Actuaries Institute.

# Group Insurance in Superannuation

Public Policy Statement

August 2025

# Group Insured Death and Disability Benefits in Superannuation

## Context

During their working life, around 30%[1] of Australians will be financially impacted by disablement or the death of their partner. In many cases, this will have a severe impact on their future working income and their retirement income.

Financial support through group insured death and disability benefits provided by superannuation funds can be a very efficient and effective means of mitigating the financial loss impacting these individuals. As a proportion of the insurance cover provided, individual members pay a relatively small premium to help cover the risk of this severe financial stress.

Insured benefits provided under group policies within superannuation (referred to as death and disability benefits in this Statement) are one of the cornerstones for meeting the objective of superannuation,[2] particularly the dignified retirement objective of superannuation.

This Statement highlights key public policy positions of the Institute relating to group insurance in superannuation, including aspects we strongly support as well as suggesting areas for improvement.

## About Public Policy Statements

The Actuaries Institute in Australia provides a comprehensive framework of professional standards and guidance to ensure high standards of practice. In addition, we provide expert commentary on public policy issues where there is uncertainty of future financial outcomes.

Our public policy initiatives seek to shape society in the areas of sustainable community outcomes, climate change, technological transformations and societal challenges. The Institute's policy principles guide the development of our public policy related content, including thought leadership publications, Public Policy Position Statements and submissions. These materials demonstrate how actuaries, as a profession, serve the public interest and use data for good.

Our Public Policy Statements present the Actuaries Institute's current standing on important public policy issues. Our Statements are "living documents" and are refined and updated as required by the changing policy environment but do not constitute professional standards or guidance.

1 Based on current rates of death and disability, approximately 30% of super fund members will have at least one insured event over their working life, and the member or beneficiaries will be paid a claim on their insurance. See *The Value of Group Insurance in Superannuation: Utilisation* for the data, methodology and assumptions used.

2 The *Superannuation (Objective) Act 2024* sets out the objective of superannuation which is to preserve savings to deliver income for a dignified retirement, alongside government support, in an equitable and sustainable way.

# Summary of Public Policy Position

**The Actuaries Institute:**

**Role of Group Insurance in Superannuation**

1. Supports how the legislated Objective of Superannuation recognises the role of group insurance in providing members with a dignified retirement.
2. Supports the trustee structure as the best structure for insurance in superannuation to achieve the Objective of Superannuation.
3. Advocates for improvements as to how trustees strike an appropriate balance between the costs and benefits of providing insurance cover to members.

**Strong Governance Standards**

4. Supports the role of trustees to assess the value of default death and disability cover to the member and to balance a dignified retirement under various lifetime health scenarios, in conjunction with the impact of premiums on member retirement income.
5. Supports board competency in the governance of insurance in superannuation, including strong operational risk management practices in the use of any third-party providers.

**Simplify the System**

6. Supports a simpler, more integrated system to assist in making death and disability designs easier to understand, engage with, administer and communicate to members, and advocates for a review of start of cover rules, more accurate insurance product names and descriptions and stamp duty rationalisation.

**Improve System Efficiency and Innovation**

7. Supports and advocates for efficient use of superannuation savings to provide death and disability benefits, including the appropriate design and use of indemnity cover, service structures and effective standards, terminal illness benefits, risk pooling and insurance reserve arrangements, health and wellbeing initiatives, exclusions and restrictions and insurer selection practices.
8. Supports improvements to insurance data collection, retention and reporting with appropriate safeguards to enable trustees to better tailor cover and to charge more accurate and fairer premiums.

**Effective Communication and Advice**

9. Supports the role of trustees to deliver and improve the standard of communication to members and the broader community about insurance in superannuation.
10. Supports policies and innovations that allow members to receive appropriate guidance and financial advice on death and disability cover, including the use of calculators to assist members in determining their cover needs.

