LIFE INSURANCE

Evolution of disability cover in super

Discussion paper

February 2024

Responding

We encourage and welcome comments, feedback, and responses to this discussion paper.

Contact details

Sustainability & Corporate Affairs

Email:
MLCL.Corporate.Affairs@mlcinsurance.com.au

Post:
MLC Limited
PO Box 23455
Docklands VIC 3008

Contents

Executive summary

The traditional approach to default Total and Permanent Disability (TPD) insurance in superannuation, centred on a binary assessment of permanent disability, calls for a refresh to ensure effective support for members amidst shifting disability needs of members.

While it has served as a crucial safety net for those experiencing severe and long-lasting impairments over the years, its binary framework can fall short in addressing the complexities of individuals' experiences with temporary injury or illness in today's environment.

Our recent interviews with over 1,000 Australians revealed a clear preference for income stream default alternatives to lump sum payments in the event of disability. This preference aligns with the reality that many Australians lack sufficient savings to sustain themselves for extended periods of unemployment due to health reasons.

The interplay between insurance in super and public schemes such as the National Disability Insurance Scheme (NDIS) and state-based workers compensation underscores the need for a more cohesive approach to disability support. A streamlined system could ensure seamless transitions between private and public support, preventing members from falling through the cracks.

Considering these complexities, a collaborative effort is needed to develop a more equitable and sustainable framework for supporting members with a disability, especially those with mental health-related disabilities. This framework should consider income stream alternatives within superannuation, address the lengthy claim assessment process, and enable interaction between private and public support schemes.

We hope this paper encourages frank and open dialogue about products and prioritising solutions that better address the evolving needs of members. By adapting to the changing landscape of disability, we can foster improved health outcomes and contribute to the financial security of Australians in retirement while embedding a more cohesive safety net for all Australians.

Section 1
Importance of insurance

Since the introduction of compulsory super, insurance has remained a key feature of Australia's world-class superannuation system.

Current features

Life insurance is key to the history of superannuation, dating back to the 1950s with life insurers providing superannuation products to the public sector[1]. Since the introduction of compulsory super, insurance has remained a key feature of Australia's world-class superannuation system.

Existing legislative settings mandate that superannuation funds provide death and permanent incapacity benefits to most members of a MySuper product by providing automatic Death and Total and Permanent Disablement (TPD) cover, generally provided on an opt-out basis[2].

Death and TPD cover provides a base level of protection for members when they are unable to ever go back to work due to injury or illness, or to beneficiaries in the event of a member's death. Through insurance in superannuation, members are typically also able to top up their default cover with additional, underwritten insurance which provides them with tailored insurance for their specific circumstances.

Further to death and TPD, Income Protection (IP) is the third main type of insurance that can be offered through superannuation. It protects members who are unable to temporarily generate an income due to injury or illness and is offered either as a default or tailored product.

Unlike death and permanent incapacity cover, it is not an obligation in law for superannuation funds to provide IP insurance – but it is a key type of insurance for superannuation members. As discussed further below, trustees are becoming less inclined to provide IP cover to members by default and many members rely solely on TPD cover in the case of disability.

Type of cover	Description
Death	Provides a lump sum (or, in some cases, income stream) benefit to a member's dependants upon death.
Total & permanent disablement	Provides a lump sum benefit to a member who is permanently unable to ever return to work due to injury or illness, with the intent to cover loss of future retirement savings, arising from being unable to generate an income.
Income protection	Provides a periodic income replacement benefit to a member who is temporarily unable to work due to injury or illness, with a portion generally allocated to cover the Superannuation Guarantee (SG).

[1] Ayoub, J., Treasury Laws Amendment (Protecting Your Superannuation Package) Bill 2018, Bills Digest No. 32, 2018-2019, Parliamentary Library, 2018.
[2] Section 68AA of the Superannuation Industry (Supervision) Act 1993 outlines this obligation for members in a MySuper product. Section 68AAA, 68AAB, and 68AAC outline the exceptions where default insurance is not provided.

