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31 March 2023

Director, Superannuation Insurance and Governance Unit  
Member Outcomes and Governance Branch  
Retirement, Advice and Investment Division  
The Treasury  
Langton Crescent  
Parkes, ACT 2600  
**By email:** [superannuationobjective@treasury.gov.au](mailto:superannuationobjective@treasury.gov.au)

Dear Director

## **CONSULTATION ON LEGISLATING THE OBJECTIVE OF SUPERANNUATION**

Thank you for the opportunity to provide a submission to this consultation.

The superannuation system is a critical pillar in ensuring that Australians obtain dignity in retirement. Life insurance cover provided to fund members on a default basis has been a crucial component of the superannuation system for many years; its role is to ensure that those members who cannot work to retirement due to serious illness or injury have a financial safety net so that their superannuation balance is supplemented by an insurance benefit and not unnecessarily eroded. Disability and retirement are interlinked with around a quarter of superannuation members retiring early due to disability or to care for someone with a disability<sup>1</sup>.

The compulsory nature of superannuation recognises the behavioural barriers that exist in encouraging consumers to save for their own retirement. Compulsory superannuation and default life insurance are both necessary to overcome behavioural biases that would otherwise see considerable numbers of Australians without adequate savings in retirement, or without the protection needed for serious illness or injury which impacts their working life.

AIA Australia supports the proposed objective: *“The objective of superannuation is to preserve savings to deliver income for a dignified retirement, alongside government support, in an equitable and sustainable way.”*

We understand the intention to keep the objective short and not complicate it by including subsidiary objectives, as suggested in earlier reviews. However, we are concerned that the importance of life insurance within superannuation is not explicitly addressed in the consultation paper, which could open up its future to continued debate.

The Assistant Treasurer has noted in recent months that the Government is not debating the role that life insurance has in the superannuation system, but that it must remain fit-for-purpose. We believe there is a risk that if life insurance in superannuation is not explicitly captured in the legislative materials supporting the proposed objective, this could call into question its role in future.

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<sup>1</sup> Deloitte Access Economics, *“The future of insurance in superannuation”* – June 2021

Our submission focuses on the importance of life insurance in superannuation, the significant benefits it delivers and how it supports many aspects of the proposed objective of superannuation. The importance and role of life insurance in superannuation need not be included in the objective itself but should be reflected in the materials accompanying the legislation and in the Minister's second reading.

Should you wish to discuss any aspects of our response please do not hesitate to contact Tom Gordon, Head of Regulatory Affairs in the first instance on [tom.gordon@aia.com](mailto:tom.gordon@aia.com) or 0404 059 808.

Yours sincerely

A handwritten signature in black ink, appearing to be 'DM', with a small dot above the 'M'.

**Damien Mu**  
CEO and Managing Director  
AIA Australia

## About AIA Australia

AIA Australia provides protection to more than 3 million superannuation members across all sectors of the economy. We protect a wide range of occupations including frontline healthcare workers through HESTA and federal public servants through the Commonwealth Superannuation Corporation.

In 2022, we provided financial assistance and security to our life insurance customers by paying out \$2.15 billion across 35,545 claims of which \$1.44 billion was paid to more than 26,000 superannuation claims.

More than a third of our total claims (\$746m, 22,603 claims) were for income protection – that is, to replace the income of customers unable to work due to disability. Mental health claims make up almost 1 in 4 disability claims, with cancer and musculoskeletal rounding out the top three.

We've detailed our response to selected consultation questions below.

### 1. What do you see as the practical benefits or risks associated with legislating an objective of Australia's superannuation system?

The benefit of legislating an objective of superannuation is that it removes much of the political debate about the role and use of members' account balances.

However, there is a significant risk that the objective will be undermined if the role of life insurance in supporting the system is not recognised. Without this clarity, it invites questions about the provision of life insurance in super, including from trustees, and encourages debate about whether it meets the legislated objective. It risks disempowering trustees from considering the insurance arrangements appropriate for their membership if the role of insurance in super isn't recognised and understood to be part of that objective.

The provision of life insurance is a critical component of the broader superannuation system. The role of life insurance in supporting the purpose of the system is reflected in section 62 of the Superannuation Industry (Supervision) Act (**SIS Act**). This section sets out the core and ancillary purposes of superannuation, clearly identifying the provision of benefits to those whose working life is cut short. Similarly, the SIS Act requires that trustees must offer Death and Total and Permanent Disablement (TPD) benefits to its MySuper members. In addition, the insurance covenants in section 52(7) of the SIS Act require trustees to (among other things) develop an insurance strategy that includes consideration of the kinds and levels of insurance offered to members.

