

TAL Submission

Productivity Commission

Superannuation: Assessing Efficiency and Competitiveness

Prepared by TAL Life Limited (TAL)
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1. About TAL

TAL is a leading Australian specialist life insurer. We provide Life, Total and Permanent Disability (TPD), Critical Illness and Income Protection insurance solutions to approximately one-third of the Australian working community.

Last year we protected over four million Australians and paid out over \$1.6 billion in claims. Helping provide financial security to our customers in the most difficult of times, when they need us most, is a responsibility we take very seriously.

TAL is owned by the Dai-ichi Life Insurance Company in Japan. Dai-ichi Life's customer purpose is "by your side for life" – for all of TAL and Dai-ichi Life to be by the side of our customers throughout their life. This purpose is more than just words and is a strong operating principle for all its businesses around the world.

Providing a balanced view

TAL's business model is unique and distinct from others in the industry. It reflects a fundamental principle of our business – that Australians should have choice about how they access life insurance, reflecting their own needs and preferences. That may mean purchasing life insurance:

- Directly from us over the telephone or online;
- Through a financial adviser;
- Through their superannuation fund as part of the group insurance cover; or
- Through an existing relationship with one of our alliance partners (including health and general insurers).

As a result we are uniquely positioned amongst Australia's insurers to offer a balanced view of the industry, not exclusively vested in any one channel. We believe that each channel is complementary, serves its market in a different way and meets customers on their terms.

2. Executive Summary

TAL supports the overall objective of the Government and this Commission to ensure an effective and efficient superannuation system for the Australian community.

The draft report which has been released by the Productivity Commission represents a thorough examination of these topics, and we are broadly supportive of the vast majority of the recommendations made within it.

Reflecting on those areas of the draft report that impact insurance through superannuation, this submission responds to your specific information requests and also makes comments on each relevant recommendation.

Flexibility of trustees in delivering insurance solutions that meet the needs of their members

TAL strongly supports the provision of the necessary flexibility to superannuation trustees (**Trustees**) to enable them to design and deliver life insurance solutions that are appropriate for the unique needs of their membership.

We therefore support the existence of both bundled and unbundled cover options for superannuation fund members, and the ability of Trustees to determine the most appropriate option for their individual memberships (or cohorts of membership), including the provision of Income Protection (**IP**) on a default basis.

The important role of IP insurance in delivering the best solutions for the needs of members

The ability to offer IP within superannuation has provided trustees with an alternate life insurance product with a more comprehensive disability benefit to meet members' needs. It protects members not only where they are permanently disabled, but also where they are temporarily disabled, which is the major advantage over TPD insurance.

IP is an extremely valuable and highly appropriate benefit for many members, providing them with a regular income stream while they are unable to work, and ensuring contributions continue to be made to their superannuation account.

For members to have the best chance of recovering and returning to work, we know that they need ongoing encouragement, medical support and relief from financial stress. This is particularly true for those suffering from a mental health condition or those who are at risk of developing secondary mental health issues.

IP provides this support with an ongoing income stream and an enduring relationship between the member, their fund and the insurer. All three parties have an aligned objective to return the member to health.

If funds were not able to offer IP on a default basis, then they could only rely on TPD which delivers a lump sum payment and severs the relationship thereafter. For many funds and their members, this would be a suboptimal outcome.

Solving the problem of undue balance erosion through removal of duplicate accounts

We agree that balance erosion due to individuals paying premiums on multiple IP policies when they can only ever be paid out on one Income Protection claim does not represent value for the member.

However, it is the existence of multiple superannuation accounts which is the root cause of this issue and not the provision of Income Protection insurance on a default basis. TAL supports the recommended changes contained within the current Federal Budget, Protecting Your Super Package, within the Insurance in Superannuation Voluntary Code of Practice and this Productivity Commission report in respect of measures to reduce the incidence of multiple accounts. Fixing the issue of multiple accounts should be pursued with the utmost urgency and will address the majority of poor member outcomes.

