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AustralianSuper to stop account erosion for young members by reforming insurance

AustralianSuper members under 25 will no longer be given insurance automatically when they join in a bid to stop account erosion and make the system simpler and fairer for young members.

In an industry first, younger Fund members will be able to opt in to insurance rather than automatically receive it when they join.

AustralianSuper's Group Executive of Membership, Rose Kerlin, said the Fund made the move after extensive analysis of member experience and feedback on the impact of automatic default insurance premiums on the erosion of account balances of young people.

'AustralianSuper has made this decision in the best interest of our members,' Ms Kerlin said.

'People under 25 starting out in the workforce need to begin building a base for their retirement savings. Given that they are often on relatively low incomes, the Fund does not want to see undue account erosion because of insurance that may actually be of very limited value to them.

'But we also want to stress that members under 25 will still be able to choose to have insurance if they want it and cover will start automatically when they are 25.'

Ms Kerlin said insurance is primarily of benefit to people who have dependents or financial commitments that may be affected as a result of death or total and permanent disability.

'With people getting married or having kids later in life we need to adjust our assumptions of what people need at various stages in their life,' Ms Kerlin said.

'AustralianSuper's experience is that for claims paid for members under 25 only 10% are paid to financially dependent spouses or partners and children.'

The overall saving of this initiative, based on current prices, for a member joining the fund at age 15 is \$637. This amount accumulated to retirement at 65 will increase the member's retirement balance by nearly \$9,000, or nearly \$1,600 in today's dollars.

The changes means that default death and total and permanent disability insurance will, from November 2018, be in line with default income protection insurance which starts for AustralianSuper members at age 25.

The move by AustralianSuper addresses one of the key issues being looked at by the Insurance in Superannuation Working Group (ISWG).

'The ISWG has identified account balance erosion as a key issue, and as a Fund we are determined to address it,' Ms Kerlin said.

'The ISWG has made important progress on a Group Insurance Code of Practice which is aimed at protecting members' best interests when it comes to the provision of insurance through super.'

AustralianSuper also announced that insurance premiums will be reducing for most members in October this year. On average, members will see a reduction of around 2% for death cover, 13% for Total and Permanent Disability cover and 21% for Income Protection, though the exact amount will depend on their age and the amount of cover they have.

Each year, under the Fund's premium adjustment model, AustralianSuper reviews its insurance offer and assesses both the type of cover provided and the cost.

'Insurance is a vital part of super and the Fund only provides it to benefit members, we receive no financial benefit by offering it,' Ms Kerlin said.

Another key initiative is that AustralianSuper is introducing a simplified, age-based cover design to make insurance easier to understand and manage for members.

'Members get a basic level of cover based on their age and can then add to the level of cover if they feel the need for more,' Ms Kerlin said.

'The basic cover will change as people get older, but any extra insurance they take out will stay the same.'

Key facts

- The Fund provides insurance to 1.4 million of its 2.2 million members.
- AustralianSuper has more than 150,000 members under the age of 25 years
- AustralianSuper pays around \$500 million in premiums each year and expects to pay insurance benefits to 25,000 members over five years.

About AustralianSuper

AustralianSuper manages more than \$120 billion of members' retirement savings on behalf of more than 2.2 million members from across 220,000 businesses. One in 10 working Australians is a member of AustralianSuper, the nation's largest superannuation fund.

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