There is a risk of significant detriment if life insurance is removed from superannuation due to this uncertainty. As noted in the Deloitte Access Economics report<sup>2</sup> *"The future of insurance through superannuation,"* insurance in super provides significant benefits to working Australians, their families and the broader economy:

- **Broad coverage** - almost 10 million Australians have some insurance cover provided through their superannuation
- **Significant benefits** - almost 80,000 members receiving benefits totalling more than \$6.6bn
- **Good value** - high admission rates of up to 98% and claims payout ratios between 80% and 95%.
- **Efficient** - with lower distribution costs leading to reduced premiums per dollar of cover

For many Australians, the only life insurance they hold is through superannuation. Blue collar workers particularly benefit from default arrangements: by the nature of their manual and often hazardous work environments, they face higher risks and may not be able to obtain insurance that is individually underwritten; however current opt-in experience suggests their participation is lower – only 8% of blue-collar workers would opt-in to insurance through superannuation (compared to 18% across the broader system)<sup>3</sup>.

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<sup>2</sup> Deloitte Access Economics, *"The future of insurance in superannuation"* – June 2021

<sup>3</sup> Pg 6, Deloitte Access Economics, *"The future of insurance in superannuation"* – June 2021

## 2. Does the proposed objective meet your understanding of the objective of the superannuation system in Australia?

Yes, in broad terms the proposed objective provides a sound explanation for the purpose of superannuation. However, the absence of any direct reference to life insurance in the proposed objective and in the consultation paper creates risk that we believe should be remedied.

The consultation paper notes that the drafting of the proposed objective attempts to “*remain neutral, enduring, and clear.*” Pages 10 and 11 describes the reasoning behind terms used in the proposed objective. The expectation is that the materials that support the legislation will include similar reasoning about the use of particular terms.

In our view, there are several terms used in the consultation paper that are keenly aligned to the purpose of insurance in super and the reasoning could be extended to be more explicit about the way life insurance supports the broader objective of superannuation.

<b>“preserve savings” and “deliver income for a dignified retirement”</b>	<p>Insurance in super helps to protect superannuation balances from unnecessary early erosion for those who suffer major illness or injury or premature death by helping to meet the immediate financial needs of members and their beneficiaries.</p> <p>The role of insurance delays the drawdown of a member’s accumulated balance, and for those with income protection this typically includes continued contributions to their account. It has a vital role in helping in preserving savings to deliver income in retirement and importantly improve the chances of achieving dignity.</p> <p>Insurance in super gives members more choices.</p>
<b>“alongside government support”</b>	<p>The proposed objectives acknowledges that superannuation alone won’t support the retirement income needs of all members. Insurance in super fills an important gap in protecting vulnerable Australians as it works alongside government support like the Disability Support Pension and JobSeeker.</p> <p>Deloitte Access Economics found that insurance in superannuation reduces the social security costs of supporting underinsured individuals – noting that the cost of underinsurance (estimated at \$600m per annum for death and total and permanent disablement alone) would increase without default insurance in super.</p>
<b>“equitable”</b>	<p>If the objective of the superannuation system is a dignified retirement in an equitable and sustainable way, then insurance in super helps to address the financial imbalances caused for those whose working life is cut short. It recognises that these people won’t have accumulated the same superannuation balances as others in similar circumstances.</p> <p>Insurance in super also helps members return to wellness and work by providing support programs, including occupational rehabilitation, in addition to financial benefits. Helping members back to a productive working life enables them to continue to save for their own retirement and this fosters a more equitable system.</p> <p>The benefits of the superannuation system should not just accrue to those who enjoy a full and active working life. Insurance in super helps to deliver a more equitable outcome for all members.</p>

## Recommendations

### Recommendation 1

To acknowledge the role of insurance in super in preserving savings, we recommend that the definition of 'preserve savings' is extended to include reference to the protection of retirement income. The proposed definition would read as:

- 'Preserve savings' refers to the principle of preservation; that is, the concept that contributions to superannuation should not be accessed unless for the purpose of income in retirement, or for protecting that income, apart from exceptional circumstances.

### Recommendation 2

To remove uncertainty over the role of insurance in super, we recommend that the shortened definition of 'preserve savings' on page 9 of the consultation paper is not used in defining the 'preserve savings' component of the proposed objective.

### Recommendation 3

To remove uncertainty over the role of insurance in super, the second reading speech and Explanatory Memorandum should provide sufficient context for the policy intention of the Government and include reference to insurance in super as aligned with (and not proscribed by) the legislated objective.

AIA Australia would be happy to assist Treasury in drafting any reference to life insurance and how they support the proposed objective.