

CHAIR: Okay. Can Treasury provide some examples of situations where young, low-balance or inactive account holders might be paying for insurance that they're simply not eligible even to claim on?

Mr Deitz: Specific examples we'd perhaps need to take on notice, but I do note that there is an example that was provided in the budget materials and there are other cameos that were modelled for the purposes of these changes, and we would be able to provide them.

- The *Superannuation Industry (Supervision) Regulations 1994* prevent the payment of an income protection benefit that is greater than a member's pre-disability income. Furthermore, the terms and conditions of these policies typically limit benefits to a fixed proportion of a member's income. This creates issues where people hold multiple income protection policies. In these circumstances, the benefit received from one fund may offset (partially or in full) the benefit that a member may be entitled to in another fund.
 - A cameo provided in the Budget materials outlined the impacts of a young person accruing multiple accounts, each with insurance cover. The cameo does not make assumptions around the scope of each policy. As the modelled individual holds multiple sets of insurance, there may be circumstances in which the individual would be ineligible to claim on all policies should an insured event occur.
 - The cameo can be viewed here: https://budget.gov.au/2018-19/content/sections/overview/downloads/Budget_2018-19_Budget_Overview.pdf
- The terms of many income protection and TPD policies require that a member be in active employment at the time that they make a claim. This means that if the member's account is inactive because the member is not working but premiums continue to be deducted, the member is paying for insurance cover upon which they cannot claim.
- Some superannuation funds also offer insurance products with terms that require a minimum balance to be eligible to make a claim. Evidence provided to the Parliamentary Joint Committee as part of its inquiry into the life insurance industry indicated that one superannuation fund continued to deduct insurance premiums from a member's account despite their account falling below the minimum account balance eligibility threshold. The member's claim was subsequently denied as a result of the minimum balance requirement.

Senator KETTER: I have some questions about this document from the Australian Government Actuary. On page 4 it makes reference to some estimates as to the outcomes in terms of insurance premiums. It says that, for under-25s and less than \$6,000, if I'm reading that correctly, the death and TPD premiums would increase by 90 per cent. Is that correct?

Mr Deitz: That is one of the scenarios, yes.

Senator KETTER: That seems to be the considered view of the actuary based on the assumptions here.

Mr Beckett: It's one of the scenarios, As I think the actuary says, it would depend on how superannuation trustees and insurers deal with people who are opting in pre default. It will depend on what assumptions they make about adverse selection and how they deal with them in pooling. As the actuary said, a high assumption is a 90 per cent premium increase for that cohort. Of course, it could be much lower depending on what trustees decide to do.

Senator KETTER: Okay. A five per cent increase for under 25 and greater than \$6,000—as you said earlier, seven to 10 per cent. Can you take us through the assumption underpinning that for accounts held by over-25-year-olds? It says that it assumes opt-ins are treated as part of a single pool. What does that mean?

Mr Deitz: I'd have to confirm that, but my understanding of what that means is that they are included in the pool with the individuals who are defaulted in.

ANSWER:

- The assumption that opt-ins are treated as part of a single pool means that it is assumed that those members over 25 with balances below \$6,000, or who would have otherwise ceased due to inactivity, who choose to maintain cover after the commencement of the policy are treated as part of the same pool as those members who would have been provided insurance automatically upon joining the fund, and will not be required to go through an underwriting process.
- If the person is underwritten and their occupation and personal circumstances mean they present a more significant risk vis-à-vis the risk profile of the pool as a whole, they may pay more for cover. However, what they pay for cover will reflect the risk that those members bring into the pool, and this will result in a fairer premium cost distribution across all members.
- It should be noted however that Australian Super, when it announced its decision prior to the announcement of the Government's Protecting Your Super Package, to offer cover to under 25s on an opt-in basis from November this year, it also guaranteed that at the time when those members re-join the pool, they will be able to do so automatically, without underwriting.

Senator KETTER: Okay. You've given us some figures as to the level of duplicate and multiple accounts. This might be something you have to take on notice: what percentage of each of the inactive, under-25 and under \$6,000 balance accounts have duplicate cover elsewhere? What number and percentage of people will lose all group insurance cover in each of these categories?

Mr Beckett: We'll have to take that on notice.