# Role of Group Insurance in Superannuation

## Objective of Superannuation

1. **The Institute supports how the legislated Objective of Superannuation recognises the role of group insurance in providing members with a dignified retirement.**

a. The Institute supports the statements set out in the Explanatory Memorandum[3] regarding the role of group insurance in achieving a dignified retirement. This is important under all lifetime scenarios, including for the circa 24% of members who experience early retirement due to incapacity or experience interrupted work patterns due to disablement during their working life.[4]

## Benefit Designs Set by the Trustee

b. The Institute supports death and disability benefit designs being set by the trustee to recognise the profile of the fund's members. Where the government or regulator has concerns regarding product design, the industry should be given the opportunity to respond at the fund level. Only where the response is unsatisfactory should a legislative or regulatory solution be imposed.[5] This applies particularly to the type and level of default cover, including terms and conditions attached to that cover.

c. Designs primarily built by referencing the designs of other funds (benchmarking) are unlikely to be optimal for members and do not inform the trustee about whether or not they are in the best financial interests of beneficiaries.[6]

## Provision of Automatic Default Cover

d. The Institute supports the principle of default cover provided to superannuation members where deemed appropriate by the trustee (see Position 1b) when they first join the workforce. Automatic default cover is a very efficient method of providing members with access to affordable insurance and is an important benefit of the superannuation system. Automatic default cover allows cover to be provided to all members when they join the workforce, without health evidence or underwriting. The level of default cover is determined by the trustee to reflect an appropriate balance between benefits on death or disablement and benefits on "normal" retirement.

e. The Institute supports the Protecting Your Super (PYS)[7] legislation as it relates to group insurance in superannuation (subject to enhanced communication to members in line with Position 9i) as it is consistent with the principle of cover being provided while employed.

3 Explanatory Memorandum, *Superannuation (Objective) Act 2024*, paras. 1.20-1.21.

"Given its broad reach, access to affordable group insurance is an important benefit of the superannuation system and its provision is generally consistent with the objective. Through group insurance, the superannuation system provides a safety net that can deliver valuable protection to the community and meets members' needs at reasonable cost.

"In this vein, insurance in superannuation can help members achieve a dignified retirement, for example where they experience early retirement due to incapacity or interrupted work patterns during their working life. There are also other circumstances where superannuation members or their dependants may access insurance benefits through superannuation, including being diagnosed with a terminal medical condition or death."

4 See *The Value of Group Insurance in Superannuation: Utilisation*

5 We support some minimal government intervention through:

- the PYS regime (subject to enhanced communication to members);
- restrictions on the benefits that can be referred to as "Total and Permanent disablement" (TPD), Position 6d(ii) of this Statement; and
- some limited premium protection for low account balance members, Position 6c of this Statement.

6 Competitive comparisons with other funds are used by some trustees for premium (absolute or age rates), cover levels and cover types. These are ultimately focused on positioning the superannuation fund against other funds rather than seeking the best outcomes for the members of the fund.

Cover types, cover levels and premium levels should be determined for the demographic profile of the members of the fund as required by the legislation (Sections 52(7)(a) of SIS Act). Premium rates should be determined through a competitive market tender and/or an assessment by an independent and suitably qualified professional (such as an actuary) considering the past and likely future claims experience and appropriate insurer margins.

Benchmarking product terms and conditions may be a useful tool for trustees in understanding what aspects of competitors' designs may be appropriate to adopt for their own fund.

7 The *Treasury Laws Amendment (Protecting Your Superannuation Package) Act 2019* amendments to the *Superannuation Industry (Supervision) Act 1993* (SIS) impose end of cover rules where contributions cease to be made by or on behalf of the member.

### Benefits of the Trustee system

**2 The Institute supports the trustee structure as the best structure for insurance in superannuation to achieve the Objective of Superannuation**

a. The trustee, through its market power, is better[8] able to negotiate with the incumbent insurer and the market generally on the risk pooling arrangement,[9] premiums, terms of insurance and service levels in the best financial interest of members and to advocate for claimants.

b. The Institute supports trustees actively monitoring insurance arrangements to ensure they continue to be appropriate for members, considering changes in legislation, market conditions, membership demographics and medical and technological advancements. Trustees should work towards sustainability of the cover, negotiating with insurers to maintain a balance between meeting member needs and cost-efficiency.[10]

### Balancing the Costs and Benefits of Providing Insurance Cover to Members

**3 The Institute suggests improvements could be made to how trustees strike an appropriate balance between the costs and benefits of providing insurance cover to members.**

The Institute suggests that Sections 52(7)(b)[11] and 52(7)(c)[12] of the *Superannuation Industry (Supervision)* Act 1993 (SIS Act) be replaced by an overall requirement for trustees:

"….(b) to consider and determine an appropriate balance between the cost and the benefit, to all beneficiaries, of offering or acquiring insurance of a particular kind and at a particular level under various lifetime health scenarios, such as working to normal retirement age, becoming disabled or dying before normal retirement age. The cost of insurance is to be measured as the reduction in retirement income."

