

2 August 2018

The Secretary
Senate Committee on Economics Legislation
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Secretary

Protecting Your Super Package Consultation - Confidential

Thank you for the opportunity to appear at the recent hearing of the Senate Economics Legislation Committee in order to discuss the *Treasury Laws Amendment (Protecting Superannuation) Bill 2018 (Bill)*.

This letter provides answers to questions on notice addressed to MetLife Insurance Limited (**MetLife**).

We would also like to comment on evidence by other witnesses regarding the implementation period for the Bill.

Treasury officials gave evidence that the proposed timeframe for the Bill is feasible, as the effective date of 1 July 2019 is approximately 13 months after the Budget announcement on 8 May 2018.

The Bill envisages that trustees will be in a position to perform a stocktake of the affected cohorts on 1 April 2019, meaning that changes to administration systems will need to be implemented by 1 April 2019. As the Bill has not yet been passed by Parliament, and draft regulations have not been published, the timeframe in reality will be closer to 7-8 months. In addition, sufficient time will need to be allowed to communicate the changes to members, especially those who will lose their insurance cover.

As the proposed changes will need to be implemented at the member level, sufficient time needs to be allowed to operationalise the changes correctly, to reduce the risk of remediation programs in the future.

We urge the Committee to consider the evidence of APRA that implementing the changes in this timeframe may cause operational risk that may impact members, and echo the sentiments of Deputy Chair, Mrs Helen Rowell who said at the hearing:

APRA is therefore concerned that unintended consequences may arise for members and that there will be significant pressure on and heightened operational risk for super funds and their insurers and administrators if sufficient time is not allowed to implement the proposals in an appropriate and orderly manner.

Overall, we estimate that MetLife paid \$180 million to members in 2017 to members who would have been in the affected cohorts. In the last 5 years, we accepted over 95% of insurance in superannuation claims. Across the industry, we estimate that Australians in the affected cohorts who have suffered injury, illness or bereavement

will lose over \$1 billion in claims payments each year. It is likely that this burden would fall on families and charities, as Treasury has indicated that the Government has not budgeted to support these people.

MetLife's responses to the Questions on Notice are attached to this letter.

[REDACTED]

Please contact Cathy Duloy, Head of Public Policy for further information.

Yours sincerely

[REDACTED]

Vince Watt

Acting Chief Executive Officer

Attachment

MetLife's responses to Questions on Notice

Please note that the figures provided are estimates based on analysis of the funds in MetLife's portfolio. In general, insurers have access to reliable information on members' age and gender. Insurers generally have limited data regarding contribution patterns and account balance, as this information is not usually relevant to the insurer's decision on a claim.

The economic outcomes of the Bill for different funds will vary widely, depending on the demographics of the fund, the propensity to claim and the levels of member engagement and awareness of insurance in superannuation.

1. Please provide your claims ratio (the percentage of premiums collected that are returned to the particular cohort in paid out claims) for the following cohorts:

- a) Under 25s;
- b) Under \$6,000, but active;
- c) Under \$6,000 and inactive; and
- d) Over \$6,000 and inactive for at least 13 months.

2. Please confirm the number, amount (\$) and percentage of death and TPD claims (when compared to all death and TPD claims paid for the same cohort) paid to under 25s and to over 25s, but with low balance accounts, in hazardous occupations, in circumstances where the injury was sustained at work (not driving on the way to work) as a result of the type of work?

Many in the industry have discussed the impact of the legislation on those in hazardous occupations. The key issue with people in hazardous occupations is that it would be difficult for them to obtain cover elsewhere as they would need to be underwritten. If they do obtain cover, it is likely to be materially more expensive. Hazardous occupations include those in the forestry, mining, construction and meat preparation industries, as well as emergency services.

Life insurance provides cover regardless of whether the illness or injury is workplace related. It is usually provided on a 24 hour, worldwide basis. For this reason, life insurers do not distinguish between injuries that are sustained at work and injuries sustained elsewhere, for example sporting injuries or motor vehicle accidents. We are unable to provide the data requested in Question 2.

3. Please confirm the number, amount (\$) and percentage of IP and TPD claims (when compared to all IP and TPD claims paid for the same cohort) paid to under 25s and to over 25s, but with low balance accounts, for both hazardous occupation work injuries and mental health claims across all industries?