Statistics

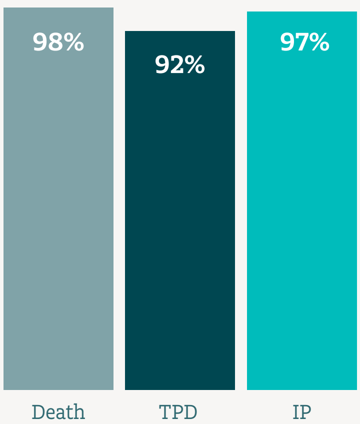
Insurance in super by numbers

Number of MySuper member accounts with insurance at 30 June 2022:

9.6m	8.5m	4.4m
Death	Total Permanent Disablement	Income Protection

Source: APRA Annual superannuation bulletin – Highlights (June 2022)

Proportion of Death, TPD and IP claims paid for the period June 2018 to December 2022 – group insurance in superannuation:



Source: APRA Life insurance claims and disputes statistics (December 2022)

Total number of claims paid for the period ending June 2023:

10,178
Income Protection

18,410
Death/Terminal Illness

18,472
Total Permanent Disablement

These figures highlight the significance of insurance in superannuation and its role in safeguarding members' retirement balances in the face of unforeseen events such as injury, illness or death. The sheer scale of insurance coverage within superannuation emphasises its critical position in providing financial protection to a substantial portion of the Australian population.

Complaints and claims handling

Data from the Australian Prudential Regulation Authority (APRA) and the Australian Securities & Investments Commission (ASIC) indicates a positive trend in TPD claim processing times, with a reduction of about 6% between 2019 and 2023[3]. However, this improvement is overshadowed by a recent report from the Australian Financial Complaints Authority (AFCA) revealing a 136% rise in complaints relating to delays in handling insured benefits during the 2022 / 2023 financial year[4].

This seemingly contradictory trend highlights a disconnect between the efficiency of claim processing and the persistent level of consumer dissatisfaction. While claim processing has improved slightly over time, consumer expectations remain unmet. This disconnect is likely due, in part, to the complex nature of TPD policy terms and conditions, which require the collection and assessment of evidence of permanence and totality, which in practical terms is often not conclusive and requires in depth analysis to ensure sensible, fair and sustainable outcomes.

[3] Based on APRA's 2019 *Life Insurance Claims and Dispute Statistics* and ASIC's MoneySmart *Life insurance comparison tool* for 2023.
[4] AFCA Superannuation Complaints Annual Review 2022-23.

Policy and regulatory environment

Focus on balance erosion

The policy and regulatory settings that mandated the provision and maintenance of life and TPD products have discouraged the development of alternative disability designs. The regulatory framework compels funds to prioritise TPD cover as the primary default design, even though this may not always align with the specific needs of their typical membership. In effect, it has resulted in a disincentive for product innovation.

Evolving our TPD framework to recognise the changing nature of disabilities could be a significant step towards providing much-needed support when it matters most. This flexibility would create a more inclusive system that better embraces the diverse experiences of people living with disabilities and contribute to members getting the help they need, when they need it.

It takes an average of 2.5 years from the date a member first becomes disabled to lodge their claim.[5] If we consider the average claim assessment time, this means members are waiting an average of 3 years to receive a TPD payment. According to our recent survey further detailed below, 46% of consumers surveyed have less than three months of savings if they were to become disabled. This raises a critical question: how are members surviving between this three-month period and the potential three-year wait for a TPD payment?

The policy focus towards TPD has also created pricing pressures following regulatory scrutiny and emphasis on balance erosion in superannuation accounts. This became evident in 2018 when the Productivity Commission published its report into the superannuation sector, where insurance in superannuation was substantially framed as a balance erosion factor[6] rather than an inherent benefit to the system.

In 2019, ASIC released Report REP 633, which focused on improving claims outcomes for members, in particular with respect to restrictive definitions within default TPD policies. This report resulted in many trustees working with their insurers to broaden TPD definitions and increase acceptance rates. While the changes resulted in more generous outcomes for some members, it has also created upward pressure on premium rates for TPD.

Also introduced in 2019 were the Protecting Your Super (PYS) and the Putting Members' Interests First (PMIF) legislative packages. These significant changes sought to minimise the erosion of superannuation balances from "unnecessary" insurance fees and unintended duplicate accounts. While unintended duplicate cover has no doubt been reduced, these changes have resulted in a marked reduction in the insurance pool, further putting upward pressure on TPD premiums and leaving cohorts of members without cover.

The resulting impact on coverage further exacerbates equity barriers in the system - our research suggests women are 59% more likely to have savings of 1 month or less compared to men. Research in 2023 by the Council of Australian Life Insurers (CALI) also indicates that women are significantly less likely to have life insurance cover compared to their male counterparts, resulting in a gender insurance coverage gap.

Regulatory concerns over value for money of life insurance products were highlighted by ASIC in 2020, where it outlined several measures of value for money that funds and insurers should consider, including unit price, claims ratios and claims-handling indicators[6].

This report is important as it highlighted weaknesses in showing cost alone, which in itself may not reflect the benefits of a default product.

