HESTA Submission- Universal terms for insurance within *MySuper* – May 2019

H.E.S.T. Australia Ltd ABN 66 006 818 695 AFSL 235249, the Trustee of Health Employees Superannuation Trust Australia (HESTA) ABN 64 971 749 321

HESTA welcomes the opportunity to provide feedback on the "*Universal terms for insurance within MySuper*" consultation paper.

We welcome the opportunity to discuss our submission further. Should you have any queries please contact James Bennett, Social Impact Specialist on (03) 8665 9217 jbennett@hesta.com.au

About HESTA

Health Employees Superannuation Trust Australia ('HESTA') is an industry superannuation fund, established in 1987 to provide retirement benefits for workers in the Health and Community Services Sector, and is operated only to benefit members. HESTA has approximately 880,000 members and over $50 billion of assets.

The typical HESTA member is aged 43, female and has a balance of approximately $22,000 in superannuation.

Group Insurance

Automatic group insurance in superannuation has been a successful policy for Australia by providing a safety net for those who would otherwise be completely uninsured. Any changes that diminish the insurance cover within super will need to be met by taxpayers through the social security system.

HESTA strongly supports the provision of group insurance to members of *MySuper* products that is appropriate to the membership of each superannuation fund and consistent with maximising retirement benefits to members.

Insurance design

HESTA members are some of the most vulnerable and marginalised workers in Australia. With our member base in mind we designed an insurance structure that is affordable and appropriate for their age and occupation. HESTA provides low-cost default insurance consisting of Income Protection (IP) and Death Cover.

The provision of income protection through insurance (rather than a TPD lump sum), is the most sensible and manageable structure for our members. In addition IP encourages rehabilitation and an ongoing relationship with the member and naturally incentivises return to work through occupational rehabilitation.

We provide low-cost default insurance, IP to age 67 and Death cover to age 75. This is different to the majority of superannuation funds who mainly provide Total Permanent Disability (TPD) and Death cover as their default or automatic arrangement.

Under 68AA of SIS Act we are required to provide MySuper members with a benefit in the event of death and permanent incapacity. Our IP insurance pays a benefit to age 67 in the event of permanent incapacity and thus satisfies the requirement for a benefit on permanent incapacity.

We have chosen our unique structure for three main reasons:

1. Our members typically draw a wage and are usually in a traditional employment arrangement under a collective agreement or award. They are predominantly light blue/blue collar workers and are often required to lift and perform manual tasks as a part of their role. An insurance arrangement

that provides a replacement wage is most appropriate. TPD is typically paid in a lump sum to members who are then required to manage that money in a manner that provides for the continuation of a typical working life. This is a difficult task for even the most experienced of investors.

2. HESTA has a well-designed IP offering that often helps members more than TPD over time. Under the HESTA structure, this period of time matches a typical working life – that is, up until the age of 67 when a member can then access social security benefits. These instalment amounts are indexed, so the investment challenge does not rest with the member – it stays with the insurance provider.

A member receiving IP payments who then dies is entitled to a death benefit. A member who has received a lump sum TPD who later dies is entitled to the death benefit LESS the TPD amount. TPD and Death covers are related and off-set one another. This is not the case with IP and Death benefits.

3. IP encourages rehabilitation. The HESTA IP structure encourages a continuing relationship with the member and naturally incentivises return to work through occupational rehabilitation. The best chance our members have of a dignified retirement is long and meaningful participation in the workforce. Our members are skilled and motivated.

The most appropriate insurance structure for them is one which encourages and provides mechanisms to aid this participation. Our IP cover supports early rehabilitation intervention and effective return to work programs to promote and restore positive health outcomes for our members.

This design is useable regardless of work classification which is important so that our members can make claims even if they are employed on a casual basis. Many superfunds have similarly tailored their approach to insurance design to ensure it is equally as appropriate for their member base.

QUESTIONS FOR DISCUSSION

We have provided comments in relation to some of the questions in the consultation paper.

1. What are the costs and benefits of standardisation of terms and definitions for default MySuper group life policies?

HESTA supports the standardised definitions of key insurance terms; however, having standardised terms should not necessarily imply standardised cover or eligibility for insurance cover.

Standardised terms provide both consumer protections and aids increased consumer understanding of their insurance cover. Any standardisation of terms or definitions must be done in the best interest of members. Standardised terms should not negatively impact on the level and cost of cover to members or unduly restrict the ability of individual trustees to offer appropriate types and levels of insurance to suit the demographic of their fund.

Key insurance terms should be standardised. However, one must be careful not to standardise cover or the eligibility for TPD benefits. Trustees are required to design an insured benefit structure that takes into account the unique needs and make-up of the members of the fund.

2. What terms and definitions would benefit from standardisation? Are there particular terms/definitions where the case for standardisation is stronger or should be prioritised?

We suggest that common industry terms be defined as a standard to be used across the superannuation and group insurance industry. Consider defining Total and Permanent Disability (TPD) and Income Protection (IP).

