

31 March 2023

Mr Luke Spear
Superannuation Insurance and Governance Unit
Member Outcomes and Governance Branch
Retirement, Advice and Investment Division
The Treasury
Langton Crescent
PARKES ACT 2600

Via email: superannuationobjective@treasury.gov.au

Dear Mr Spear,

Re: TREASURY CONSULTATION PAPER ON LEGISLATING THE OBJECTIVE OF SUPERANNUATION

The Council of Australian Life Insurers (CALI) was recently formed to support the Australian life insurance industry and its members, through dedicated representation, engagement and advocacy, to drive positive outcomes for customers, insurers and their partners.

CALI and the life insurance industry support the Australian Government's plan to legislate the objective of superannuation. However, we believe the current proposal can be strengthened to ensure it recognises the integral role that insurance in superannuation plays, both in providing an essential safety net for millions of working Australians given around a quarter of superannuation fund members retire early due to disability or to care for somebody with disabilities, and in providing a dignified retirement through retirement longevity solutions.

Insurance in superannuation plays a critical role in Australia's superannuation system as it steps in to meet the financial needs of people with major illness or disabilities first, which helps to protect superannuation balances and enable a dignified and financially secure retirement.

An equitable and sustainable superannuation system is one which also provides a safety net for Australians when they are unable to participate fully in an active working life due to illness, injury or death, while ensuring superannuation is not broadly accessible prior to retirement except in a narrow set of situations.

In the attached submission we put forward the case for the importance of recognising life insurance as part of the objective of superannuation and make some suggestions for how this recognition could be made to ensure the long-term sustainability of the final objective.

Thank you for the opportunity to contribute to this consultation. I look forward to continued engagement as the Government progresses this important reform. I can be contacted at christine.cupitt@cali.org.au and 0402857401.

Yours sincerely,

Christine Cupitt
Chief Executive Officer

COUNCIL OF AUSTRALIAN LIFE INSURERS

SUBMISSION IN RESPONSE TO TREASURY CONSULTATION PAPER ON LEGISLATING THE OBJECTIVE OF SUPERANNUATION

INTRODUCTION

Superannuation plays an integral role in supporting Australians in their retirement. 78 per cent of Australians have money in their superannuation accounts, with over \$3.3 trillion¹ in retirement savings.

CALI is committed to ensuring the life insurance industry operates in the best interests of the Australian community and economy and as such, the life insurance industry will contribute to the united effort to create a world class superannuation system.

CALI and the life insurance industry support the Australian Government's plan to legislate the objective of superannuation. However, we believe the current proposal can be strengthened to ensure it recognises the role that life insurance in superannuation plays in providing a critical safety net for almost 10 million working Australians given around a quarter of superannuation fund members retire early due to disability or to care for somebody with disabilities (noting this disproportionately impacts women and low-income individuals).²

Life insurance in superannuation has been a feature of the superannuation system since the 1980s. Trustees offered life insurance through super as a way of providing affordable cover to people, including those working in higher risk occupations such as construction. Since 2005, the legislated framework for superannuation has required trustees to have minimum levels of life insurance cover to support accessibility for Australians.

Almost 10 million Australians have life insurance provided through superannuation in the form of death cover, total and permanent disability (TPD) cover and/or income protection (IP) cover. For many Australians the life insurance they hold in superannuation is the only life insurance protection that they have. The feature of group pooling in policies held by superannuation trustees means that individuals do not require underwriting for standard levels of cover, making cover available for those Australians who would not otherwise have access to or have sought out affordable life insurance, in a similar way to compulsory superannuation providing protection to Australian's retirement where they hadn't otherwise prepared for their retirements.

CALI believes Australia's economy and superannuation member outcomes are best served when superannuation is underpinned by life insurance.

¹ [Quarterly superannuation performance statistics highlights December 2022 | APRA](#)

² [The future of insurance through superannuation | Deloitte Australia | Financial Services](#)

Recent research by Deloitte Access Economics³ found that Australians received \$6.6 billion in claims paid through superannuation in 2021. These members, who might not have otherwise had cover, had an average sum insured for both death and TPD of about \$136,000 and \$4000/month for IP. Coverage provided through superannuation is extensive and helps to protect people who might not otherwise have sought to protect their lives due to lack of financial literacy or apathy or be able to qualify for life insurance due to their medical history or occupation thus significantly reducing the otherwise catastrophic underinsurance of Australians. It is also relatively efficient, admitting up to 98 per cent of claims, with a payout ratio (the ratio of claims paid to premiums collected) between 80-95 per cent.⁴

An equitable and sustainable superannuation system is one which also provides a safety net for Australians when they are unable to participate fully in an active working life due to illness or injury. CALI shares the view that it is critical to ensure superannuation is not broadly accessible prior to retirement except in a narrow set of situations which closely align to life insurance policy coverage, being death, temporary or permanent incapacity or being diagnosed with a terminal medical condition.