Mental illness is one of the major health issues Australians face, and is a significant cause of claim. As stated above, MetLife does not have data in relation to whether injuries are work-placed based or not, and has limited data on account balance.

4. What is the average TPD claim payout for under 25s and under 6k cohorts?

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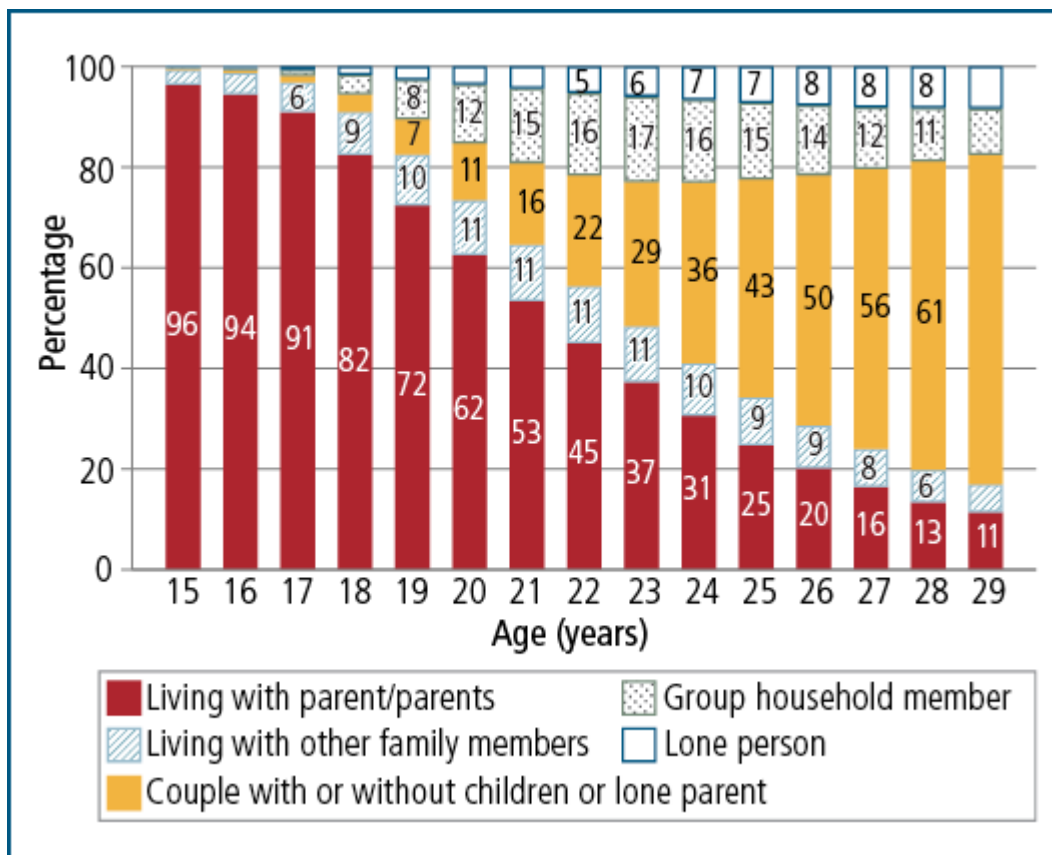
5. What percentage of death and TPD claims are paid to under 25s?

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6. What percentage of claims paid to under 25s are paid to a dependent spouse or spouse and children, not to an estate?

Generally, we do not receive information in relation to the beneficiaries of the insured benefits we pay, as the trustee is responsible for determining who the death benefit should be paid to, and paying the claim. Disability benefit payments (TPD & IP) are paid to the member although they may or may not have financial dependants.

Research conducted on young people and their housing situation by the Australian Institute of Family Services highlights the percentage of people by age living as a couple, couple with children or as a lone parent. The table below¹ shows that a substantial but material minority of those lives between 21 and 25 have financial dependants and for whom it is likely valuable that they have insurance.



