



Policy costing

Common group insurance	
Person/party requesting the costing:	Senator Richard Di Natale, Australian Greens
Date costing completed:	5 July 2019
Expiry date of the costing:	Release of the next economic and fiscal outlook report.
Status at time of request:	Submitted outside the caretaker period <input checked="" type="checkbox"/> Confidential <input type="checkbox"/> Not confidential
<p>Summary of proposal:</p> <p>The proposal would prohibit default superannuation funds from providing insurance products, either by default or on an opt-in basis, through active accounts with a balance below \$6,000, and through new accounts belonging to members aged under 25 years. Instead, the government would pay out claims for life insurance, total and permanent disability insurance and income protection insurance for these members under the same terms and conditions that would have applied if the fund was not prohibited from providing these insurance products, and the members had been defaulted into insurance products by their fund.</p> <p>Claims would be assessed in line with the terms and conditions of the default insurance, with the assessment contracted either to the fund's default insurance provider or to another contracted provider. All approved claims would be paid out in full by the government.</p> <p>For eligible individuals with default accounts in multiple funds, the level of cover would be based on the highest level of default cover between those accounts. Cover would not be available to individuals with default accounts in multiple funds if at least one of those accounts has a balance of \$6,000 or above.</p> <p>Where a member has exercised choice to join a fund (as opposed to being defaulted into a fund by their employer), the fund would not be prohibited from providing insurance products to this member. However, the member would not be eligible to make a claim to the government in relation to this fund.</p> <p>The proposal would have effect from 1 October 2019.</p>	

Costing overview

Policy background

Superannuation funds typically provide their members with default insurance products on an opt-out basis. The 2018-19 Budget measure *Protecting Your Super Package – changes to insurance in superannuation* changed insurance arrangements for certain members to be provided with products on an opt-in basis, with effect from 1 July 2019. The changes affected new accounts belonging to members under the age of 25, accounts with balances below \$6,000, and accounts that are inactive

because they have not received a contribution in 13 months. Amendments in the 2019-20 Budget extended the definition of 'inactive' to 16 months, and moved the opt-in start date for new members under the age of 25 and accounts with balances below \$6,000 to 1 October 2019.

The proposal would prohibit default funds from providing any insurance product to new accounts belonging to a member under the age of 25, or accounts with balances below \$6,000, rather than having these products provided by the superannuation fund on an opt-in basis. Instead, the government would pay out all successful claims for these accounts, under the same terms and conditions that would have applied if the member had been defaulted into insurance products by the fund, and under the terms listed in the *Summary of proposal* above.

Financial implications

The proposal would be expected to decrease the fiscal and underlying cash balances by \$1,644 million over the 2019-20 Budget forward estimates period. This impact reflects a net increase in administered expenses of \$1,820 million, and a net increase in departmental expenses of \$4 million, offset by an increase in revenue of \$180 million.

The increase in administered expenses would primarily be driven by payments of approved insurance claims. This increase would be partially offset by a reduction in administered expenses as there would be fewer claims for income support payments. The increase in revenue would arise due to the taxable component of insurance payments. There would also be an increase in both administered and departmental expenses associated with assessing and processing the claims, as the assessment would be contracted to insurance providers, while the processing of payments would be completed by the government. This would be offset by a reduction in departmental expenses associated with the reduction in income support payment claims.

This costing is subject to uncertainties around the number and value of claims, largely stemming from the potential behavioural responses to the proposal. In particular, the cost of the proposal would be materially higher if there was an increase in approval rates for claims from individuals covered by the proposal, or an increase in the default level of cover applying to these individuals. In addition, the cost of the proposal may be higher if the number of individuals with affected accounts was to materially increase as a result of restrictions on insurance premiums and fees charged to accounts under the related 2018-19 and 2019-20 Budget measures.

Table 1: Financial implications (\$m)^{(a)(b)}

	2019–20	2020–21	2021–22	2022–23	Total to 2022–23
Fiscal balance	-321	-431	-441	-461	-1,644
Underlying cash balance	-321	-431	-441	-461	-1,644

(a) A positive number represents an increase in the relevant budget balance; a negative number represents a decrease.

(b) Figures may not sum to totals due to rounding.