[5] Estimated by MLC Life Insurance based on internal claims data for the years 2019 to 2023.
[6] Productivity Commission (2018). *Superannuation: Assessing Efficiency and Competitiveness.*
[7] ASIC (2020). *REP 675 Default Insurance in superannuation: Member value for money.*

46%

Nearly half of Australian consumers have 3 months or less in savings in the event of an injury or illness that would prevent them from working.

The regulatory focus on value for money has led to concerns about the cost of IP insurance, particularly in comparison to TPD insurance. This has made it challenging for some trustees to justify including IP insurance in default insurance offerings, even if they recognise its potential benefits for certain members.

Further pricing sustainability concerns of income protection products[8] have exacerbated the shift in focus towards standalone TPD disability products, but similar sustainability challenges of TPD products should encourage further thinking as to whether lump-sum disability benefits are the most effective default mechanism to help members who are unable to generate an income due to injury or illness.

The combination of policy and regulatory settings has, therefore, driven the market for disability insurance in superannuation further away from types of cover that incorporate income replacement benefits, increasing the difficulty for superannuation trustees to design insurance benefits that are better suited to members.

[8] APRA (2019). Letter to all life insurers and friendly societies. *Sustainability measures for individual disability income insurance.*

Timeline summary of policy and regulatory reform

2014

Introduction of MySuper reforms, simplifying superannuation choices for consumers and ensuring they are offered a default superannuation product with lower fees and better value for money.

2018

Release of the Productivity Commission report into superannuation examining the efficiency and sustainability of the Australian superannuation system.

2019

Publication of ASIC Report REP 633 "Holes in the safety net", highlighting the shortcomings of superannuation insurance coverage and recommending improvements.

Implementation of Protecting Your Super (PYS) and Putting Members' Interests First (PMIF) reforms, aiming to enhance the performance and transparency of the superannuation industry. It resulted in a reduction in the share of accounts with default insurance, reducing the insurance pool and potentially leading to higher costs[9].

2020

Release of ASIC Report REP 675 "Default insurance in superannuation", analysing the effectiveness of default insurance arrangements and proposing reforms.

2021

Your Future Your Super reforms introduce, among other things, a stricter Best Financial Interest Duty for superannuation trustees and account stapling.

[9] ASFA and Deloitte Access Economics (2022). *The future of insurance through superannuation.*

Default insurance through superannuation forms an essential part of the wider safety net for all Australians, and a more coordinated approach is needed to to support members with a disability.

Best Financial Interest Duty and the sole purpose test

The shift in policy and regulation towards cost efficiencies in the superannuation system, marked by further enhancements to the Best Financial Interest Duty (BFID) in superannuation legislation, has resulted in a blunt framework of insurance in superannuation that focuses mostly on minimising premiums for lump sum products.

Restrictions imposed by BFID understandably lead to premium levels being the key consideration when designing a disability product, beyond the compulsion via MySuper. This has resulted in the industry's self-imposed focus on maintaining overall premium levels below 1% of a member's salary (based on average salary for the fund), despite any prescriptive threshold or cap under superannuation law or regulation to do so.

The enhanced BFID, combined with the well-established sole purpose test enshrined in superannuation law, creates an environment where trustees are cautious about introducing product design innovation unless they are confident the change will result in reduced premiums or contribute to retirement. While this focus on cost control is understandable, it can inadvertently stifle innovation, potentially hindering the development of disability cover products that could offer members improved quality, effectiveness and value.

To further encourage innovation, insurers need to support trustees by providing the necessary evidence of the value of alternative designs, demonstrating the potential for improved member outcomes while maintaining financial sustainability.

Member-centred design

The superannuation policy changes previously outlined, and the impetus behind them, provide context for how the market for life insurance in superannuation has developed and how regulation inadvertently discourages innovation, as concerns about retirement balance erosion remain central to the thinking about BFID.

Policy changes in superannuation should enable innovation towards solutions that better address the needs of members during times when they are unable to work due to injury or illness. A lump sum approach can be appropriate based on the injury or illness, but imposing this as a blanket approach risks gaps for those whose injury or illness requires early support which can help them return to health and work. TPD default levels differ greatly between arrangements and are becoming increasingly inadequate as trustees lower default levels in the interests of reducing costs for the preservation of retirement savings.[10]

In the context of BFID and the sole purpose test, insurance in superannuation should enable superannuation funds to focus on the protection of retirement balances arising from unexpected events that prevent members from generating an income. This focus should go beyond default TPD products and include more *appropriate* types and levels of default products that *contribute* to a member's retirement balance in the event of an injury or illness and are better tailored to the membership.

This includes products such as Income Protection benefits, which often provide better support for members as they allow timely access to rehabilitation and retraining and increase the likelihood and speed of a member returning to paid work.

Income Protection benefits can also be supplemented with super contribution benefits that replace lost superannuation payments.