¹ Fig 3, "Changing Living Arrangements through young adulthood", Australian Institute of Family Services 2016, *The Modern Australian Family* accessed aifs.gov.au/publications/modern-australian-family, 1 August 2018

During MetLife's involvement in the development of the Insurance in Superannuation Voluntary Code of Practice we requested information from some major superannuation funds on whether death benefits were paid to financial dependants or not, based on the taxation treatment of the benefit payment. This analysis is broadly consistent with the analysis by the Australian Institute of Family Services. [REDACTED]

7. What percentage of successful TPD claimants re-enter the workforce within 5 years?

MetLife does not have access to data in relation to the proportion of TPD claimants who re-enter the workforce.

We note that the Australian Tax Office may be best placed to answer this question as it would have records about tax paid on TPD benefits as well as income from personal exertion and superannuation guarantee contributions received in following years.

8. Is it legally possible, where an insurance contract already covers an individual in one of the affected cohorts, and that individual opts-in to retain that existing policy, that the insurer can then choose to underwrite the individual's cover? If so, what provisions in an insurance contract would allow this? Is this position likely to change when insurance contracts are brought within the Unfair Contracts Terms legislation?

Each trustee will need to consider on what terms cover is provided under the new regime having regard to their circumstances of their fund and the cost trade-offs.

This includes determining the terms on which:

- cover is provided for the first time;
- existing cover is retained; and
- cover is reinstated following cancellation.

If a MySuper member elects to retain their existing cover, the requirement in s 68AA of the Superannuation Industry (Supervision) Act 1993 to provide default insurance benefits through insurance will continue to apply. Section 68AA(1) requires the trustee to actually "provide" the death and permanent incapacity benefits rather than merely offering them through underwriting. However, a trustee is not required to provide default insurance if "reasonable conditions" determined by the trustee are not met (s 68AA(2), (3) and (4)). Therefore, whether or not an insurer can underwrite a member electing to retain their existing cover will depend on the "reasonableness" of the relevant condition which in turn will depend on the particular circumstances of the superannuation fund.

As any underwriting requirement needs to be a "reasonable condition", we are of the view that the jurisdiction of the Unfair Contract Terms regime would not be engaged.

In relation to the question on which terms in a contract would allow this, insurance policies contain provisions which set out on what terms cover will be provided, including whether the cover is provided automatically or subject to underwriting. These provisions will need to be updated in light of the Government's proposals in the Bill.

9. What will be the likely reason why funds' would require their members to go through underwriting once they no longer fit within the affected cohorts? For example, we note that AustralianSuper has successfully negotiated automatic re-entry to the pool for its members once they reach 25 – will the scale and negotiating power of the fund be a key driver in terms of whether underwriting is required?

2. The numbers of members who choose to opt-in and the degree of anti-selection risk for those members;
3. The way in which funds choose to manage anti-selection risk;
4. Removal of part of the premium-paying pool, resulting in fixed costs of the insurer being borne by a smaller number of members.

The above factors will vary materially between funds leading to differing cost impacts.

Some of the reports in the public domain which estimate price increases do not take into account all the above factors.

MetLife is not currently a client of either Rice Warner or KPMG, although we have engaged KPMG as a consultant for discrete projects, unrelated to the Protecting Your Super proposals.

11. Do you offer IP policies to age 60? If so, what is the premise of such policies, given IP is for temporary incapacity, rather than permanent incapacity?

Income Protection (IP) as a product assists those who are disabled to replace lost income arising due to disability. The condition of release references temporary incapacity, although a superannuation fund may pay a TPD benefit in tranches over a period.

Question 4 highlighted the average level of TPD insured benefit payable if a member was totally and permanently disabled. The amount may be insufficient to support a member from the date of disablement and expected retirement age. IP benefits to age 60 enable a member to have money to live on throughout what would have been their remaining working life, potentially avoiding their superannuation savings being drawn upon prior to retirement.

IP benefits may also include a benefit facilitating a member continuing to make contributions to their superannuation account so the insurance is actually helping to increase their retirement savings.

12. What percentage of the affected cohorts receives a claim payout of any kind within the first 2 years of employment?

We do not have data in relation to the date commenced employment for our claimants however we have endeavoured to assess the proportion of claimants who claim within 2 years of joining a superannuation fund on a sampling basis.

13. In light of the sweeping/reuniting provisions in the Bill (in other words, assuming that after 13 months low balance multiple account holders will no longer exist), what is your best estimate of the likely time it will take (from approx. the 13-14 month mark) for both a low and average income earner to reach 6k in their single remaining active account?