The reasons for this proposal are:

a. Section 52(7)(c) and 52(7)(b) taken together recognise the trustee role in striking an appropriate balance between the benefits (as determined under Section 52(7)(a)) and costs of providing insurance cover to members.

However, Section 52(7)(c) is problematic as it characterises premiums negatively through the use of the word "erode". This obligation therefore may receive undue weight when trustees balance the costs and benefits of providing insurance cover to members. This has seen insurance cover levels of members in some funds reduce over time in real terms (after inflation) and in some cases absolute terms.

Combining the two covenants into a single obligation to strike an appropriate balance rather than to consider these functions separately will provide members with better overall outcomes.

b. This change is consistent with the Objective of Superannuation. The achievement of a dignified retirement is important under all lifetime scenarios, including for the circa 24%[4] of members who will experience early retirement due to incapacity or experience interrupted work patterns due to disablement during their working life.

c. This change will better represent the nature and value to members of the premium they pay. Insurance[13] provides a valuable member benefit, efficiently reducing the member's financial risk across their working lifetime, with only a small proportion of the premium is required for insurer and trustee expenses, including stamp duty and the cost of capital.

8 Compared with individuals, advisers or employers.

9 For compleness, we note a very few number of funds self-insurer (sometimes with reinsurance).

10 The Institute supports continual improvement in how trustees provide services to members efficiently, honestly and fairly (refer to Positions 7f-i). We note the findings published by the Australian Securities & Investments Commission (ASIC) in Report 806, *Taking ownership of death benefits: How trustees can deliver outcomes Australians deserve.* In relation to insured benefits, ASIC found that most members did not have insurance through their superannuation at the time of death. ASIC Report 806 also referenced unpublished Australian Prudential Regulation Authority (APRA) data from 2023 which indicates the average time taken by an insurer to process a death benefit claim under an insurance in superannuation policy was 24 days. ASIC did not view insurer processing times as a significant contributor to claim delays.

11 "to consider the cost to all beneficiaries of offering or acquiring insurance of a particular kind, or at a particular level".

12 "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".

13 ASIC. (2020, December 14). REP 675 *Default insurance in superannuation: Member value for money*. Australian Securities and Investments Commission. https://download.asic.gov.au/media/5891458/rep675-published-14-december-2020.pdf

# Strong Governance Standards

## Role of the Trustee

**4 The Institute supports the role of the trustee to:**

a. Assess the value of default death and disability cover to the member and to balance a dignified retirement under various lifetime health scenarios in conjunction with the impact of premiums on member retirement income.

b. Ensure premiums reflect the estimated risks inherent in each member cohort.

c. Assess the design, terms and conditions of both default and voluntary additional death and disability cover made available to members.

d. Assess and manage the risks associated with voluntary additional cover on the premiums of default members.

e. Determine that default cover is provided at reasonable cost and represents value for money for members.

f. Review the insurance market through a market tender and the insured benefit structures on a regular basis.[14]

## Improve Governance

**5 The Institute supports strong board governance of insurance in superannuation.**

a. The Institute supports board competency[15] in the governance of Insurance in Superannuation as a core and separate competency that boards should seek, monitor and report to members.

b. The Institute supports measures that ensure the Trustee's management and their advisers have expertise in insurance in superannuation.

## Managing Third Parties[16]

c. The Institute supports strong operational risk management practices as set out in CPS 230 as it relates to insurance in superannuation.

d. The Institute supports trustees ensuring contractual third-party rectification clauses are appropriate and are enforced. For example, trustees should ensure that parties responsible for errors and omissions meet the full cost of those errors and omissions. This helps to remove the economic moral hazard, promotes a more efficient system and helps to ensure that future errors and omissions are minimised.

e. The Institute supports the incorporation of data integrity checks or audits as a compulsory part of insurance service agreements.

14 This process best informs price and service levels (particularly claims management and underwriting processes) and generates innovation from insurers and trustees in relation to benefit design, structures and processes. The period between reviews will vary by fund depending on amongst other things the structures they have in place for independently reviewing the premium rates.