Other alternative default product design concepts are further explored in Appendix A.
Revisions to the superannuation prudential framework such as SPS 250 and the Retirement Income Covenant (RIC) have prompted superannuation funds to enhance their understanding of their members. Recent engagement by the Australian Prudential Regulation Authority (APRA) with the superannuation industry regarding the sustainability of life insurance in superannuation strongly encourages collaboration between regulated entities to improve the way data is collected and used. This improved membership data can aid, in designing more effective default products that cater to their members' needs in a cost-efficient manner.[11]

Evolving demographic factors such as home ownership, life expectancy, changing work patterns and a volatile economic environment require a re-imagining of default insurance products in superannuation to ensure they continue to meet regulator expectations and consumer needs.

By prioritising improved data collection and use, and by adapting to the evolving needs of their members, superannuation funds can deliver life insurance products that are sustainable, affordable, and meet the needs of members for the long term.

[10] Deloitte (2023). *Mind the gap: How to provide the Australian community with the life insurance it needs.*
[11] APRA (2023). *Letter to all RSE licensees and group life insurance chief executive officers. Sustainability of life insurance in superannuation*

The objective of superannuation in the context of insurance

The proposed objective of superannuation is to 'preserve savings to deliver income for a dignified retirement, alongside government support, in an equitable and sustainable way'.[12]

The objective seeks to holistically capture the fundamental role of superannuation to the Australian economy, and the broader context of the objective includes the wide-ranging benefits to members, including group insurance. The value insurance in superannuation provides to the community, and how it helps members achieve a dignified retirement, means now, more than ever, is the time to consider ways in which group insurance can remain consistent with superannuation's objective and not only protect but enhance retirement outcomes.

Group insurance meets the following objective principles:

1. Dignified retirement: helps members who are unable to generate an income through injury or illness.
2. Delivering income: provides members with an income stream when they are unable to generate an income temporarily through injury or illness.

These principles should also drive insurance product innovation, enabling the provision of insurance products that are fit for purpose and help deliver on the objective of superannuation.

Appropriate default disability insurance in superannuation

The way that disability benefits in superannuation are traditionally designed assumes that illnesses and disabilities are straightforward in making an individual permanently disabled. The approach alienates members who need help but are not permanently disabled, and encourages a permanent diagnosis when, in fact, rehabilitation, re-training or other forms of assistance are more likely to help a member return to health.

Proposed changes to the NDIS following the recent independent review of the system suggest a return to the principle that eligibility should be based first and foremost on functional impairment rather than medical diagnosis.[13] This shift in focus aligns with the need for disability support to acknowledge the complexities of contemporary disability experiences.

Disability insurance was originally designed to provide a financial safety net for members who became permanently unable to work due to injury or illness. This model was based on a clear link between physical impairments, the inability to perform specific job duties, and a resulting loss of future income.

However, the landscape of work and health has changed dramatically. The increased diagnosis of mental health conditions, alongside evolving work patterns, challenges the traditional framework of disability insurance.

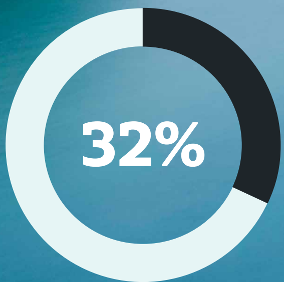
Mental health conditions often manifest in temporary or fluctuating impairments that may not meet the rigid criteria for permanent disability. Consequently, many individuals with mental health challenges face difficulties in securing adequate support during periods of work absence, often exacerbating their condition. In the absence of adequate support, many members go on to successfully claim TPD, creating added pressure on premiums and, therefore, sustainability and affordability for the wider membership.

A default benefit design that provides a lump sum alone can inadvertently incentivise members to focus on meeting this strict criteria rather than prioritising their recovery and returning to work. This emphasis on severity may also discourage members from seeking early intervention and support services that could potentially help them manage their condition and maintain their employment.

Enabling improved return to health outcomes through better designed disability products is likely to result in improved retirement outcomes for members, as otherwise they would not have the support necessary to return to work. Lump sum disability benefits tend to have the effect of incentivising claimants to meet the definition of total and permanent disablement, imposing a superficial barrier to seeking help. In addition, claimants are left without a support network once a lump sum benefit is paid, leaving members to fend for themselves.

