

RAINMAKER GROUP

---

RESEARCH • DATA • MEDIA

# Insurance within superannuation

## Benchmarking and regulatory update

November 2019

*Presented by*

**Jason Ross**

Head of Superannuation, Rainmaker Group

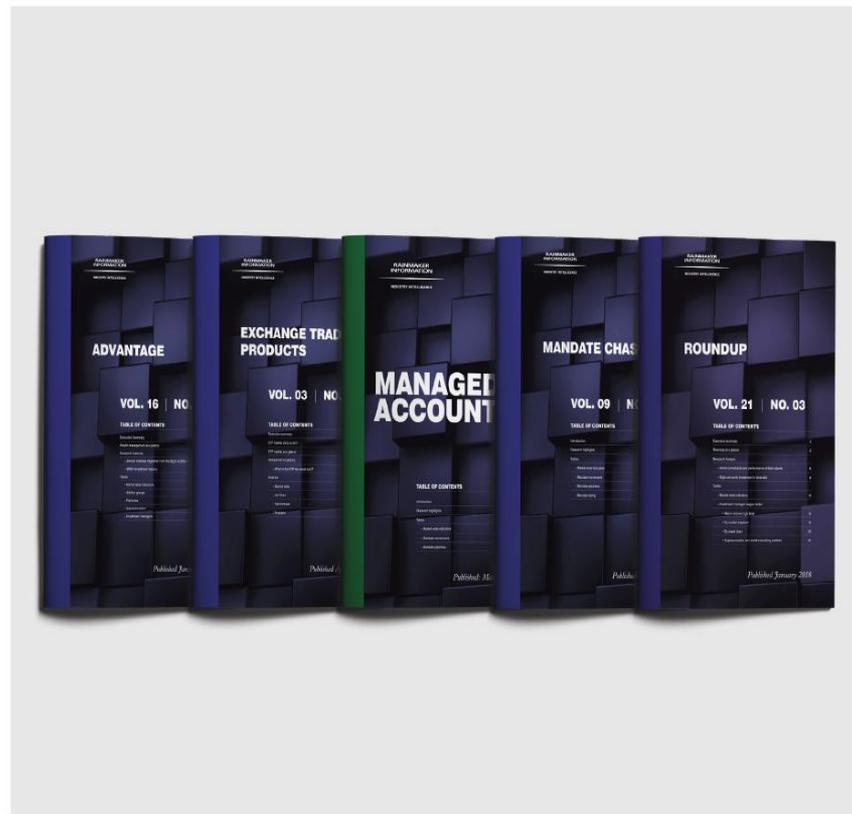
# About Rainmaker

Rainmaker Group is a diversified data, research and media company that has served the Australian marketplace since 1992.

We house detailed and thorough comparative information for super funds in areas including performance, fees, insurance and services such as member education and contact information.

Rainmaker's research is delivered through an exclusive range of highly regarded reports, with each focusing on a core segment. This includes:

- Benchmarking Report
- MySuper Report
- Exchange Traded Products Report
- Managed Accounts Report
- Roundup Report
- Customised SPS515 – Outcomes Assessment and BPR



# Agenda

---

- Insurance within superannuation – overview
- Default level of cover and cost
- Rating factors effects on premiums and cover
- Claims experience
- Tax rebates for insurance within superannuation
- Putting Members' Interests First – changes effective 1 April 2020

# Insurance within superannuation - overview

- 76% of life insurance in Australia sold through superannuation.
- MySuper product must also offer a default life product.
- 11 million people being 85% of the workforce.
- The total premiums collected \$9.3 billion against which \$4.9 billion in insurance claims were paid.
- The annual margin of premiums over claims paid increased 26% between 2014-18. Over the five year period it amounts to an aggregate \$21 billion.