15 Having access to staff and external advisers with the required competencies does not constitute board competency.

16 For example, insurers, reinsurers and outsourced administration arrangements.

# Simplify the System

**6 The Institute supports simplification of the system. Simplification will assist in making death and disability designs easier for individuals to understand and engage with. It will also assist in making death and disability designs easier for trustees to administer and communicate to members.**

### Integration – "No Gaps, No Overlaps"

a. The Institute supports the integration of disability benefits with the benefits provided by other sources so that the various benefits better align and mesh together more coherently from the consumers' point of view. Other sources include:

   i. Government disability benefit schemes such as:

      - the Disability Support Pension (and other government disability support benefits);
      - State-based Workers' Compensation benefits;
      - the benefits provided by the National Disability Insurance Scheme (NDIS); and
      - state-based Compulsory Third Party motor vehicle insurance.

   ii. Other disability cover

      - insured and uninsured benefits provided to employees by employers;
      - insured benefits provided through union membership;
      - individual disability cover provided outside superannuation or inside superannuation; and
      - sickness and accident policies issued by general insurers.

   Examples of integration that would assist consumers are:

   i. the alignment by superannuation funds of their Income Protection (IP) payment periods (currently monthly periods) with that of Centrelink (fortnightly periods) which would provide a far better member experience in terms of certainty of the underlying income;

   ii. a formal industry standard for priority on which insurer pays and which insurer applies offsets where a member has multiple IP cover; and

   iii. IP benefits to be determined without offsetting Centrelink sickness and disability benefits, except where the trustee determines that this would result in the total benefit being excessive in relation to the member's pre-disability income.

### Start of Automatic Insurance Cover Rules

b. The Institute suggests that start of cover rules[17] be reviewed to ensure they support the trustee (and their insurer) to design cover that is in members' best financial interests and meets dignified retirement outcomes for all members and their beneficiaries.[18]

   The review would consider the optimal legislated policy settings for start of cover including the appropriateness and unintended consequences of the existing age 25 rule and the impact of Your Future Your Super (YFYS)[19] stapling rules ("fund for life") which has reduced the proliferation of multiple accounts and subsequently reduced the rationale for the Putting Members' Interest First (PMIF) regime.

   The unintended consequences that result in poor member outcomes include:

   i. start of cover rules for members who work in "dangerous" occupations vary significantly between funds as some trustees do not apply the PMIF exception rule. It is unlikely that members would be aware of this;

17 The PMIF amendments to the SIS Act restrict automatic cover to those who are over age 24 and have an account balance of at least $6,000. Some exceptions apply to these rules.

18 Particularly younger members who have accumulated little or no assets to support themselves and their family should they become disabled or die. One superannuation fund, Cbus, analysed its experience and found "in 60 per cent of cases of insurance payments to members between 21 and 25, death benefits are paid to a dependent". See Cbus bucks industry insurance trend to boost members with cover. (2024, May 16). *Investment Magazine.* https://www.investmentmagazine.com.au/2024/05/cbus-bucks-industry-insurance-trend-to-boost-members-with-cover/

19 The *Treasury Laws Amendment (Your Future, Your Super) Bill 2021* introduced stapling rules ("fund for life"), removing the employer default fund regime and reducing the impact of one of the drivers for multiple accounts and multiple insurance cover.

    ii. additional and substantive pre-existing conditions exclusions. Members subject to these exclusions pay full premium. It is unlikely that members would be aware of this;

    iii. delays in the time it takes to assess claimant eligibility because of the additional pre-existing conditions clauses; and

    iv. the complexity of the start of cover rules reduces members' understanding of their benefit entitlements.

c. As part of addressing these unintended consequences, the Institute suggests consideration be given to a potential requirement for funds to provide a low level of death and Total and Permanent Disability insurance (TPD) cover[20] to all low account balance members when they first join the workforce. This would be designed as an extension of the existing administration fee arrangement for low account balances.

### Insurance Product Names

d. The Institute suggests that insurance product names within superannuation should reflect the actual benefits provided, supported by product descriptions that provide further details. Product names such as "Income Protection" and "Total and Permanent Disability" often do not reflect the actual benefits provided. For example:

    i. Income Protection insurance (sometimes called Salary Continuance Insurance) is offered by most superannuation funds and provided automatically by many funds. It is designed, through offset provisions, as a supplemental benefit to other forms of income support such as employer sick leave, Workers' Compensation, Disability Support Pension and various accident injury compensation schemes. Such "offsets" have drawn criticism, as they are sometimes perceived as taking away from members' entitlements. Rebranding the product to better reflect its supportive role could help mitigate these misconceptions.