[12] Treasury (2023). *Superannuation (Objective) Bill* 2023. Exposure Draft Explanatory Materials.
[13] NDIS (2023). *Independent review into the National Disability Insurance Scheme Final Report, Working together to deliver the NDIS.*

> **"The increased diagnosis of mental health conditions, alongside evolving work patterns, challenges the traditional framework of disability insurance."**



of all TPD claims were for mental illness, the most common cause of TPD claims in 2021

Evidence from NSW's State Insurance Regulatory Authority (SIRA) suggests several factors affect an individual's ability to return to work, one of which is insurance. SIRA indicates that an insurance scheme with a claims management framework that commences support and intervention as soon as practicable will result in better return to work outcomes[14].

For progressive injuries or illnesses, the design of TPD benefits inherently requires members to get worse to become eligible. This means that they do not access the support required to get better, affecting their recovery expectations, perceived work ability and, ultimately, their health and wellbeing.

And where TPD benefits are paid, the existing framework does not address the barriers members may face in managing a lump sum benefit. The lack of an appropriate advice framework for claimants that is cost effective, simple and in line with their needs further deepens the challenges inherent in current TPD designs.

There are examples of public schemes where the provision of disability benefits is coupled with support to individuals in receipt of benefits - the NSW Lifetime Care and Support Authority, for example, helps victims of severe motor vehicle accident injuries manage compensation for care and treatment. These are frameworks that could serve as a blueprint for the sector in helping members in receipt of benefits optimise financial outcomes in retirement[15].

Insurance and the broader safety net

Individuals with disabilities face significant challenges in understanding and navigating the complex landscape of government and private support systems available to them. The maze of workers' compensation, Medicare, private health insurance, life insurance and the National Disability Insurance Scheme (NDIS) can be overwhelming, leading to delays in accessing essential support services and financial assistance. This complexity is exacerbated by the lack of clear and accessible information, and often labyrinthine application processes.

A more coordinated and streamlined approach to disability support is needed.

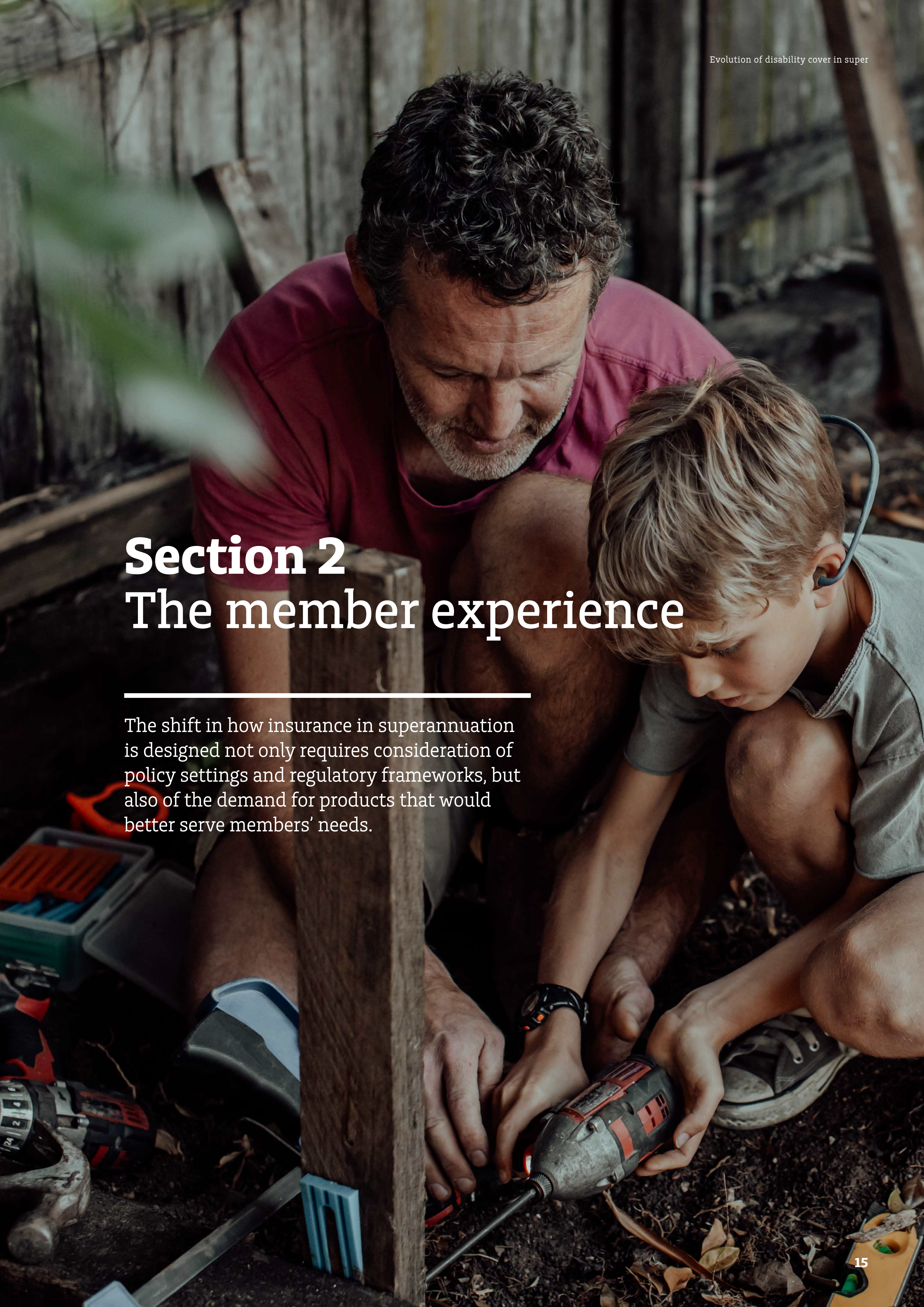
The aforementioned independent review of the NDIS which engaged with people with disability, their families, carers and providers recommended that the disability system must be looked after as a whole, stating "you can't fix the NDIS without fixing everything around it." This emphasis on the interconnectedness of the disability support system highlights the need to consider disability insurance design in superannuation as part of a holistic healthcare framework, including its interaction with public schemes like the NDIS, WorkCover, and the private healthcare system.[16]

