

27 July 2018

The Chair
Senate Economics Legislation Committee
Parliament House
CANBERRA ACT 2600

By email: economics.sen@aph.gov.au

Dear Senator Hume

Inquiry into Treasury Laws Amendment (Protecting Your Superannuation Package) Bill 2018

Thank you for the opportunity to provide evidence to the Committee on Friday 20 July 2018 in relation to its inquiry into the *Treasury Laws Amendment (Protecting Your Superannuation Package) Bill 2018* (Bill).

One item was taken on notice in relation to **how the Australian superannuation system compares to other systems internationally, in regards to life insurance being held within superannuation**. We also take the opportunity in this letter to comment briefly on the issue of the comparison of group and retail life insurance premiums raised several times in evidence before the Committee.

International Comparisons

The table below provides a brief comparison of the various life insurance arrangements within compulsory superannuation and/or pension systems internationally of which ClearView is aware. Of the arrangements listed below, only Chile makes it mandatory to have life insurance provisions within their retirement funding arrangements. Whilst Canada's Pension Plan contains a small survivor and disability benefit, Canadian life insurance policies are held outside of their Pension Plan. Other countries provide no life insurance options within their retirement funding arrangements, and life insurance policies are held separately.

ClearView's understanding is as follows:

Pension	Is life insurance provided within superannuation/pension scheme?
Singapore - CPF	No - As part of the CPF, a member is required to make monthly contributions to three separate accounts. The first two are targeted at retirement schemes but the third goes into a MediSave account which can be used to purchase health insurance. Life insurance is a separate product entirely, provided by life companies outside of the CPF schemes.

Malaysia - EPF	No - Life insurance is separate to the EPF retirement scheme.
Hong Kong - MPF	No - Life insurance is separate to the MPF retirement scheme.
New Zealand - KiwiSaver	No - KiwiSaver does not offer insurance as part of the product, it is a separate product entirely.
Chile - Tender model	Yes and it is compulsory – In addition to the mandatory contribution of monthly salary, there is an additional contribution for disability and term life insurance. The insurance premium is included in the general administrative charge that the worker pays to the pension fund administrator.
USA - 401K	No – If the employee's 401K employer plan permits it, the employee can pay life insurance premiums with their 401K savings (subject to certain limits). However, they are distinct products.
Canada (CPP)	No – Pension plans and life insurance are separate products. However, the pension plans do offer a survivor benefit (\$2,500) and disability benefit (\$1,335.83 maximum per month), subject to the satisfaction of certain conditions.
Sweden	No
UK	No

Comparison of Group and Retail Life Insurance Premiums

Additionally, a question was raised in evidence before the Committee on 20 July as to **how group life insurance premiums and retail life insurance premiums compare**.

This depends upon the demographic the member is associated with.

ClearView has conducted an analysis across multiple factors and particular trends emerged. Older, male, blue collar workers often receive better group insurance premium rates across death cover, TPD cover, and income protection cover than what they could reasonably obtain for similar sums insured, benefits and features in retail policies. Conversely, younger, female and professional workers often receive better premium rates across death cover, TPD cover, and income protection in retail policies than what they could reasonably obtain for similar sums insured, benefits and features in group insurance policies. The younger, female and professional workers within group insurance arrangements therefore appear to be cross subsidising the older, male and blue collar workers.

There are members who are paying for benefits they are unable to claim on within group insurance arrangements within superannuation. This includes situations where:

- Members have multiple income protection policies (in two or more separate superannuation funds) and are only able to claim on one of the policies;
- Members pay insurance premiums but lose insurance cover after their balances fall below \$10,000;
- Where members lose insurance cover if their employer has not made a contribution to the fund over the past 13 months; or
- Where members are unable to claim income protection benefits if they work less than 30 hours per week.

The above are features contained within some group insurance arrangements inside superannuation that limit or exclude benefit payments while still collecting premiums from members. By comparison, retail insurance policies are customised for individual clients so

that customers select (often with the assistance of financial advisers) the most relevant products, features, benefits and options to meet their particular circumstances.

When analysing the default insurance arrangements within many superannuation funds, the level of cover (sum insured) is quite low, and the breadth of options, benefits and features is also limited (often due to superannuation legislation). Retail insurance policies (outside of superannuation) have the ability to provide additional benefits such as: specific injuries benefits, trauma benefits, own occupation TPD, agreed value income protection, suspension of cover, waiver of premiums, and financial advice benefits. These built-in benefits allow customers to obtain better value for money as an individual than they could under a group insurance arrangement.

Consideration should also be given to the legislation surrounding both policy types; group insurance contracts may amend the premiums, benefits, terms and conditions provided to members; while retail insurance policies may only make modifications to the benefits, terms and conditions where the member/individual is not disadvantaged. This certainty of cover for retail insurance customers therefore provides them with certainty both now and into the future.

Retail advised life premiums include the value of provision of full personal advice, including the provision of an SOA (subject to Life Insurance Framework regulations). In order for a truly accurate comparison, retail life insurance premiums need to be reduced to the equivalent group life insurance inside superannuation where no advice is provided. If financial advisers were to charge separately for advice, on a fee for service basis and take no commission, retail life insurance premiums would typically be 25%-30% lower. On a like-for-like basis, the retail insurance premiums would provide greater value to the client.

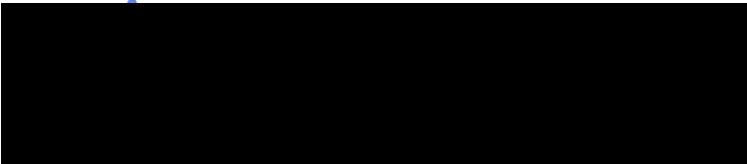
In conclusion, group insurance arrangements attempt to use the law of large numbers, based upon aggregate claim costs, to provide a "one-size-fits-all" approach to life insurance in superannuation. Were terms, conditions, features and benefits to be improved within group insurance arrangements in superannuation, it would result in increased claim costs forcing increases in total premium costs.

At a practical level, trustees of group insurance inside superannuation rely on the apathy of their members not to take an interest in their life insurance arrangements. Lack of adequate and comprehensive education and advice provided to members perpetuates either low levels of cover (sums insured), or inadequate types of cover for the member's particular circumstances. A "one-size-fits-all" solution for all members ensures an arrangement that serves to keep premiums low for some members via cross subsidies ('winners'), while providing inadequate cover or inflated premiums for other members of the same fund ('losers').

Retail advised insurance arrangements ensures individuals obtain appropriate types of cover, sums insured, benefits, features and options that are tailored for individual needs and priced to their particular statistical (actuarial) risks.

Please do not hesitate to contact the undersigned if further information is required.

Yours sincerely,



Simon Swanson
Managing Director