3. Information Request 8.1 – Bundling Life and TPD

3.1 What is the case for bundling life and total and permanent disability insurance together, as is done by some superannuation funds? Are there funds that offer these separately and, if so, do many members of these funds elect to have one type of cover but not the other?

TAL supports flexibility for Trustees to design and deliver life insurance solutions that are appropriate for the unique needs of their membership.

Our understanding of your reference to “unbundling” of life insurance (**life**) and total and permanent disability (**TPD**) benefits is that Trustees offer different sum-insured levels of life and TPD cover to better suit members’ needs at different stages of their lives, where that is appropriate for the membership.

Accordingly, TAL supports the provision of both bundled and unbundled life and TPD cover options for superannuation fund members, and the ability of Trustees to individually determine the most appropriate option for their respective memberships.

In making these determinations for their own members, Trustees are becoming more sophisticated in their analysis and the design of their insurance offerings. Many have a comprehensive understanding of the demographics of their respective memberships; as a result, they are also best placed to make this determination utilising the flexibility that the current legislation affords them.

3.1.1 Origins of bundling of insurance benefits

The origins of life and TPD cover within superannuation lie in employer Defined Benefit (**DB**) schemes which typically provided benefits on both term life and disability. In lump sum DB schemes, the life and TPD benefits were equal (and usually determined as the present value of the benefit that would have been paid, had the member remained in employment to retirement, as defined in the rules of the fund).

With the introduction of accumulation superannuation funds, the initial structure of insurance within the fund mirrored that available under retail life insurance at the time – typically with a focus on the term life benefit, with TPD as an optional rider.

When the first industry funds began to offer TPD as a standard benefit in the late 1980s/early 1990s, for the purposes of administrative simplicity, the life and TPD benefits continued to be bundled.

However, as administration systems have evolved to handle more complexity and Trustees have come to understand the interaction of the different benefits with members’ differing needs, many have moved to unbundle these benefits, offer more tailored insurance benefits to members and now offer varying benefits across different ages.

3.1.2 “Bundling” – why have the same benefits for TPD and life cover?

From a design perspective, traditionally life and TPD were bundled (at the same sum-insured level) so that neither gave a higher benefit. This was particularly important prior to the introduction of terminal illness benefits – as members with a terminal illness might be disadvantaged claiming TPD, if the TPD benefit was lower than the term life benefit.

As the understanding of members’ needs has evolved, design thinking has matured and administration systems are able to provide for more complex insurance design, then so has insurance design become more personalised. For example, we know that many young members may not yet have dependents and therefore may only need a low level of term life insurance. However, should they suffer a permanent

disability, they will then need a considerable TPD benefit to sustain them across the balance of their life. These varying needs have driven the evolution of unbundled life and TPD benefits.