The overarching and shared goal should be to improve outcomes for people with disability, contributing to healthy individuals, a robust workforce, and a healthy society. This goal aligns with superannuation's BFID by enabling members to return to paid work through improved health outcomes, and continue to build up their retirement balances where possible.

It also fits with the broader policy intent of the Government's 'Measuring What Matters' framework, which aims to promote wellbeing by ensuring people can access services when they need them and have the information they require to take action to improve their health.[17]

Insurance through superannuation is an essential part of the wider safety net for Australians, providing protection, support, and peace of mind for superannuation members. It forms part of the public and private mix that reduces the risk of an individual falling through the cracks between public and private health schemes. Shifting towards a holistic approach to policymaking in this space opens the door for ongoing cooperation between life insurers, superannuation funds, and the Government to improve outcomes for superannuation members with disability while balancing protection of retirement outcomes.

14 SIRA (n.d.). *Factors influencing return to work outcomes.* NSW Government.
15 See *Motor Accidents (Lifetime Care and Support) Act 2006 No 16* for details on how the scheme helps victims of severe motor vehicle accident injuries manage compensation for care and treatment.
16 NDIS (2023). *Independent review into the National Disability Insurance Scheme Final Report, Working together to deliver the NDIS.*
17 Treasury (2023). *Measuring What Matters.* Australian Government.



Section 2
The member experience

The shift in how insurance in superannuation is designed not only requires consideration of policy settings and regulatory frameworks, but also of the demand for products that would better serve members' needs.

What members say

MLC Life Insurance has undertaken opinion research where more than 1,000 Australians were surveyed about insurance in super broadly, and TPD and IP cover particularly.

The shift in how insurance in superannuation is designed not only requires consideration of policy settings and regulatory frameworks, but also of the demand for products that would better serve members' needs. Our research identified key findings that highlight the need to think about better designed default insurance products for superannuation members.

Nearly half of Australian consumers have 3 months or less in savings in the event of an injury or illness that would prevent them from working

Our survey looked at whether someone who suffered an injury or illness could cover their expenses for a set period of time. We found that for 46% of consumers, the income buffer was 3 months or less, including 29% with less than a month in savings.

Claims data indicates why this is problematic for claimants: TPD claims tend to be lodged with a lag of almost three years from the date of injury or illness, leaving claimants with little support when they need it most.[18] This means almost half of Australian members could spend more than **2.5 years**[19] without savings before they receive any financial support from being unable to return to work, without having to rely on a disability pension or other publicly funded scheme.

The likelihood of returning to work after this lag reduces dramatically, as by the time a member makes their claim, the insurer is unable to offer any meaningful rehabilitation support or, for IP benefits, any income support that might prevent a member's injury or illness from worsening.

Women are 59% more likely to have savings of 1 month or less than men

Compared with men, women are much more likely to have a narrow financial buffer, with 35% not able to cover their expenses **after 1 month**. Women face a significant financial vulnerability gap compared to men. They are more likely to have a narrow financial buffer in the event of being unable to work. Our research shows that while 29% of men lack savings to cover expenses beyond a month, women are a staggering 59% more likely to be in this precarious position.

This means that for many women, a TPD benefit with a typical waiting period of 3 or 6 months and the lengthy claim notification lag (2.5 years on average) provides little immediate support when they most need it.