Super fund insurance premiums and claims 2014-18

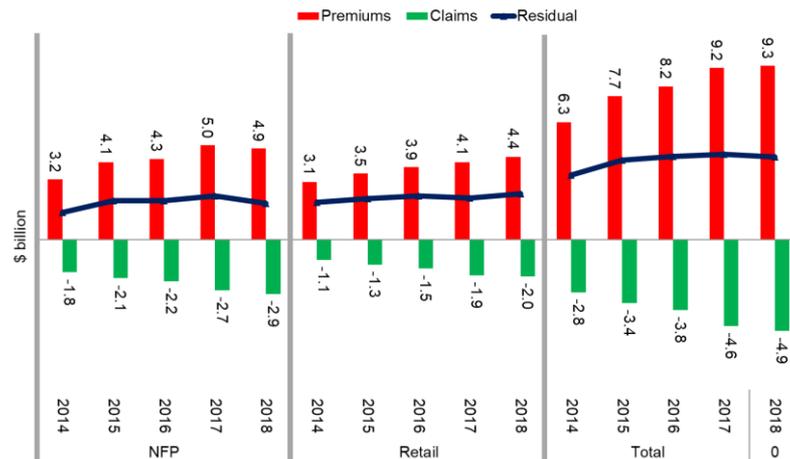


Table: Proportion of MySuper members with insurance

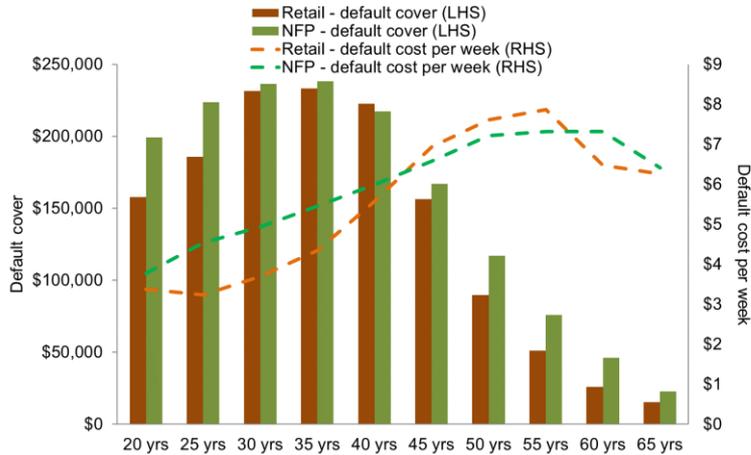
	Death	TPD	IP
Corporate	86%	79%	24%
Public Sector	76%	66%	33%
Industry	77%	76%	38%
Retail	75%	71%	18%
<b>All Funds</b>	<b>76%</b>	<b>68%</b>	<b>30%</b>

Source: APRA, Rainmaker research

- The take-up rates for default insurance range from 86% for corporate fund members covered by default death cover down to 77% for industry fund members and 75% for retail fund members.

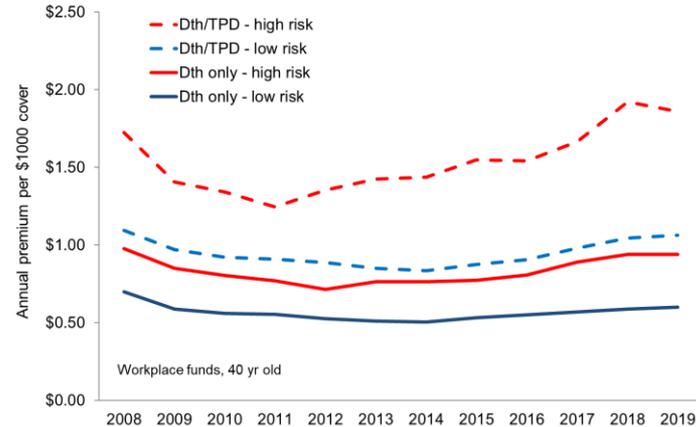
# Default cover and cost

Default cover and cost - NFP vs Retail



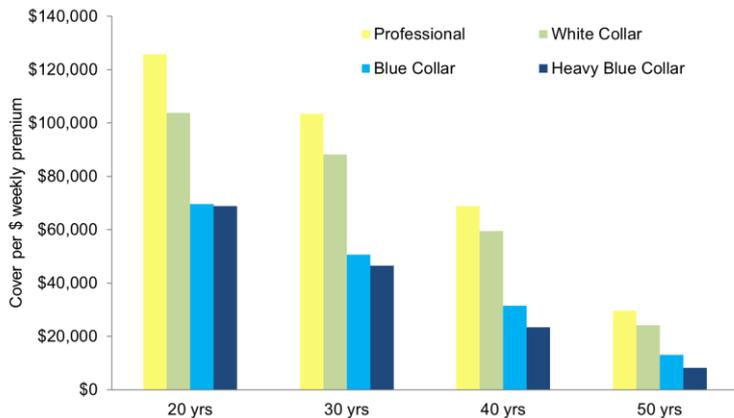
- The average price of this cover averages less than \$4 per week for members aged in their 20s, \$5.80 per week for members in their 40s and about \$7 per week for members in their 60s.
- Retail funds offer cheaper standard cover for younger members than do not for profit (NFP) funds.
- Premiums have come down in 2019, after rising since 2011.