    ii. Total and Permanent Disability (TPD) insurance is provided as a default benefit by most funds. It is often perceived as being paid only to members who will never work again. However, many definitions are a probability estimate of the claimant meeting the definition and some estimates will therefore be incorrect. Further, while the member is, indeed, totally and permanently disabled according to the product terms (and the SIS Act conditions for the release of the benefit) members are able to return to work in alternative occupations. The product may provide specific retraining benefits to support this endeavor.

e. The Institute suggests that these important circumstances and benefits are emphasised and product names and descriptions determined accordingly.

f. The TPD definitions used within a fund and between funds vary widely and may have substantially different premium costs. This is not ideal for the member or their understanding of the circumstances for which they are covered. The Institute suggests the restriction of the use of total and permanent disability terminology to only that equivalent with the legislated definition[21]. This would not prevent other definitions of disability (that require a higher hurdle to be met) being offered or provided to members but they would not be referred to as TPD.

### Minimum Death Sum Insured

g. The Institute suggests removing the minimum death sum insured in Superannuation Guarantee Regulations, given the requirement to provide insurance to default members is included in the SIS Act.

### Simplification and Streamlining of SIS, Tax & Superannuation Guarantee for Disability Benefits

h. The Institute supports the simplification and streamlining of requirements for death and disability benefits in the SIS Act (conditions for release), *Income Taxation Assessment Act 1997* (consistent taxation of premiums and benefits inside and outside superannuation) and *Superannuation Guarantee Administration Act 1992* (obligation to provide default cover).

### Stamp Duty Rationalisation

i. The Institute supports the rationalisation of stamp duty for group insurance premiums payable by funds to their insurers and insurers to the state/territory government revenue offices. Stamp duty rates vary by state/territory, type of cover, period of membership, length of the policy or membership and range from 0% to 11% of premium.

    i. The complexity of stamp duty calculations creates significant unproductive work within insurers, superannuation funds and state government revenue offices (including audit).

    ii. This extends into the administration and communication of premium rates where the fund charges different rates for each state/territory, and complicated by situations where members moving interstate have not updated their change of address.

    iii. Where the fund charges the same premium rates for all states and territories, members in low stamp duty states subsidise those in high stamp duty states and territories.

20 At very low cost because premium rates at young ages are very low.

21 Defined in Regulation 1.03C of the *Superannuation Industry (Supervision) Regulations 1994*. "….if a trustee of the fund is reasonably satisfied that.the member's ill-health (whether physical or mental) makes it unlikely that the member will engage in gainful employment for which the member is reasonably qualified by education, training or experience."

# Improve System Efficiency and Innovation

**7 The Institute supports measures and practices that promote the efficient use of superannuation savings to provide death and disability benefits.**

### Optimising the Trade-Off Between Member Needs and Premium Cost

a. Default death and disability cover can rarely provide for the full needs of the member and any financial dependants. In these circumstances, the Institute suggests that the legislative requirement to consider the benefit and cost of insurance[22] should be met by trustees determining the optimal balance between the needs of members under various health scenarios, recognising the circa 30%[1] of members who experience an insured event during their working life.[23]

### Assessing Member Needs – Indemnity Cover and Efficient Use of Premiums

b. The Institute supports death and disability default designs that target the financial loss[24] of the member (indemnity cover) and their financially dependent beneficiaries and ensure the benefit is not excessive when compared with this loss.

c. IP cover is designed specifically as indemnity cover for disability as it replaces a proportion of the member's lost income. For this reason, the Institute supports IP as the primary disability benefit provided by trustees.

d. The Institute suggests that some claim causes are better addressed through an IP benefit than a single large lump sum benefit.

### Service Structures – Best of Breed

e. The Institute supports allowing trustees to provide death and disability benefits under service structures that provide the best member outcomes. This includes structures where the different elements of insurance such as claims risk, claims management, underwriting, servicing and calculators may be provided by different parties (including internally), chosen by the trustee on the basis of best member outcomes.

### Service Improvements

f. The Institute supports continual improvement in how trustees provide services to members efficiently, honestly and fairly. There are significant opportunities in processes and technology for claims, underwriting and reporting by all the parties involved in the insurance arrangements, including insurers and administrators, with a focus on the member experience and evolving expectations of society.

g. The Institute supports FSC Standard 28 *Claims Handling Standard for Superannuation Funds.*

h. The Institute supports the superannuation industry developing a similar compulsory standard and extending this to the other services provided by funds to members.

i. The Institute supports government initiatives to legislate how the "efficiently honestly and fairly" requirements under sections 912A(1)(a) of the *Australian Securities and Investments Commission Act 2001* (ASIC Act) should apply in particular circumstances and from the members' perspective.