Key assumptions

The Parliamentary Budget Office (PBO) has made the following assumptions in costing this proposal.

- Claim rates for life insurance, total and permanent disability insurance and income protection insurance would be in line with those observed in the Rice Warner *Super Insights 2018* report, as claims assessments would be contracted to insurance providers.
 - Claim rates and values were differentiated on the basis of age.
- Behavioural responses associated with the proposal would not have a material impact on the financial implications.
 - A potential behavioural response would be for individuals choosing to remain within their default superannuation fund in order to receive government-provided insurance cover, where they would otherwise have chosen a different fund. As the proportion of individuals exercising choice of superannuation fund is already relatively low (particularly for those affected by the proposal), this response is unlikely to have a material impact.
- The cost of contracting the assessment of claims to the superannuation funds would be around 5 per cent of the equivalent cost of premiums for the total population insured under the proposal.
 - This assumption has been informed by consultation with industry experts.
- Claims are uniformly distributed throughout each financial year.

Methodology

- The administered expenses associated with paying insurance claims to affected members was estimated by analysing historical member contribution statements and personal income tax data, combined with estimates for claim rates by age derived from the Rice Warner *Super Insights 2018* report.
- The offsetting revenue component was estimated by applying average marginal tax rates for the affected population to the taxable component of the insurance payment, taking into account the concessional tax treatment of life insurance and total and permanent disability insurance payments.
- The offsetting reduction in administered and departmental expenses associated with fewer claims for income support was estimated as being equal to the expected increase in these expenses associated with the 2018-19 Budget measure *Protecting Your Super Package – changes to insurance in superannuation* and the 2019-20 Budget measures *Protecting Your Super Package – amendment* and *Protecting Your Super Package – putting members' interests first*.
- Departmental expenses and administered expenses associated with the processing and assessment of claims have been estimated based on an assessment of the administrative complexity of the proposal.
- The modelling has taken into account the timing of tax collections and payments.
- Revenue estimates have been rounded to the nearest \$10 million. Administered expense estimates have been rounded to the nearest \$10 million. Departmental expense estimates have been rounded to the nearest \$1 million.

Data sources

- The Treasury provided the model for 2018-19 Budget measure *Protecting Your Super Package – changes to insurance in superannuation* and the 2019-20 Budget measures *Protecting Your Super Package – amendment and Protecting Your Super Package – putting members’ interests first*.
- The Australian Taxation Office provided administrative personal income tax data for the 2014-15 financial year and superannuation member contribution statement data for the 2013-14 and 2014-15 financial years.
- Rice Warner 2018, *Super Insights 2018*.

Attachment A – Common group insurance – financial implications

Table A1: Common group insurance – Fiscal and underlying cash balances (\$m)^{(a)(b)}

	2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	Total to 2022–23	Total to 2029–30
Revenue													
<i>Tax revenue from insurance payments</i>	30	50	50	50	60	60	60	70	70	80	80	180	650
Total – revenue	30	50	50	50	60	60	60	70	70	80	80	180	650
Expenses													
<i>Administered</i>													
<i>Insurance payments</i>	-320	-450	-470	-490	-510	-530	-560	-580	-600	-630	-650	-1,720	-5,780
<i>Contracted assessment of insurance claims</i>	-40	-50	-50	-50	-50	-60	-60	-60	-60	-70	-70	-190	-610
<i>Income support payments</i>	10	20	30	30	30	30	30	30	30	30	30	90	300
Total – administered	-350	-480	-490	-510	-530	-560	-590	-610	-630	-670	-690	-1,820	-6,090
<i>Departmental</i>													
<i>Processing of insurance claims</i>	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2	-8	-22
<i>Processing of income support payment claims</i>	1	1	1	1	1	1	1	1	1	1	1	4	12
Total – departmental	-1	-4	-10										
Total – expenses	-351	-481	-491	-511	-531	-561	-591	-611	-631	-671	-691	-1,824	-6,100
Total	-321	-431	-441	-461	-471	-501	-531	-541	-561	-591	-611	-1,644	-5,450

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms.

A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms.

A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms.

A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

(b) Figures may not sum to totals due to rounding.