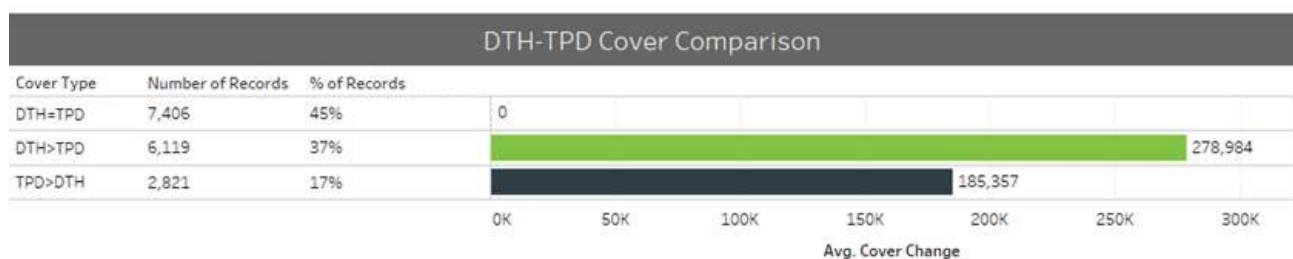
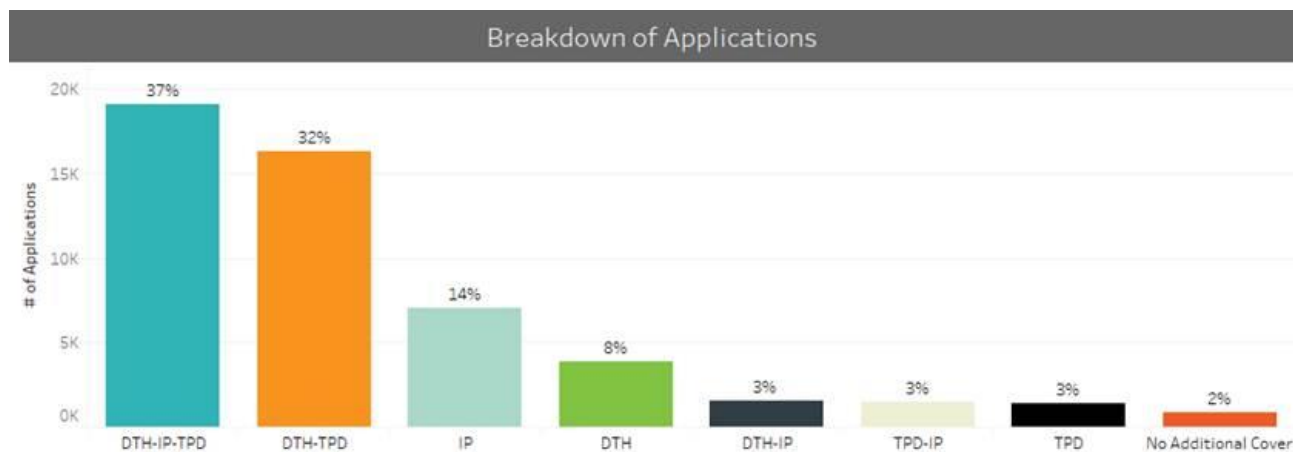
3.1.4 Are there funds that offer these separately?

Funds have continually been evolving and using data to better personalise insurance design for members. Life cycle benefits were introduced to cater for the different needs at different ages within a fund (which may involve the term life benefits being higher or lower than TPD benefits at different ages). We have also seen flexibility with the fund design to allow members to tailor the insurance cover to their needs by making a voluntary choice around cover types and amounts.

The majority of funds insured by TAL offer unbundled life and TPD cover. Collectively, these funds account for over 95% of our portfolio.

3.1.2 Do many members of these funds elect to have one type of cover but not the other?

The below graph shows a breakdown of underwriting cases in the 12 months ended 31 March 2018 and provides a breakdown of type of cover specifically applied for by members. It demonstrates the propensity for members to select the type of cover that is relevant, but the high proportion of combined life, TPD and IP suggest members see value in all these types of cover.



3.1.5 Unbundling supports promotion of Income Protection as the primary disability benefit

The ability to offer IP cover within superannuation has provided Trustees with an alternate life insurance product to meet members' needs, that being a product that provides a more comprehensive disability benefit, protecting members where they are permanently, temporarily and partially disabled. In some cases, this duplicates the objective of TPD (permanent disability) and therefore, Trustees have realised that members

may not need as much TPD where IP is included. To achieve this objective, they must be able to unbundle TPD and term life (to reduce TPD benefit and premiums relative to those for term life).

Recommendation: We recommend that the superannuation laws be amended to allow for disability benefits (whether temporary or permanent) to be provided as either lump sum or income stream benefits, as determined by the Trustee to be appropriate to their specific member base (or cohorts of membership). Doing so will retain the ability to provide the greatest possible value to fund members, based on their needs and circumstances, through either a lump sum or income stream benefits.

4. Information Request 8.2 - Value of income protection

In summary:

- IP is a valuable and appropriate insurance benefit, as this provides a regular income stream to members while they are unable to work in the case of both temporary and permanent disablement. This supports improved health and return to work outcomes.
- IP aligns with the objective of superannuation in so much as it can continue to provide contributions into a member's superannuation account whilst a member is absent from work due to injury or illness.
- Balance erosion due to premiums paid across multiple accounts where a benefit is only claimable once is an important issue to be addressed and we support measures to reduce the incidence of multiple accounts to remediate this. We do not believe prohibiting the provision of IP cover on a default basis is an appropriate response.