### Terminal Illness Benefits

j. The Institute supports ongoing consideration of how terminal illness benefits can best be used to provide financial support for members and their beneficiaries. In most fund designs, the terminal illness benefit has two components:

   i. the superannuation account balance (or accrued retirement benefit), which could be made available to the member under an early condition of release; and

   ii. the insured component, which could be retained until after the member's death to support the future income needs of financial dependents.

   Depending on the fund design, the member could also receive financial support through any IP benefit entitlement (see Position 7c above). An element of the insured benefit could also be released early in the event of additional financial hardship.

22 Section 52(7)(b) and 52(7)(c) of the SIS Act.
23 See Position 3 for the Institute's suggested legislative change.
24 Primarily lost future salary and salary related income (such as bonuses) and superannuation contributions.

### Leveraging the Benefits of Pooling Risk

k. Pooling involves sharing a financial risk (by paying premiums) that all members in the pool face but only a few will experience (claimants).

l. The Institute supports the trustee determining the most appropriate pooling arrangement for the fund. Examples of types of pooling arrangement include:

   i. a fixed premium arrangement where the premium is guaranteed for a period, say 3 years, and any excess profit or loss is retained by the insurer; and

   ii. Premium Adjustment Models[25] provided under professional advice and with appropriate risk management and reserve management.

m. The Institute supports consideration of alternative risk pooling arrangements that are not currently available for part or all of the default cover. These could be similar to those available for retirement income streams (commonly known as group self-annuitisation products that cover part of the longevity risk and investment risks of members of the pool) where the benefits paid reflect the pool's experience and are not guaranteed. These pools could be run under professional advice by the trustee or the insurer.[26]

n. The Institute supports the trustee reviewing the pooling arrangement for the fund ahead of each market tender to ensure it remains fit for purpose and members' best financial interests continue to be promoted.

### Cross subsidy

o. The term "cross subsidy" is often misused or misunderstood within group insurance. The Institute supports initiatives that provide a clearer understanding within group insurance of what cross subsidy is and what it is not.[27]

### Insurance Reserve

p. The Institute supports the trustee's use of insurance reserves held within superannuation funds and managed under professional actuarial advice where they are used to:

   i. support lower long term premium rates; and

   ii. enhance the member insurance experience through more stable premium rates.

q. The Institute supports APRA guidance in SPG 515. Insurance reserves should only be used to support the provision and administration of insured benefits. They should not be used for other purposes such as general fund administration expenses.

r. The Institute supports the release of excess reserves in a timely manner to minimise generational cross subsidy.

s. The Institute suggests that in setting and following the fund's insurance reserving policy, the trustee considers the fairness and equity of the approach adopted including for different cohorts of members and over time as the reserves fluctuate. Actuarial principles and techniques are ideally suited to making these determinations, for example:

   i. understanding the impact of late reported claims and the value of an open IP claim; and

   ii. assessing whether the insurance reserve will be sufficient to meet liabilities accrued to date.

25 Premium Adjustment Model is a generic term for arrangements where the trustee and insurer agree an initial premium rate payable to the insurer based on a best estimate of the expected claims cost. As the actual claims experience unfolds, the insurer refunds excess premium if the actual claims cost is lower than expected and, in some arrangements, the trustee pays a limited additional premium if the claims cost is higher than expected.

26 Default members are generally not aware of the amount of cover they have nor, in most cases, the cover types they have. Therefore, the absolute certainty of the cover amount provided by current arrangements is often of little real value to default members. In the same way that group self-annuitisation pools provide income that varies each year, the alternative risk pooling arrangements would provide a variable outcome for death and disability benefits on claim, based on the experience in the year the claim was incurred. For IP, the income may vary each year.

The advantage to default members of this approach is significantly lower premiums for very little change to the member's utility for the insurance given their low level of knowledge of the cover they have at any point in time:

- there would be no or negligible cost of capital as the sum insured is not guaranteed; and
- stamp duty may not be payable.

Similar terms and conditions to those in current policies could apply under these arrangements including exclusions.

Reinsurance could be used to reduce variability of the payments to claimants and/or on extreme events such as pandemics or war.

27 Cross subsidy arises when premium rates for member cohorts do not materially reflect the expected risk of each cohort. Such imbalances may lead to some members receiving disproportionately less value for the premium paid (noting that receiving disproportionately less value for the premium paid is not a value for money test).