Women already experience a gender super gap arising from inequities such as the gender pay gap and broken patterns of work due to caring duties. Current settings around default disability insurance can be improved to ensure the system is equitable and contributes to women's financial security in retirement.

Members prefer a steady stream of income in the event of injury or illness

Those surveyed indicated a clear preference for an insurance product that provided an income stream in the event they suffered an injury or illness that prevented them from working for an extended period. Close to 60% would prefer a steady stream of regular income available for as long as they are unable to support themselves during a 2- or 5-year period, and a further 18% would prefer a combination of an income stream for a period of time followed by a small lump sum payment at the end of that period.

[18] Based on data from MLC Life Insurance for the years 2019 to 2023.
[19] Estimated by MLC Life Insurance based on internal claims data for the years 2019 to 2023.

This suggests that members' preferences tilt towards more immediate assistance that is likely to help them return to work while providing them with the financial support needed while they are off work. This is an important insight as claimed events are increasingly becoming more related to mental health illness, where time and early intervention are key in helping an individual return to health and wellbeing.

Mental ill health is the major cause for IP claims and our data for the past four years shows IP claims are notified **four times** as quickly as TPD claims. It is the second-most prevalent cause for TPD claims, yet TPD is not likely to be an appropriate support benefit for mental illnesses.

Most respondents would consider IP over TPD

A clear majority of respondents would either consider income protection over TPD, where 75% of respondents said they would either 'consider' or 'definitely consider' IP over TPD. This demonstrates and affirms a preference for income support over time rather than a lump sum that is intended to last until retirement.

This suggests a re-think about what default insurance products should be doing for members must occur, as claim patterns shift towards more complex illnesses that require a framework in place for the individual to successfully overcome their illness. However, there is clearly still a place for lump sum benefits when an illness is so severe it renders a person unable to permanently return to work despite having had that support system.

This is the key to the evolution of TPD and insurance in superannuation: being able to provide members with the right support at the right time and help them get back on their feet. The current approach instead pushes them into a narrow path of clinical disability diagnoses in order to access lump sum benefits years after their initial diagnosis.

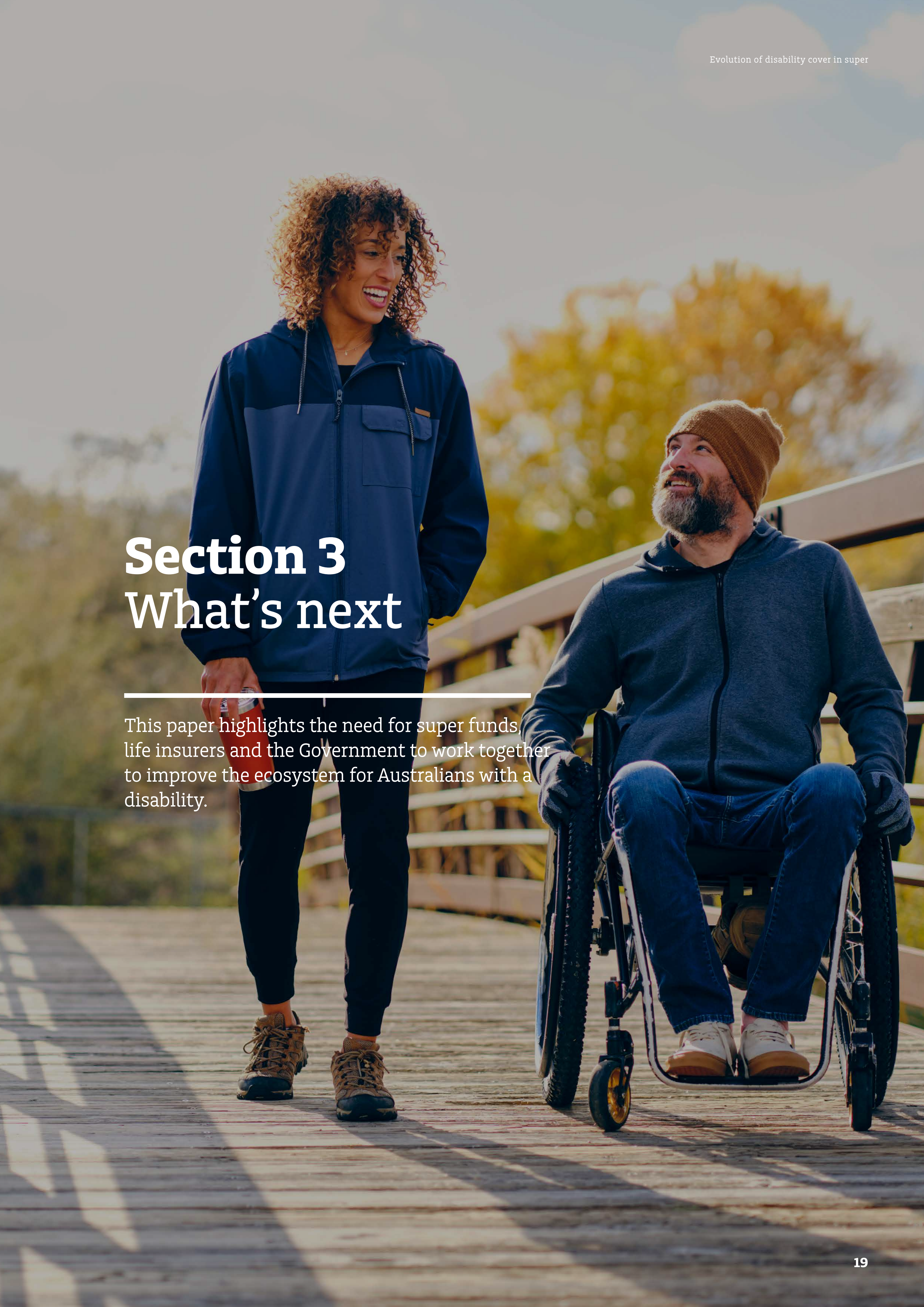
Gap in consumer awareness as only 10% of respondents are aware they are covered for TPD