(8.2) What is the value for money case for income protection being provided on an opt-out basis in My Super Products? Should IP be in super at all?

4.1.1 IP most fundamentally aligns to the purpose of the superannuation system

The objective of the superannuation system is *"To provide income in retirement to substitute or supplement the Age Pension."*

IP ensures that even if a member is unable to work for a period of time due to illness or injury, they receive an income replacement benefit, in most cases part of which takes the form of a benefit to be contributed to their superannuation (known as a superannuation guarantee benefit) which lessens the impact of the absence from work on their superannuation account balance at retirement.

4.1.2 IP support members return to work

Returning members to wellness is in the interests of individual members, of society as a whole, and supports the sustainability of life insurance for the benefit of all policy holders.

The nature of IP insurance as a temporary incapacity benefit, allows insurers to assess and pay a member's claim more quickly than under a TPD claim, as they only need to confirm that the member has an injury or illness today which prevents or restricts them from being able to work, as opposed to having to determine that they will be incapacitated for the rest of their life.

The ongoing relationship that is established between the member, Trustee and insurer during an IP claim also allows the Trustee and insurer to tailor support throughout the health and wellness journey. This could include providing rehabilitation to a member on a continuous basis rather than once off (as in the case of TPD). This approach is particularly important for disorders or injuries that are of a temporary nature, where tracking progress against health outcomes is crucial to members' return to health outcomes.

IP benefits, by design, encourage and support reduced hours and duties as well as a return to work – for example, a person with a chronic disorder can slowly work fewer hours with access to partial IP top up rather than not being eligible for TPD at all until they have completely stopped work. Should a member be able to return to partial work, a partial income benefit continues to be paid. This supports a more efficient and effective return to society and work for members, contributing to their positive wellbeing.

4.1.4 Addressing the concerns of the Productivity Commission - Where a member has multiple accounts, benefit offsets, “Zombie Insurance”

Individuals paying premiums on multiple IP policies when they can only ever be paid out on one IP claim does not make sense or represent value for the member. However, the major problem leading to erosion of superannuation benefits that the Commission has identified is members having multiple accounts, which leads to multiple fees and insurance premiums.

Reducing instances of multiple accounts

TAL supports the recommended changes contained within the current Federal Budget, Protecting Your Super Package, within the Insurance in Superannuation Voluntary Code of Practice and this Productivity Commission report in respect of measures to reduce the incidence of multiple accounts.

The Insurance in Superannuation Voluntary Code of Practice has introduced additional provisions to minimise the likelihood of being unable to claim on multiple benefits. The Code has also introduced a refund of premiums if it has been identified that a member could not have made a claim against the policy.

Further, we support additional initiatives to reduce multiple accounts in a more timely way. A better solution to meet this objective is to utilise existing ATO infrastructure such as SuperStream data reporting and Single Touch payroll to identify instances of multiple active insurances and use this to engage the member as to whether they want to consolidate their active accounts. This would ensure faster consolidation of accounts and significantly reduce the impact of multiple income protection insurances.

Other product features to reduce potential impact

Generally, IP cover is cancelled automatically where a member either ceases employment, or following the elapsing of an agreed period thereafter, normally 13 months. This means that the incidence of multiple IP policies is reduced where a member has changed jobs and picked up a new default IP policy.

To further protect members from the potential impact of benefits associated with multiple accounts being offset, a number of funds have introduced the ability to defer the utilisation of their benefit, until completion of the other insurance benefit. This is referred to as a deferred waiting period.

The existing product features have proven to be very effective. AustralianSuper recently undertook a comprehensive review of their IP payments and offsets and found only 0.4% of IP benefits are not paid due to multiple policies.

