Review of occupational exclusions in default insurance offered through *MySuper* products – October 2021

HESTA superannuation welcomes the opportunity to make a short submission to this important consultation. We have set out some general comments and then responded to the specific questions in Appendix A.

Background

HESTA is an industry super fund with a strict profit-to-members model that was created to meet the specific needs of employees working in the health and community services sector (HACS). Our members work in hospitals, aged care facilities, childcare, community services and other related sectors. Our members are on the front line of the pandemic response.

HESTA holds $64 billion of assets on behalf of more than 900,000 members in the health and community services sector, 80% of whom are women.

HESTA advocates and acts to improve the extent to which financial systems deliver gender equal outcomes for our members, and aspires to end disadvantage for women in Australia. We advocate for a fair, healthy community and a sustainable economy so that our members can face the future with confidence.

Default Insurance

Default group insurance in superannuation has been a successful public policy for Australia that has provided a cost-effective safety net for those who would otherwise be:

- completely uninsured; or
- unlikely to take out insurance cover; or
- unable to obtain cost-effective insurance cover.

HESTA supports the ongoing provision of affordable, sustainable, and appropriate group insurance through superannuation. It is of utmost importance that members of both MySuper and choice superannuation products are able to receive full benefit from the insurance they pay for, and therefore HESTA does not have any occupational exclusions for our default insurance cover.

This review has arisen in the context of the impending onset of stapling on 1 November 2021. Stapling will potentially have long-term far-reaching impacts on the membership of super funds and ultimately the cost of default insurance. As stapled members age and change careers they may have default insurance cover that is inadequate for their ongoing needs.

If the average membership age increases due to retention of existing members with less new entrants at younger ages, then there may be an increased cost for default insurance or reduced insured benefits. There is a clear need to assess the impact of the removal of occupational exclusions on wider pricing and group insurance design.

We believe that detailed information is required about these potential pricing implications for members to determine whether any mitigating measures are required in addition to a legislative ban.

As stapling reduces allocations to workplace default funds over time, there will be an increased risk that any occupational exclusions in the insurance offerings of some stapled funds will result in members paying for insurance they have little or no chance of claiming when they most need it. HESTA gives qualified support for a legislative ban on occupational exclusions (Option 4).

In addition, given the implementation of stapling, this consultation should be extended to consider insurance arrangements for members who don’t receive default cover or are in a non-Mysuper product.

Stapling and cover for dangerous occupations

The implementation of stapling highlights non-default insurance cover for workers in dangerous occupations – specifically cover for workers who are under 25 and therefore don't receive default cover, and for those who are stapled to non-MySuper products.

The Putting Members' Interests First (PMIF) reforms that were implemented in 2020 removed automatic insurance for members under 25 years old and members with balances under $6,000 and ceased the future default application of insurance to a member until they meet the age 25 and account balance of $6,000 requirements.

The COVID19 pandemic has created an environment where almost every HACS employee is now working in a dangerous occupation. The outbreak of COVID in aged care facilities was a stark example of this. All employees at key employers providing health or community services would have potential exposure to COVID - not just specific occupations.

The PMIF reforms did provide a mechanism to recognise that certain occupations were dangerous and that workers in those occupations should be automatically covered regardless of their age and account balance.

It provides exception provisions under PMIF[1] that can be applied by a superannuation fund if:

- an actuary has certified that the occupation of workers is in the riskiest quintile of Australian occupations; or
- the occupation is an 'emergency services worker'[2] (as defined for the purposes of the *Work Health and Safety Act 2011*).

[1] Section - 68AAF Dangerous occupation exception - *Superannuation Industry (Supervision) Act 1993.*
[2] We note the 'emergency services worker' definition currently includes workers such as police officers, fire fighters and paramedics but does not include nurses, midwives, and personal care workers.

Stapling will mean that the efficacy of this protection will be significantly reduced as workers who are under 25 and entering a dangerous occupation will be less likely to default into a MySuper product in a fund that makes use of this provision to cover younger members.

Consideration of occupational exclusions needs to extend to how these members will be covered. This includes considering:

- Removing occupational exclusions from non-default insurance for members who are under 25 and entering/in dangerous occupations
- Removing occupational exclusions for workers who are entering/in dangerous occupations and stapled to non-MySuper products
- Requiring the ATO to report a stapled fund only where the fund has insurance appropriate to the occupational risk of the job the member is entering when an employer requests notification of the stapled fund for the new worker

We also believe that consideration should be given to revising the PMIF mechanisms relating to dangerous occupations to recognise potentially dangerous workplaces in which stapling should not apply so that default super be provided which ensures that employees remain eligible for appropriate insurance cover.

Appendix A

Discussion questions

1. What is the prevalence of occupational exclusions on default life and TPD insurance offerings within MySuper products?

    1.1. How widespread are occupational exclusions affecting automatic acceptance when a member first becomes a MySuper member?

    HESTA does not have any occupational exclusions for default insurance cover.

    1.2. How widespread are occupational exclusions that affect existing default cover when a member changes occupation?

    HESTA does not have occupational exclusions affecting a members existing default cover if a member changes their occupation

2. Do trustees have access to data to understand their members' occupations and tailor the cover accordingly?

    Generally, super funds do not receive occupational information from employers.

    What should trustees and insurers do to better capture and assess the changing occupations of their members?

    Employers provide employee information to super funds via SuperStream; however, they are not obliged to provide the occupation of their employees to super funds. If occupational information could be provided to funds, then this would be beneficial.

3. Is there scope to strengthen standardised disclosures or improve communication to members to assist them to understand their insurance cover, particularly when occupation exclusions apply? Would Option 2 adequately address the problem?

    Funds could ensure the annual benefit statement includes reference to the members occupation and any exclusions. Annual insurance "renewal" statements similar to those applicable in general insurance could be sent to members as an annual reminder of their insurance cover, special conditions, occupation exclusions, premiums etc.

    Option 2 may be useful for a minority of engaged members; however, it is not adequate and will not address the problem.

4. What would be the implications on pricing, benefit design/default levels of cover and claims rates under Options 3 and 4? How would these implications be addressed? How do the costs and benefits compare between Options 3 and 4?

    Option 3 and/or 4 would not change HESTA's current default insurance offering.