

14 October 2021

Director
Superannuation, Insurance and Governance Unit
Retirement, Advice and Investment Division
The Treasury
Langton Cres
Parkes ACT 2600

By email: superannuation@treasury.gov.au

Dear Sir / Madam,

Re: Review of Occupational Exclusions in Default Insurance offered through MySuper Products

AustralianSuper is pleased to make a submission to Treasury on its consultation paper *Review of Occupational Exclusions in Default Insurance offered through MySuper Products*.

About AustralianSuper

AustralianSuper is Australia's largest superannuation fund and is run only to benefit members. Almost 2.5 million Australians are members of AustralianSuper and we invest over \$230bn of their retirement savings on their behalf. Our purpose is to help members achieve their best financial position in retirement. We are proud to be the nation's top performing superannuation fund over the past 7, 10, 15 and 20 years (to 30 June 2021).

AustralianSuper works hard to maintain appropriate, value for money insurance for members, aligned with their needs and ensuring their retirement outcomes are not compromised. We make no profit from insurance – the premiums we charge members are used entirely to benefit insured members of the Fund.

Key points

- There should be no occupational exclusions in default insurance offered through MySuper products (i.e. Option 4) because members in hazardous occupations still need insurance cover.
- The eradication of occupational exclusions must be supported by the mandatory provision of occupation (either on SuperStream or via the ATO) to allow correct and sustainable premium rating.

Response to Treasury discussion questions

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

AustralianSuper has no occupational exclusions on default insurance, with the exception that an AustralianSuper member's cover ceases when they commence employment in any capacity with the armed forces of any country. This is because of:

- The existence of significant death and disability benefits under the *Military Superannuation and Benefits Scheme* and the *Military Rehabilitation and Compensation Act 2004*; and
- The purpose of insurance in MySuper generally is not for military compensation.

2. Do trustees have access to data to understand their members' occupations and tailor the cover accordingly? What should trustees and insurers do to better capture and assess the changing occupations of their members?

No, AustralianSuper does not have access to data on members' occupations.

We feel this would be difficult for a public offer fund to collect on any meaningful scale. As an indication, we *already* endeavour to collect information from members on their work duties to categorise them into work ratings of Blue Collar, White Collar and Professional. We disclose to members that if the usual activities of their job match the descriptions for White Collar or Professional, they may be eligible to pay less for their cover (and we show an example where this saving is over 50% of the premium). But despite this full disclosure and significant incentive, we have significantly less than full take-up.

The best way to solve this is to make occupation a compulsory field on SuperStream. We understand this is also available through ATO data. This would have significant benefits to members, not only for this issue but it would allow the super funds to address the recent ASIC study on default occupational ratings and ensure members pay the correct premium corresponding to their work rating.

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?

The ASIC report¹ on the limitations of disclosure does question whether strengthened disclosure can be effective with these types of exclusions. It may be challenging to provide sufficient prominence which gains the attention and comprehension of members who may not be engaged with their insurance at this level of detail. This is because there are many important disclosures in insurance. For example, notwithstanding AustralianSuper's best endeavours to communicate simply and briefly, while meeting regulatory requirements, our insurance guide is 40 pages long.

¹ <https://download.asic.gov.au/media/5303322/rep632-published-14-october-2019.pdf>

4. Would Option 2 adequately address the problem?

No.

Firstly, even if the disclosure is perfectly effective, the members in excluded occupations still have no access to insurance cover. In principle, if work is deemed safe enough to perform by Australia's high occupational health and safety standards, then those occupations should be eligible for insurance cover under the universal MySuper system.

Secondly, as discussed, it is unlikely that a sufficient proportion of members would be engaged at this level of detail to avoid the type of undesirable outcomes in the examples in the Treasury consultation paper.

5. Are there benefits of occupational exclusions that would justify some funds maintaining them? What are the costs of occupational exclusions and should funds be required to remove them?

Overall we believe the benefits of occupational exclusions do not justify the costs of maintaining them.

Benefits

The theoretical benefits of occupational exclusions are that they reduce pockets of high claim rates which can reduce the pressure for premium rises. For example, Police Officers (and other emergency services occupations) and the Armed Forces are mainly covered by their own schemes. These groups have relatively high disability claims rates, particularly from mental illness, and require commensurately higher premiums. Their current segregation into their own schemes means the higher claims rates have little impact on wider MySuper premiums.

Occupational exclusions also mean that extreme events that threaten **the existence of the insurance system**, for example Armed Forces in an act of war, would not undermine the group insurance system.

Costs

Firstly, we believe a broad group insurance arrangement can cover hazardous occupations; therefore the costs of covering them is manageable and relatively minimal. However, if they were to continue some of the costs would include:

- Hazardous occupations may be excluded from having cover and, in some cases, they may be paying for either no cover or restrictive cover.
- If occupational exclusions were allowed, but not evenly used across the industry, the impact would be that people in hazardous occupations may not be able to switch to better performing funds out of concern that they may lose existing insurance cover. In effect it will constrain choice and impact competitive dynamics in the system.

6. 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?

AustralianSuper's insurance product already effectively meets the Option 4 requirements (except for the exclusion related to Armed Forces).

The implications are:

- Premiums are affordable. Existing hazardous occupations are covered in the Blue Collar work rating, and can be insured so that the principles of group coverage are maintained.
- The default benefit design offers meaningful levels of cover. AustralianSuper has a principle that the cost of insurance should not exceed 1% of salary for the membership in general.

7. If Option 4 was adopted, what responses should be made available to trustees and insurers and why? What would be the appropriate implementation mechanism, necessary transition periods and consequences for non-compliance (if applicable)?

If legislation required Option 4 to be adopted, then legislation should also require the mandatory provision of occupation (either on SuperStream or via the ATO) to allow correct and sustainable premium rating.

If you have any further queries please do not hesitate to contact Richard Land, Head of Insurance Product & Pricing on 0437 921 779, rland@australiansuper.com.

Yours sincerely,

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Member Experience

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