ANSWER:

- Based on 2015-16 data,¹ around 5 million people have at least one account that will move from opt-out to opt-in insurance cover, and around 3 million of these people have only a single superannuation account, and will therefore move to an opt-in insurance cover option for that account.
- If the policy had been applied in 2015-16, it would have given those 5 million people the opportunity to save around an estimated \$3 billion in insurance premiums by allowing them to choose to opt-in to this cover, rather than paying for it by default.
- Since individuals may have multiple accounts, they may move to opt-in cover for a combination of reasons - they may fall into more than one category (e.g. the same person can have an account that is inactive and an account with a balance less than \$6,000). As such, Treasury has not modelled the breakdown of people who have duplicate insurance by the specified categories.
- Of the 2 million people with duplicate cover who are affected, the majority have another account with insurance cover that will continue. Of the remaining affected members, some will be provided insurance on an opt-out basis as their account reaches \$6,000 as a result of the ATO reunification process.

¹ Data has not been updated to 2019-20 estimates.

Senator KETTER: Page 43 of the explanatory memorandum notes that 20 per cent of people with super have duplicate insurance cover and that 10 per cent of those with duplicate cover were under 25. This suggests that the minority of accounts that lose default insurance have duplicate cover. If you could take that on notice for us.

ANSWER:

- Based on 2015-16 data, just under 5 million people may have their insurance changed to opt-in for one or more of their superannuation accounts (either due to inactivity or a balance below \$6,000). Of these people, around 2 million have duplicate cover, equivalent to over 40 per cent of the people who have their insurance changed to opt-in.
- If the policy had been applied in 2015-16, it would have given the 5 million people the opportunity to save around an estimated \$3 billion in insurance premiums by allowing them to choose to opt-in to this cover, rather than paying for it by default.

Senator KETTER: Are you able to tell us what the estimated loss in payouts to people who are disabled or the beneficiaries of those that die under these arrangements is? The number of people and the value of the payments under this by each of the categories under this legislation.

Mr Beckett: Can I take that on notice, please? We'll have a look at what modelling we did on that.

We estimate that:

- The number of death claims no longer being paid would be around 7,100, totalling around \$820 million in 2019-20.
- The number of TPD claims no longer being paid would be around 7,800, totalling around \$640 million in 2019-20.
- The number of IP claims no longer being paid would be around 2,800, totalling around \$90 million in 2019-20

Note that the number of policies is rounded to the nearest 100 and the dollar amounts are rounded to the nearest \$10 million.

Treasury does not have a breakdown of these figures by whether the insurance was ceased due to a balance less than \$6,000 or an inactive account.

We have also estimated, that if the policy had been applied in 2015-16, that around 5 million Australians would have had the opportunity to save around \$3 billion in insurance premiums.

This modelling suggests that without the Government's proposed changes, in 2019-20, less than 1 per cent of Australians paying insurance premiums with inactive or low balance accounts would have a claim paid, totalling around \$1.55 billion. This, as a proportion of the \$3 billion in premiums paid by the affected cohorts in 2015-16, represents a claims payout ratio of around 50 per cent (noting this is comparing 2019-20 and 2015-16 figures). This can be compared to the industry-wide average claims payout ratio of in excess of 80 per cent, which enables an assessment of the value proposition for the affected cohorts vis-à-vis the unaffected cohorts – those with active accounts above \$6,000. In summary, the latter cohorts derive significantly greater value from default insurance cover than low balance and inactive account holders.

Senator KETTER: What is the basis of the calculation of an increase in the Department of Social Services expenditure by \$64.8 million over the forwards? How many people in what category of Centrelink DVA payments and with what value of lost insurance payments?

Mr Beckett: Again, I think it's best to take that one on notice, because it's a quite detailed question.

ANSWER:

- This question has been referred to the Department of Social Services.

Senator KETTER: Whilst you're at it, how many people will need to seek extra NDIS services and at what cost?

Mr Beckett: We'll take that on notice—I suspect it won't make a difference.

Mr Deitz: I think that the main point to make is that these payments do not generally affect eligibility for the NDIS.

Mr Beckett: That will influence the answer, but we'll just make sure.

ANSWER:

- As there is no income or assets test for the NDIS, there is likely to be negligible impact, if any, on the NDIS from the changes in the Protecting Your Super Package.