5. Recommendations of the Productivity Commission

TAL has made comments on a number of the key recommendations within the Productivity Commission report for your consideration.

5.1 Draft Recommendation 2 - 'Best in show' shortlist for new members

As part of determining the "Best in show" shortlist, it is important that an assessment of a fund's insurance is included as part of the assessment process. This assessment should consider a fund's default design, definitions, service experience and pricing. The absence of such an insurance assessment may result in a fund neglecting investment in this very important component of their proposition.

5.2 Draft Recommendation 14 - Opt-in insurance for members under 25

We agree that the need for insurance for Australians under 25 years of age is very different from middle aged and older Australians. We agree that 'younger' Australians typically have not accumulated significant debt nor are they likely to have financial dependants until later (although some under 25s do have dependants). However, consideration should be given to revising this recommendation to allow disability-based products to be provided to young members. Trustees should also have discretion to decide whether a younger age is appropriate to commence cover, based on the particular needs and specific circumstances of the fund member base, where that age is between 21 and 25 years old.

This is particularly important in relation to funds which have a higher proportion of younger members in high risk occupations (or who are part of a (regional or other) demographic who may be more likely to have dependants at a younger age)..

Based on TAL's statistics over the past five years, we paid over \$100 million in group insurance claims related to members under the age of 25. Included in these numbers were 156 TPD claims, 501 IP claims and 11 terminal illness claims.

For younger members, in particular, who have a significant proportion of their life ahead of them before retirement, TPD and IP cover play a critical role in supporting them and their families. These payments can enable family members of injured or sick members to continue to work (with all the social benefits that working brings), rather than having to provide full time or other care for the member on the basis that there is no other financial support for the injured or sick member.

Recommendation: Flexibility should be given to Trustees to decide what the appropriate age of "Young" people within their fund is (ranging between 21-25) and therefore when default cover rules should apply. This assessment should be based on their understanding of the particular needs and circumstances of the fund's member base.

5.3 Draft Recommendation 15 - Cease insurance on accounts without active contributions

We support this recommendation in respect of IP, which is consistent with the Insurance in Superannuation Voluntary Code of Practice and the draft *Treasury Laws Amendment (Protecting Your Superannuation Package) Bill 2018*.

However, the employment of an activity test (namely, contributions being made) in determining the continuation of term life and TPD cover should also be subject to a minimum account balance test (of \$6,000), so that those who have a balance of more than \$6,000 in their superannuation account are not subject to cancellation based only on the activity test. The second limb of this test (i.e. below a minimum superannuation account balance of \$6,000) is important for life and TPD, as these benefits are not offset against other benefits payable under multiple coverages and therefore retain their full value.

Recommendation: Cover cancellation rules for term life and TPD should only apply where the member's account has been inactive for 13 months **AND** their superannuation account balance is less than \$6,000.

5.4 Draft Recommendation 16 - Insurance Balance erosion trade-offs.

We support the disclosure requirements outlined by the Productivity Commission in its report, however this disclosure is more akin to the requirements currently mandated and managed through the existing APRA Prudential Standard SPS250.

Recommendation: That this disclosure is included within SPS250.

5.5 Draft Recommendation 17 - Insurance code to be a MySuper condition

We support the adoption of the Insurance in Superannuation Code of Practice in obtaining or retaining My Super authorisation.

5.6 Draft Recommendation 18 - Insurance code taskforce

We support the intention underlying the Insurance Code Taskforce, however we recommend that the existing powers of ASIC and APRA be leveraged rather than providing supervisory powers to a separate Insurance Code Taskforce.

5.7 Draft Recommendation 19 - Independent review of insurance in super

TAL supports the review; however, we believe that it will take longer than four years post-implementation of the *Treasury Laws Amendment (Protecting Your Superannuation Package) Bill 2018* measures for the impacts to become evident and therefore allow for a reasonable assessment by the independent review.

Recommendation: That the proposed review is not commenced until four years post-implementation of the *Treasury Laws Amendment (Protecting Your Superannuation Package) Bill 2018*.