Life insurers also provide critical support to help Australians return to work after suffering from illness or injury. The life insurance industry wants all Australians to lead healthier, happier lives where their health and wellbeing is protected.

While generally held by an individual member, superannuation is effectively a household asset, part of the pool of wealth that will support a family or couple when one or both partners retire. The early death of one partner can compromise those financial plans, which is why death cover is also a necessary part of life insurance in superannuation.

While we recognise and support the need to clarify the objective of superannuation in law, it is essential that there is a shared understanding of the integral role that life insurance plays in the superannuation system, which goes beyond 'income in retirement'.

Current superannuation law makes clear that there are several circumstances (both core and ancillary) other than retirement where superannuation members and their dependants may access superannuation benefits, including:

- Temporary or permanent incapacity;
- Being diagnosed with a terminal medical condition; and
- Death

In the case of permanent incapacity and death benefits, the Superannuation Industry Supervision Act 1993 (SIS Act) not only permits the release of benefits, but it also mandates trustees to provide these benefits to their MySuper members through a minimum level of life insurance cover.

³ [The future of insurance through superannuation | Deloitte Australia | Financial Services](#)

⁴ P4, [The future of insurance through superannuation | Deloitte Australia | Financial Services](#)

In addition, the life insurance covenants in section 52(7) of the SIS Act require trustees (among other things) to formulate, review regularly and give effect to a life insurance strategy that includes consideration of the types and levels of life insurance to be offered and acquired for all members.

As demonstrated by these obligations, life insurance is an integral structural part of Australia's superannuation system, as well as the long history of life insurance in superannuation - which was in place prior to the introduction of compulsory superannuation more than 30 years ago.

Previous regulator thematic and Productivity Commission reviews have found life insurance in superannuation to be a critical component of the superannuation system and therefore within the clear objectives of the superannuation system because it provides cover until the end of working lives and supports members preserving their retirement benefits.

The Productivity Commission's Superannuation: Assessing Efficiency and Competitiveness Report⁵ in 2018 found that:

- For TPD cover, life insurance contributes to retirement income, as it insures against the risk that a member's accumulation phase is cut short.
- For death cover, the links are less clear, except to the extent that life insurance payouts can fund the retirement of a dependent partner.
- For IP cover, there may be a link where a superannuation guarantee contribution component is deducted from the payment, or if the payment assists the worker to re-enter the workforce (for example, through facilitating rehabilitation programs).

CALI asserts that life insurance in superannuation is a critical safety net for Australians and their families to provide a dignified and secure retirement; assists in solving for underinsurance of Australians and is for those who are not able to enjoy a full and active working life through to their normal retirement.

RESPONSES TO SELECTED CONSULTATION QUESTIONS

We provide our response to specific questions in the consultation paper below.

Question 2: Does the proposed objective meet your understanding of the objective of the superannuation system in Australia?

The protective role of life insurance in superannuation is fundamental to the objective of the superannuation system and as such any new objective must not diminish it.

Many Australians will become injured or seriously ill and will not be able to participate fully in an active working life. Having life insurance in superannuation means that Australians have a safety net when faced with major illness or disability.

⁵ P364, [Inquiry report - Superannuation: Assessing Efficiency and Competitiveness \(pc.gov.au\)](https://www.pc.gov.au/inquiry/superannuation-report)

Life insurance in superannuation helps to protect superannuation balances and enable a dignified and financially secure retirement, by stepping in to meet the financial needs of people with both major and minor illnesses or injuries or disabilities.