For example, younger members as a cohort face a lower risk of death and disability compared with older member cohorts. Therefore, it is reasonable for premium rates to vary by age to reflect the different levels of risk. If premium rates did not vary in this way there would be a cross subsidy from the younger cohorts to the older cohorts.

Trustees play an important role in pricing and product design to reduce material cross subsidies where they result in poor value for money for a particular cohort(s) of members or threaten price stability. While it is not possible to eliminate cross-subsidies entirely due to the nature of insurance, trustees can implement measures to ensure that any cross-subsidies are justified, fair, and do not compromise the value provided to any cohort of members.

The absence of a benefit for most members does not mean these members are subsidising members who receive benefits (because they are disabled or die). Insurance provides financial protection to members and all members receive the protection they have paid for, irrespective of whether they ultimately claim those benefits.

### Health and Wellbeing Initiatives

t. The Institute supports appropriate health and well-being initiatives of insurers and trustees, where trustees have reason to believe they promote the best financial interests of members. These initiatives may help to create healthier fund membership, reducing claim rates and premiums. Examples include access to mental health initiatives and education.

u. The Institute supports appropriate return to work (gainful employment) claims management initiatives including comprehensive rehabilitation strategies that are expected to enhance a dignified retirement and are in members' best financial interests.

v. The Institute supports initiatives that enable faster reporting of disability claims to the trustee and to the insurer which will result in improved member outcomes through earlier possibility of return to work, and earlier access to the insured benefit at the time the member requires financial support.

### Exclusions and Restrictions

w. The Institute supports the use of exclusions only where, together with the premium charged, they are justifiable, fair and reasonable for those members subject to the exclusion.

x. The Institute supports removal of occupational exclusions and occupation based restrictive disability definitions in default cover, subject to the exceptions set out in FSC Standard No. 27 *(Removal of Occupational Exclusions and Occupation Based Restrictive Disability Definitions in Default Cover).*

### Use of Premium Rating Factors

y. The Institute supports the use of default cover premium rating factors only where, together with the premium charged, they are justifiable, fair and reasonable, and based on adequate available data. Rating factors should have a demonstrated direct causal link to the expected claims cost, particularly in relation to those rating factors covered by anti-discrimination legislation.

### Insurer Selection

z. The Institute suggests that the trustee's Insurer Selection Policy should include a maximum period between market tenders and the reason for the period determined.

aa. The Institute supports APRA guidance on business practices that indicate that the best financial interests of beneficiaries may not have been prioritised[28], including as one indicator where a market tender has not been conducted for a period of time (expressed in the guidance as the "industry average").

ab. The Institute suggests that APRA guidance regarding the frequency of market tenders refers to an appropriate fixed period depending on the frequency with which the trustee requires independent price verification and testing of service capabilities. The current guidance referring to the "industry average" is open to interpretation and is hard to calculate as there is no publicly available data on the date each fund last conducted a market tender.

## 8 Improve Data

### Improve Insurance Data Collection, Retention and Reporting.

a. The Institute suggests that the data retention requirement as set out in Paragraph 15 of SPS 250 be extended to require retention of insurance data from 2012[29] onwards. The data retention requirements currently set out in SPS 250 are too limited. In particular, the requirement to retain only five years' data is too short for the proper understanding of TPD claims experience and pricing.

b. The Institute supports the trustee actions suggested by ASIC in Section 4 of *ASIC Report 806, Taking ownership of death benefits: How trustees can deliver outcomes Australians deserve*, to improve insurance data collection, retention and reporting[10].

### Use of Additional Data to Assist Trustees and Insurers to Provide Better Member Outcomes

c. The Institute suggests that trustees be permitted under appropriate safeguards to use member data already currently collected by government agencies on member occupation. Better member occupation data enables trustees to tailor cover and charge more accurate and fairer premiums.

d. The Institute supports regular industry studies of group insurance claims experience, facilitated by regulators if required.

e. The Institute suggests that the regulators ensure these regular studies capture:

   i. claim loss ratios in line with the study conducted by ASIC (for example, *ASIC Report 675 - Default insurance in superannuation: Member value for money);*

   ii. claims reporting patterns;

   iii. primary and secondary cause of claim (TPD and IP); and

   iv. duration of IP claims.