Respondents had relatively low awareness of their TPD coverage relative to other forms of insurance. This suggests that members are not fully engaged in relation to their insurance in superannuation arrangements.

In the absence of increased financial literacy and engagement, a well-designed default insurance arrangement plays a critical role in providing a baseline level of protection and ensures that members are not left vulnerable to potential financial hardship.

There is some awareness about the role of insurance in superannuation

Although engagement with insurance arrangements was low, responses suggest members are aware of the role insurance plays in superannuation. More than two-thirds (67%) of respondents indicated their knowledge that insurance could be purchased through superannuation.



Section 3
What's next

This paper highlights the need for super funds, life insurers and the Government to work together to improve the ecosystem for Australians with a disability.

What the future looks like

The superannuation system has reached maturity – it is a well-established, world-class system with many benefits to the Australian economy. Insurance has been and continues to be a key element of this system.

Default TPD insurance has proved essential in helping members with disabilities. But 30 years on from compulsory super, we need to think differently about insurance in superannuation. Disability looks different in 2023 than it did 1993, but TPD insurance has remained the same.

This paper has highlighted key findings from MLC Life Insurance research about consumer preference for income support products over lump sum products, and the need for super funds, life insurers and the Government to work together to improve settings so members do not fall through the cracks.

There is a need for the industry to keep considering different ways to improve outcomes for members with a disability and to improve support systems that will ultimately contribute to members' retirement outcomes. This includes allowing for innovation in products that better suit members' needs and resetting policy frameworks to enable innovation rather than stifle it.

Appendix A – Alternative default product designs

TPD by instalments

- Splits the TPD sum insured into a number of smaller amounts, payable over an extended timeframe.
- Could be anywhere from 2-6 separate payments.
- Member would need to satisfy TPD test for each payment.
- Expectation is that the member engages in rehab/retraining during overall claim duration.
- Has been implemented by Australian Retirement Trust (ART) since July 2016, split into 6 annual payments.

Hybrid 'bucket' disability benefit

- Member is insured for a pooled amount of 'disability' cover.
- They can draw down that pooled amount in a way that best suits the specifics of the illness/ injury they have.
- For example, they might start with $300,000 in 'the bucket'. They take $40,000 as IP payments over a period of 6 months, so $260,000 remains.
- A year later, the member suffers a recurrence of that condition which renders them TPD. They are able to access the final $260,000.

Default IP linked to deferred TPD benefit

- Member is insured for default IP cover, for example a 2-year benefit period payable after a 45-day waiting period.
- A smaller TPD benefit is also available but can typically only be accessed once the 2-year IP benefit has been paid out in full.
- Allows a fund to describe IP and TPD as a single disability benefit, as IP payments will commence first and if the condition deteriorates or persists a TPD benefit would subsequently become available.
- Early access to the TPD benefit can still be provided for serious injuries and illnesses.

Severity or condition-based disability benefit

- A tiered benefit structure determined by the type and severity of disability.
- Could include a range of benefits such as lump sum payments, income replacement and rehabilitation expenses deemed as appropriate for the condition.
- Removes lump sum challenges for certain types of disability such as mental illness.
- Provides higher payments for most significant disabilities.

LIFE INSURANCE

Postal address
MLC Limited, PO Box 23455
Docklands VIC 3008

mlcinsurance.com.au

MLCI4675-0124