Senator KETTER: And could you also provide a response to table four in the AIA submission, which cites Rice Warner and the potential full cost to government of these policy changes and, where possible, a numerical response of Treasury's calculations

ANSWER:

- The measure, 'changes to insurance in superannuation', is estimated to have a gain to the Budget of \$697.0 million over the forward estimates period.
 - The costing for the measure reflects a number of components:
 - : Increased revenue due to less deductions being claimed by funds for insurance premiums within superannuation (+\$1,245m over the forward estimates period);
 - : An offsetting decrease in revenue due to less taxable insurance payouts, as there will be comparatively fewer insurance policies being claimed on (-\$475m over the forward estimates period); and
 - : An increase in outlays due to an increase in Government transfer payments to individuals who no longer receive income protection insurance payouts and therefore become eligible for Government payments (-\$73m over the forward estimates period).
- AIA's estimate of 'lost spending capacity due to reduced insurance claim payments' is only measuring how much income superannuation members lose as a result of reduced insurance claim payments. However, the AIA does not consider the lost spending capacity due to unnecessary or inappropriate insurance premiums.
 - Treasury has not undertaken economy-wide modelling of the Protecting Your Super Package. While the package will redistribute income and savings between individuals, this is not expected to have significant aggregate effects.

Senator KETTER: I've just found the Corporate Superannuation Association submission—just a bit more detail. It's on page 3 of their submission. It goes to the issue of inactive accounts and the cessation of automatic insurance cover where a person has a TPD claim. The issue is that the account would not be receiving contributions over that period of time, if they've got a TPD claim. The submission says: Under the current Bill, the member would need to opt-in to death cover, where they already previously had cover and would expect it to simply continue, and would be likely to fail to take action to opt in.

Mr Beckett: What would be the consequence?

Senator KETTER: If they fail to opt in, they lose their death cover.

Mr Beckett: In the future, but are you saying they lose the claim that they incurred when they were covered?

Senator KETTER: I'm trying to interpret what the Corporate Superannuation Association is saying.

Mr Beckett: We'll have a look at it.

Senator KETTER: It's on page 3.

ANSWER:

- In a situation where member has received a TPD lump sum payment, or is receiving TPD payments in instalments, it is likely that the member would not be receiving Superannuation Guarantee contributions from an employer. In the absence of voluntary contributions by the member, the account would be considered inactive and after 13 months, absent any direction from the member to continue insurance cover on the account, the trustee would be required to stop deducting any other insurance premiums from the account.
- This would not have any impact on the TPD payout the member is receiving.
- The automatic cessation of income protection insurance cover on accounts that are inactive due to the member receiving a TPD payout is an appropriate outcome, as it is likely that the terms of any income protection policy would preclude such a member from making a claim whilst receiving a TPD benefit.
- If the member wishes to maintain any other insurance cover on their account (such as death cover), they are able to make an election to do so.

Senator KETTER: Can you tell me how much revenue would be raised if just schedules 1 and 3 were passed—in other words, if the measures in relation to insurance were not passed?

ANSWER:

- The measure, ‘changes to insurance in superannuation’ (schedule 2) has interactions with the ATO consolidation of low balance and inactive accounts (schedule 3) since insurance premiums will have an effect on the amount transferred to the ATO. Treasury has not modelled the financial implications of the components in isolation of each other.

Senator KETTER: What's the number, in dollar value, of accounts initially transferred to the ATO under the low-balance inactive account provisions?

Mr Beckett: In 2019-20 we expect around six million inactive accounts worth \$7.5 billion to be transferred to the ATO. This is in addition to the \$3.9 billion that the ATO already has.

Senator KETTER: How many people by age group will be impacted by that? Have you got that assessment?

Mr Beckett: No, I don't have that in front of me. I'm sorry.

ANSWER:

- While we are not able to disaggregate the number of people impacted in 2019-20 by age as inputs to the costing were aggregate in nature, below is an age breakdown of people who have inactive accounts with balances below \$6,000, based on 2015-16 ATO data.

Table: People with inactive accounts below \$6,000 in 2015-16 - by age

Age	People ('000)
Missing	..
Below 25	300
25 to 34	1,200
35 to 44	1,100
45 to 54	800
55 to 64	500
65 and above	100
All	4,100

“..” reflects figures that are rounded to zero but are not zero.

Totals may not add due to rounding.