contribution is received within a short period (as per lapse rules) as a new account will need to be established which will likely not comply with the PMIF $6,000 requirement. Members who opted in under PMIF or PYS rules may not have their cover reinstated. To restart cover, members need to meet conditions such as minimum account balance and age criteria (as per PMIF). However, under some product rules, cover may only restart after underwriting or with some restrictions such as 'Limited Cover'.	Where cover ceases, practical methods may be considered to allow members to retain cover while not breaching the PMIF rules and lapse rules recognising the short term nature of the worst of the Pandemic economic impact. For example, a) it may be possible to provide low level cover for a short period to members impacted by the early release in the hope that contributions will start flowing again. This could cover one or more of the following: • exits from the fund • insufficient account balance to pay premiums • account balance falls below the fund's minimum account balance rule b) Where the account remains open for a period of time, normal lapse rules may be temporarily modified or reinstatement periods lengthened It may be necessary to consider how these initiatives will be financed and to ensure the temporary changes still meet the members' best interests test.	[4]https://www.apra.gov.au/statistics

	Cover Commencement	Automatic Cover commences under PMIF rules. The implementation of these rules varies between funds. The minimum account balance of $6,000 will take longer to be reached for members who take money out of their super account.	A higher proportion of members than that assumed may not receive automatic cover or may take longer to receive automatic cover. Consideration may need to be given to the demographics of the members impacted.	
Working From Home	IP Workers' Compensation Offsets	Work from home arrangements mainly impact white collar and professional occupations. Workers' Compensation offsets may be significant in the cost of IP benefits in some funds depending on the occupation profile of the membership dominant State domicile of the membership and the benefit period of the IP cover. WC benefits are complex and vary by State. The rate of workplace illness and injury may change with members working from home. There may be fewer travel to and from work claims. Members injured at home during leave without pay or working from home – they may not get WC benefits depending on how the injury incurred. (Having an injury happen in the actual workplace may be subject to fewer disputes that the claim is not work related compared to an injury happening while working from home, leave without pay, or forced annual leave.)	Claim rates and duration may change under work from home arrangements if the super fund has a reasonable proportion of members who work from home. This may be short term and may also extend to longer term if the culture of place of work changes. Disputes with WC insurers may lead to temporary (while the dispute is resolved) or permanent change in claim rates and cost for IP benefits- as there may be more disputes that the injury/disease is not related and does not satisfy WC claim but satisfies the disability income definition.	

Claims Assessment of Immune-compromised & vulnerable members	Disability Definition - Rehab & Retraining Requirement	Immune-compromised and vulnerable members may be restricted from returning to work as advised/certified by their doctors or the government. Whilst these members are unable to work, their conditions may not necessarily result in an eligible claim based on the terms of an income protection or TPD policy. When members make an IP or TPD claim, the Insurer's claim assessment may also include considerations of retraining, rehabilitation, and reskilling that the member have done or reasonably could be expected to do. However, this assessment of a claim may also conflict with immune-compromised or vulnerable members advice from their doctor or even the Government's advice. Trustees may need to make a case-by-case assessment on these claims which increases the ambiguity of the decision. Similar considerations are relevant for income protection policies where taking part in rehab services may be mandatory.	In general, the threshold of proving that a member is "ill" has possibly been lowered because of relaxation of application of the claim's definition caused by social distancing, working from home and government or medical advice. There is a possibility of higher incidence of claims and lower terminations so long as any lingering risk persists. Consideration should be given to: • Pricing assumptions which may include the effectiveness of retraining and rehabilitation programs. These may still continue, but they would be challenged by this cohort and therefore alternative courses to recovery would be required. • Termination rates for income protection in the short-term may be volatile as messaging may be different between members' doctors, the Government's advice, the State's advice and the Insurer. • Increased opportunity to work from home may reduce the impact of the above considerations.	

JobKeeper benefit.	Claims notifications Offsets Waiting Period Cover cessation Cover Commencement	The JobKeeper programme is a government wage subsidy which is payable to the employer, if certain conditions are met by the business, such as revenue reducing by > 30%. A payment of $1500 per fortnight can be made to the business, for each eligible employee. The intention of the program is to provide an incentive to businesses to help them to keep their employees in a job. It commenced in April 2020 and is expected to cease or be modified at the end of September 2020. JobKeeper does not require the employer to make SG contributions. (See also Early release for Considerations). Some employers may cease paying SG contributions even for members whose income has increased.	Consideration should be given to the fact that JobKeeper could be masking a fair amount of under-employment or potential work difficulties. The resolution and outcomes of many fundamental labour market and workforce impacts will manifest more strongly when the JobKeeper package expires in September. Actuaries should be aware that if employment terminates for some employees at the time when the JobKeeper ends, then this could also act as a touchpoint at which time Members that are under-employed due to Injury or Illness may lodge a Disability Income claim. JobKeeper may cause a lengthening in claims reporting. A member may be receiving JobKeeper but no contributions to their account. PYS and PMIF rules do not accommodate this situation.	
	Pre-Disability Income	JobKeeper payments may not cease if a member has an Income Protection claim accepted.	Depending on the policy wording, it may not be possible for JobKeeper payments to be offset against the IP monthly benefit. This may become an issue where the Pre-Disability Income is calculated on the members "full" salary and so the member may be temporarily financially better off on claim	