28 SPG 250, Paragraph 68.

29 The requirement in SPS 250 has applied since this standard commenced in November 2012.

# Effective Communication and Advice

## 9 Communication

### The Institute Supports the Role of Trustees in Explaining the Purpose of Insurance in Superannuation to Members

a. The Institute suggests that trustees should provide additional information to assist members and invite or nudge them to consider their cover and take up additional cover or reduce their cover, as appropriate, including:

   i. the trustee's estimate of a full needs default cover and the proportion of this full-needs cover provided by the trustee's default cover levels;

   ii. the reasoning behind the design, and the level of death, terminal illness and disability cover provided;

   iii. the objectives of the trustee's design;

   iv. the limitations of the trustee's design; and

   v. factors the member should consider when determining the suitability of the design for their circumstances.

### Improve the Standard of Communication to Members and the Broader Community About Insurance in Superannuation

b. The Institute suggests the inclusion of communication requirements in the SIS Act Covenants, like those required for the retirement covenants, to help inform members and improve their awareness.

c. The Institute suggests that an insurance communications strategy be required as part of the trustee's insurance strategy set out in the Insurance Management Framework. This should be appropriate, effective and fit for purpose for various cohorts, including recognition that some customers may experience vulnerability[30].

d. The Institute suggests that trustees set out a clear purpose for the death and disability benefits within current member documentation[31], including:

   i. why they are provided[32]; and

   ii. why they have been set at the level provided.

e. The Institute supports the use of plain English descriptors and consistency of terminology across all superannuation funds, where possible, to ensure the concepts of insurance are communicated efficiently.

f. The Institute suggests that the names of some current disability benefits should be reviewed to better reflect the benefits provided. Trustees should ensure that the name fits the benefit. In particular, the Institute supports the restriction of the use of total and permanent disability terminology to only that consistent with the legislated definition[33, 34].

g. The Institute supports consideration of opportunities for the standardisation of the communication and disclosures of the death and disability benefits provided to members.

### Other Benefits

h. The Institute suggests that trustees should disclose to claimants any other possible benefits they may be entitled to under the fund's insurance design.

30 *Life Insurance Code of Practice*, Section 6.
"6.1 We recognise that some customers may experience vulnerability due to age, disability, injury, a mental health condition, physical health condition, language barriers, literacy barriers, cultural background, remote location, Aboriginal or Torres Strait Islander status, family violence, suicidality or suicidal behaviour or financial distress. We are committed to taking extra care to support vulnerable customers."

31 For example, Product Disclosure Statements and Insurance Guides.

32 For example, the specific financial liabilities / obligations each benefit is intended to cover for the member and for their dependants.

33 Defined in Regulation 1.03C of the *Superannuation Industry (Supervision) Regulations 1994*.

34 See Position 6f for more detail.

### PYS

i. The Institute supports trustees using a comprehensive communication strategy (e.g., multiple communication channels, additional frequencies, alternative communication wording) to members whose cover may turn off under PYS, in addition to meeting the legislative requirements. This should help to avoid the issues that may arise when members do not receive or do not read or understand the communication material required under the legislation.

## 10 Financial Advice – Group Insurance in Superannuation

### Support Policies and Innovations that Allow Members to Receive Appropriate Guidance and Financial Advice on Death and Disability Cover

a. The Institute supports policies and innovations that make financial guidance on death and disability cover more accessible and affordable, in one form or another, including improvements in the capability of financial advice and guidance tools in assisting members with death and disability benefits.

b. The Institute supports the role of funds in providing advice and guidance to members on death and disability cover and the terms and conditions attaching to cover. This includes:

   i. the extent of coverage provided by the default design relative to the member's needs; and

   ii. the algorithms or methods and assumptions used by the trustee's calculators when providing recommendations on cover levels and types.

   Together this disclosure helps to empower members and their advisers to make informed decisions regarding voluntary cover or adjusting cover levels or types of cover to better fit their personal circumstances.

### Insurance Cover Level Calculators

c. The Institute supports the use of calculators by funds to assist members in determining their cover needs. However, the results currently provided by fund calculators using identical member profiles vary widely between funds.

d. The Institute suggests that insurance cover needs calculators should only be based on the financial loss incurred on the death or disablement of the member (indemnity cover). This loss is primarily the loss of the future self-exertion income of the member (salary) and the associated Superannuation Guarantee contributions. Calculators should not be based on assumptions about where the member's income is spent or may be spent as this varies widely between members.

e. The Institute suggests that the algorithms, methods and assumptions used in a fund's calculator should be disclosed along with the party taking responsibility for the results provided by the calculator.

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