Almost 50,000 new claims were admitted through superannuation for death, TPD and IP insurance policies in 2021, in addition to about 30,000 ongoing claims (largely for IP), totalling \$6.6 billion in claims paid.⁶ Conversely, the impact to the government in additional social security payments due to death and TPD underinsurance is estimated to be \$600 million per year.⁷

Deloitte Access Economics found that being insured for death or permanent disability (TPD) reduces the financial and personal costs associated with such an event. It also provides peace of mind to members that their family is protected in the event of their death or permanent disability.⁸

Life insurance within superannuation is fundamental to ensuring Australians can enjoy a dignified retirement, as well as providing equitable and sustainable support that helps reduce the need for people to draw down early on their retirement savings and ensure that superannuation can be used for its core purpose of delivering income in retirement, alongside reducing the need for government support due to underinsurance.

CALI is supportive of the Australian Government's plan to legislate the objective of superannuation. However, we believe it is important that consideration is given to how life insurance in superannuation is represented in any new definitions developed to support the legislated objectives.

CALI recommends that the objective of superannuation is read and understood to recognise the critical role that life insurance in superannuation plays and ensure that trustees remain empowered to put in place the life insurance arrangements their members need to financially protect them during their working lives and provide adequate financial support to them and their families if that working life is cut short due to disability or death.

CALI agrees with the Government's definitions of 'dignified', 'deliver income' and 'equitable and sustainable' and believes that life insurance in superannuation aligns to these definitions.

However, CALI believes it is important that there is a common understanding of the term 'preserve savings' prior to the drafting of legislation.

Preserve savings

CALI believes the Treasury's proposed definition of 'preserve savings' may have unintended impacts on life insurance in superannuation in its current wording:

- Page 9: "restricts access to superannuation savings for a person's retirement only"; and

⁶ P4, [The future of insurance through superannuation | Deloitte Australia | Financial Services](#)

⁷ P36, [Value of Life Insurance Report | Metlife Australia](#)

⁸ [The future of insurance through superannuation | Deloitte Australia | Financial Services](#)

- Page 10: “‘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, apart from exceptional circumstances.”

CALI recommends that there is a common understanding that ‘preserve’ includes the protection of retirement income, including at the household level. As we’ve already noted, the protective role of life insurance within superannuation is fundamental to preserving retirement savings for almost 10 million Australians. These automatic protections provide a critical safety net that helps Australians in some of the hardest times of their lives – for example total and permanent disability that ends their working life earlier than the expected retirement age or death – and ensures they aren’t drawing down early on their retirement savings.

Due to greater regulatory oversight which has been primarily designed to improve member outcomes, Australians with life insurance in superannuation are the most likely to have claims paid.⁹ Life insurance products within superannuation therefore provide value for money, for example 91% of total and permanent disability claims; 96% of income protection claims; and 99% of death claims are admitted.¹⁰ Furthermore, claims paid ratio are: 89% for TPD claims; 96% for income protection claims; and 98% for death claims over a 4 year period.¹¹

CALI recommends that the definition of ‘preserve’ be extended to include reference to the protection of retirement income by amending the definition to:

- ‘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.

CALI does not support the use of the shortened definition of ‘preserve savings’ on page 9 of the consultation paper. It is recommended that this shortened definition not be used moving forward.

Government support

Life insurance within the superannuation system is deeply woven into the fabric of the safety net that protects Australians at some of the most challenging moments in their lives – the death of a loved one, or disability that prevents them from working.

CALI believes that life insurance in superannuation helps take the burden off government support when a person’s working life is cut short, by providing an alternative income and support than moving onto government payments such as Newstart, disability payments or the age pension.

⁹ [Life insurance claims and disputes statistics June 2022 \(Reissued December 2022\) | APRA | Life Insurance entities](#)

¹⁰ Table 2, [Life insurance claims and disputes statistics June 2022 \(Reissued December 2022\) | APRA | Life Insurance entities](#)

¹¹ P17, [The future of insurance through superannuation | Deloitte Australia | Financial Services](#)

Life insurance benefits mean that Australians are less reliant on, or can supplement, Government support such as the disability support pension or the NDIS when they are no longer able to work prior to retirement age due to loss of income cause by disability.

Deloitte Access Economics found that life insurance through superannuation reduces the social security costs of supporting underinsured individuals. Underinsurance refers to a situation in which an individual has either no life insurance or inadequate levels of life insurance to offset the financial disruption caused by an insurable event (such as disability or death). Underinsurance is estimated to cost the Australian Government more than \$600 million per annum in additional social security for life and TPD alone.¹²

Equitable

Life insurance in superannuation helps to make the system more equitable, ensuring that those people who leave the workforce early as a result of major illness or disability can receive financial assistance without having to draw down early from their retirement savings if they don't want to. It is intended to provide similar outcomes for people in similar circumstances – recognising those whose working lives are cut short due to illness or injury won't have accumulated the same superannuation balances as those who were able to work until retirement.