Long term premium trend



# Premium rating factors

Occupational risk pricing for Death & TPD cover



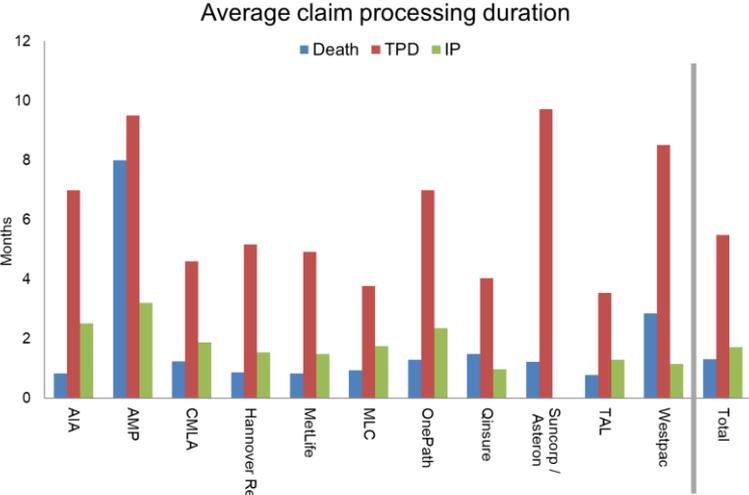
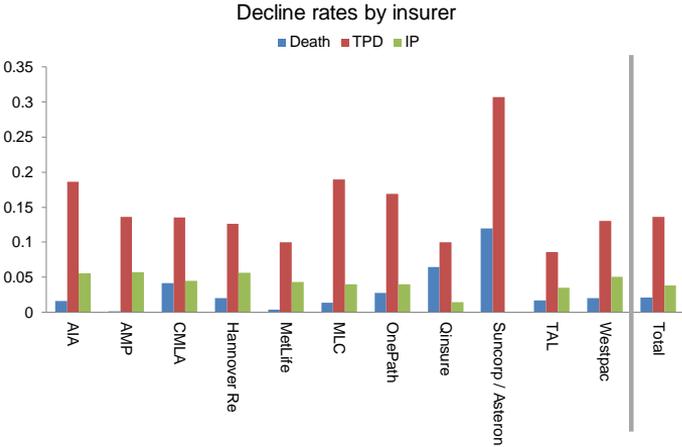
- Risk pricing factors include gender, occupation, smoking status and waiting periods.
- More than 75% of funds vary their rates by occupation, the most common variation being between white collar and blue collar workers.
- Smoking is the next most common factor used and has a significant loading. A male blue collar smoker would typically have combined premium loading of over 100%.
- Heavy blue collar workers on average receive 30% less cover per dollar of premium than regular blue collar workers.

Impact of rating risk factors on premium

Risk Factor	Funds using	Range	Avg Prem Loading
<b>Death and TPD</b>			
Gender	49%	Male vs Female	19%
Occupation	71%	High vs Low risk	79%
Smoker	21%	Smoker vs Non	86%
<b>Income Protection</b>			
Occupation	79%	High vs Low risk	98%
Benefit Period	72%	5yr vs 2 yr	64%
Waiting Period	85%	30 day vs 90 day	214%

# Claims Experience

- In 2017-18 there were 65,100 claims received by superannuation group insurers. These spanned 16,600 death claims, 23,400 TPD claims and 25,100 IP claims. The average death claim was \$132,000 which was the same average for TPD claims. The average IP claim was \$4,000.
- Claims experience across group insurance providers was found to range widely.



# Tax rebates for insurance within superannuation

- Some funds directly rebate the tax benefit as a 15% price discount back to the specific members who purchased the insurance, others use the insurance rebate to benefit the fund as a whole.
- There is no standard way to pass on the 15% rebate.
- *Income tax assessment act* sect. 295-465 and sect. 295-460 - In this legislation, complying superannuation funds can claim as tax deductions business costs such as insurance policy premiums as are attributable to the liability to provide certain benefits, such as a superannuation death benefit.
- This reduces the funds tax liability by up to 15% of the eligible insurance premiums paid by the fund's members, which is what leads to a member rebate being offered.