Most funds now use IP following introduction of the Insurance in Superannuation Code. There may still be funds using terms such as “Salary Continuance Insurance (SCI)”; “Permanent Health Insurance (PHI)”; Total and Temporary Disability (TTD); Group Salary Continuance (GSC); Group

Salary Insurance (GSI); Total and Temporary Incapacity (TTI) all with the same intention and meaning.

Across the industry in various insurance policies, there are references to "pre-existing conditions"; "pre-existing condition exclusion"; "limited cover" and "New Events Cover". The definitions for these 4 terms are different depending on insurer and super fund; however, the intention of all 4 terms is similar and that is to exclude cover for a period of time. The different terminology and definitions across the industry can be confusing. These terms in particular could be standardised without significant cost impacts on premium rates.

The terms "active employment" and "actively at work" are further terms that have different definitions across insurers and super funds. Again, the intention with these terms is broadly the same and could be standardised. The purpose of the terms broadly is to define when insurance will commence for a member.

The terms "salary", 'income', "pre-disability income" have various definitions across the industry and could be standardised.

Terminal Illness (TI) is defined in SIS legislation. Some insurance policies use a stricter standard to determine TI. There should be an alignment between the legislation and insurance policies.

There are also a variety of different ways in which offsetting provisions are dealt with by Income Protection products. Some policies directly offset on a dollar per dollar basis against additional income protection policies held by a member; however, others cap a member's insured benefits across all income protection policies to a pre-determined percentage (generally 75-85%) of pre-disability income.

HESTA advocates for the standardisation of the offsetting provisions and the approach adopted more broadly so that members can claim a benefit where they have paid for it, within the constraints of a maximum percentage of the member's pre-claim income. Also, the interaction with other income including leave provisions and workers compensation payments can differ between policies. The interaction with workers compensation and superannuation insurance benefits more generally has a significant impact on the timing of claims lodged within the industry with a resulting impact on claims experience.

Within Income Protection, consideration should be given to the standardisation in the approach to certain key terms and definitions including the use of "own occupation" and "usual occupation" to provide clarity to members lodging an IP claim.

The approach to the calculation of "pre-disability salary" which can be an area of differentiation between individual policies warrants consideration as does the application of partial disability provision provided across IP policies.

We suggest consideration be given to introducing **standardised intention statements**. This would be a plain English explanation of the intention for the offer of cover for death and terminal illness, TPD and IP and could include:

- what the benefit has been designed to cover;
- a statement of the circumstances under which a benefit will be paid;
- the meaning of the terms "unlikely", "unable" or "incapable" of carrying out an occupation;
- what constitutes an occupation that the member is suited to by education, training or experience.

4. Should the definition of TPD allow for rehabilitation or return to work initiatives? Why/Why not?

Yes. It is only rare cases where a person cannot be rehabilitated to return to work at some level. Currently our insurer provides the opportunity to members submitting IP claims to be involved in rehabilitation and / or return to work initiatives. Our experience for those members who take advantage of the opportunities presented by our insurer is extremely positive.

6. What lead time would be required for the industry to implement standardised terms, definitions and exclusions if this reform was implemented?

Many super funds negotiate a 3 year premium rate guarantee with their insurers. During this period, provided there are no changes to the benefit design, the premium rate will remain unchanged. Thus, any directive by government to implement standardised terms, definitions and exclusions should allow funds to complete the remainder of their premium guarantee period before having to make changes to the insurance provided to their members.

7. To what extent would standardising terms, definitions and exclusions across MySuper products impact the price of premiums?

When amendments are made to product terms and these amendments are more generous than the terms that are currently offered, it usually results in an increase in the number of claims payable. When the number of claims payable increases this obviously raises claims costs which leads to an increase in premiums.
There can also be other levers which impact the price such as claims expenses, which for example includes the number of claims assessors required. If certain terms are more difficult or complex to assess this may increase assessment duration and may mean that more claims assessors are required.
If any standardised terms, definitions or exclusions are set as a minimum standard – premiums are unlikely to change where a product already offers more generous terms

Without appropriate transitional arrangements the costs of sudden shocks to the system will be borne by fund members.

8. Would the impact on premiums outweigh the benefits of standardising the definition of TPD, or other definitions, terms and exclusions?

Without knowing where standardised terms may land, it is difficult to know whether increased premiums would outweigh any benefits of standardisation. The industry has already taken a view that an affordable level of premiums is 1% of lifetime salary (as outlined in the Insurance in Super Voluntary Code of Practice). We would caution that any standardisation of terms should consider whether it could lead to pricing impacts which would mean the 1% cap is exceeded, which overall may not be in members' best interests.

10. If terms, definitions and exclusions for MySuper products were standardised, how long would repricing of premiums take to flow through to members?

The potential premium impact would be immediate from the implementation date. If a trustee chooses to delay a premium increase this could lead to a very large premium increase down the track which may not be in members' best interests. There are other cost impacts such as those for administrators to upgrade systems and the costs of communicating changes with members. It would be sensible to have a transition period to allow proper consideration of price impacts and to align with renewal periods to avoid members experiencing a sharp increase in premiums later down the track.