Disability and retirement are therefore interlinked given around a quarter of superannuation fund members retire early due to disability or to care for somebody with disabilities.¹³

Life insurance in superannuation helps to address imbalances caused when someone's working life is cut short. For example, a person who is disabled at 55 years old and no longer able to work, who holds income protection cover, can access income through a life insurance claim through their super fund. This can be used not only to replace their previous income, but where the cover includes a superannuation guarantee contributions component, allows them to continue to accrue savings into their superannuation as a superannuation contributions benefit (a portion of the insured members monthly income protection benefit paid to the member's superannuation account) for use at retirement age.

There is significant evidence that lower paid, less skilled Australian workers are the most in need of default life insurance in superannuation yet have the least means to access life insurance due to economic or occupation-related reasons. By the nature of their manual and often hazardous work environments, blue collar workers for example face higher risks and are more likely to suffer from major illness or disability as a result.¹⁴ We know that members covered under group policies held by superannuation fund trustees are also the more likely to have their claims paid¹⁵. In this way, life insurance in superannuation helps to provide equity in Australia's retirement settings by ensuring lower paid, less skilled Australians are not left behind.

¹² P6, [The future of insurance through superannuation | Deloitte Australia | Financial Services](#)

¹³ [The future of insurance through superannuation | Deloitte Australia | Financial Services](#)

¹⁴ P6, [The future of insurance through superannuation | Deloitte Australia | Financial Services](#)

¹⁵ [Life insurance claims and disputes statistics June 2022 \(Reissued December 2022\) | APRA | Life Insurance entities](#)

Deloitte Access Economics also found that Australia's default approach to life insurance in superannuation reduces the likelihood of individuals having insufficient life insurance to meet their future needs if they suffer illness or injury. If it was offered on an opt-in basis, life insurance coverage through superannuation would shrink considerably – opt-in rates (where it currently operates) are 18 per cent and the costs of providing the cover would also increase significantly. Blue collar workers particularly benefit from default arrangements, but evidence from where opt-in currently operates suggests their participation is lower – only eight per cent of blue-collar workers would opt-in to life insurance through superannuation.¹⁶

The default life insurance framework therefore assists in reducing the access gap to adequate cover in Australia and therefore assists in mitigating the risks around underinsurance to Australians, the Australian economy and on increased reliance on direct Government support.¹⁷

Deliver income

The Government legislated the Retirement Income Covenant (RIC) in February 2022 with compliance required by superannuation trustees from 1 July 2022. While the formal obligation has only been recently introduced, the concept of the RIC has been in development since 2014 and yet there has been little innovation in the retirement income space over the last 10 years. Life insurers are experts in the management of longevity risk and can play a pivotal role in the future success and innovation of retirement income solutions for superannuation members and in making Australia a global leader in retirement income solutions.

This is again an opportunity to highlight the important role life insurance solutions can provide in the retirement objective of the superannuation system within the objective of superannuation.

Question 3: Is the proposed approach to enshrining the objective in legislation appropriate? Are there any alternative ways the objective could be enshrined?

CAL recognises that enshrining the objective in legislation will help to provide stability and confidence to policy makers, regulators, industry and the community that changes to superannuation policy will be aligned with the agreed purpose of the superannuation system.

The life insurance industry will continue to contribute to the united effort to create a more sustainable superannuation system. It is in the best interests of our members and their customers.

CAL recommends that industry and government agree to the objective of superannuation, prior to the drafting of legislation.

CAL would be happy to work with Treasury to draft amendments to the definitions mentioned above, prior to drafting of legislation.

¹⁶ P6, [The future of insurance through superannuation | Deloitte Australia | Financial Services](#)

¹⁷ P8, [Challenges Confronting the Australian Life Insurance Market | NMG Consulting](#)

CALI recommends that the second reading speech and Explanatory Memorandum provide sufficient context for the policy intention of the Government and include reference to life insurance in superannuation as being aligned with (and not proscribed by) the legislated purpose.