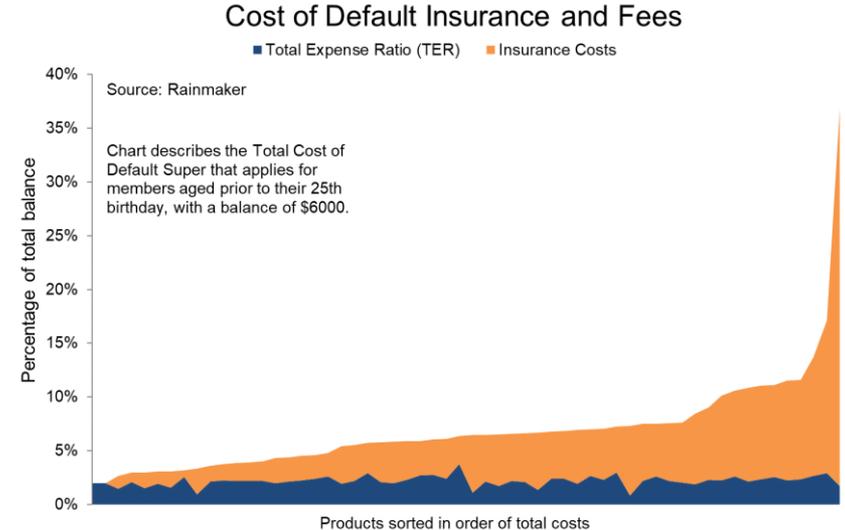
Table: 15% tax treatment by Retail and NFPs

Fund Product Name	Fund Type	Rebate Method	Rebate Amount
BT SuperWrap	Retail	Member rebate	15%
MLC MasterKey	Retail	Member rebate	15%
ANZ Super Advantage	Retail	Member rebate	15%
BT Panorama Super	Retail	Member rebate	15%
Macquarie Super Consolidator	Retail	Discounted Premiums	15%
IOOF Employer Super - Employer	Retail	Discounted Premiums	15%
CareSuper	NFP	Member rebate	15%
Maritime Super	NFP	PDS unclear - understood rebate	15%
Sunsuper for Life Business	NFP	Member rebate	15%
Intrust Super Fund	NFP	Member rebate	15%
HESTA	NFP	Member rebate	15%
HostPlus	NFP	Benefits Fund's Reserve *	Admin Reserve
CFS - FirstChoice	Retail	No info	No info
AMP SignatureSuper	Retail	No info	No info
MLC	Retail	No info	No info
AustralianSuper	NFP	No info	No Info
Rest Super	NFP	No info	No Info
QSuper	NFP	No info	No Info
First State Super - Employer Sponsored	NFP	No info	No Info
AMP MyNorth Super	Retail	Income tax reduced	unclear

\* HostPlus PDS states that any tax benefit associated with Fund expenditure is paid into the Fund's Administration Reserve

# Putting Members' Interests First – changes effective 1 April 2020

- People under 25 and those with balances below \$6,000, will no longer be defaulted into insurance from 1 April 2020.
- Analysis of MySuper insurance premium rates by Rainmaker has revealed that millennial members are paying average annual insurance premium costs of \$222 pa compared to just \$132 pa in fees.
- As a proportion of a standard millennial balance of \$6000 this means these members are paying 3.7% pa in insurance premiums on top of the 2.2% pa they pay in fees.
- General exclusion from the changes is employer-sponsor contributions to super to cover insurance as well as super for defence personnel in ADF Super.
- Super funds can **choose** to cover members working in emergency services, as well as those in occupations which are in the riskiest 20% of job types.
- If the decision is made to provide this default insurance, funds will need to inform APRA.
- As these members are from the highest risk groups with a larger probability of making claims, the premiums for this same cohort are likely to increase.



RAINMAKER GROUP

---

RESEARCH • DATA • MEDIA

*Thank you*

# Appendix: policy definitions TPD

- Definitions are inconsistent
- Super Voluntary Code of Practice highlighted the need for standard definitions of key definition terms
- Almost half of funds use the ability to participate in regular daily living activities as a core trigger, followed by one third that use either specific bodily injuries or specific illnesses.
- Only 29% of funds allow members to claim for a TPD benefit without imposing reskilling obligations on them
- Suicide are inconsistent across funds. Some funds provide income protection cover for members who have suicided because the income benefit is provided to the estate.
- Suicide definitions and claims moreover shows that 30% of funds honor their cover even in cases of self-harm and suicide.

Fig 14: Proportion of funds with TPD claim triggers

