FEEDBACK FROM HESTA ON ISWG DISCUSSION PAPER ON 'ACCOUNT BALANCE EROSION DUE TO INSURANCE PREMIUMS' – 15 May 2017

B.1

1. Guidance on the determination of cover would be appropriate. This should be of a general nature only as to specifically tailor it to individual member cohorts would add unnecessary administrative burden and complexity.

2. Given the high prevalence and impact on female members who have broken work patterns, as well as casuals and part-time employees it would be difficult to tailor automatic cover at an individual level therefore a greater level of prescription would not be in the interests of individual members. Decisions need to be made taking in the considerations the membership as a whole.

3. Applying this approach to new members only would add significant complexity and confusion to existing members and unnecessarily lift the administrative burden.

4. The consequences to funds would depend on the level of prescription sought by principle – based guidance. Impacts on the distribution of cover and premiums would potentially have flow on impacts to loss ratios and the broader membership so care should be taken not to make this process overly complexed.

5. In reality, young and middle aged (45) members are a more appropriate segments of focus as the longer term cumulative impact on account balances would be greatest at these points. Older Australians are more likely to be more active in their superannuation decisions (including seeking to maintain existing arrangements) as they are more likely to recognise the importance of benefit entitlements.

6. As per 5 "above"

7. Members particularly women with broken work patterns are likely to have suffer reduced account balances due to extended periods out of the workforce. It should be noted however the importance of insurance is not diminished in this group and to base or cap insurance arrangements in this way could unduly impact on this segment who recognise the importance of cover that protects the "unpaid but extremely valuable contribution" of this segment of Australians.

B.2

8. The definition should be general and should take into considerations the base circumstances of the average member. It would be incorrect to be too prescriptive particularly for the reasons outlined in 7 "above"

9. Consideration would be given to the impact of insurance premiums on the average account balance of a member given the part-time/casualised and gender specific nature of our industry.

10. Yes, the female demographic has to be carefully considered. Unpaid household labour is extremely valuable and the necessity to provide insurance for employment of this nature

cannot be understated. Prescriptive rules that apply based on cohorts rather than the "average" member could unduly impact on the identified needs of individuals of this nature where causal employment and broken work patterns are commonplace.

11. If they are of a generalised nature only. They should not be prescriptive or force cover to cease unnecessarily for the above reasons. Also, one must acknowledge that "ill" or "terminally ill" members may seek to maintain an account without receiving contributions as they are wanting to ensure they and their families have access to an entitlement as soon as they become eligible. Again prescriptive rules around ceasing cover can have unintended consequences as a result.

12. Assessment of thresholds should occur at the expiration of a rate guarantee. To do otherwise may have pricing implications for the broader membership if this were to result in changes to the underlying product offering.

13. The simplest approach is best. One maximum threshold limit would be preferable rather than causing the process to be unnecessarily complicated.

B.3

14. No, for the reasons set out in 7 and 11 above.

15. If the code were to prescribe a threshold the timeframe without contributions should be at least 24 months. This covers on individuals who work casually with multiple employers who choose to take a break for paternal leave which has now been extended to 24 months under industrial law.

16. If a threshold is introduced it would be one threshold rather than multiple as this would increase administrative burden and complexity.

17. 21 months would seem and appropriate time if a 24 month timeframe was prescribed by legislation.

18. No, cessation clauses introduce unnecessary risk for members. Given the heightened education around superannuation consolidation in recent years members may well be making an active decision to have multiple provides and insurance arrangements. For the reasons set out in 7 and 11 above, this introduces unnecessary risk that members who want and need cover may not respond to a communication from the Trustee within the required timeframe to continue cover.

19. While not supportive of mandatory cessation at least 3 months after a 21 month notification period to align with the period individuals may take parental leave (i.e. up to 24 months)

20. Income protection is just one cover a member can have. Income protection can be offset for other income reasons such as Transport accident and workers compensation. These features are priced in the cost of the cover for all members. Furthermore while TPD cover is not typically offset against other TPD policies this would lead to significant over insurance in some cases. It would be wrong to consider IP cover as an isolated insurance issue that needs to addressed. The issue of multiple insurance covers needs to be address holistically. Furthermore a number of funds are seeking to implement hybrid designs which are in the interests of their membership, so to consider IP in isolation would be inappropriate.

21. Any consideration around cover automatically ceasing should address the concerns expressed in 7 and 11 above, this would have significant implications for members who have actively sought to maintain cover. It should also be noted that members may actually seek to maintain cover with one provider as they may not be able to transfer cover (due to health considerations) to an alternative provider. Careful consideration of the female demographic is paramount given broken work patterns and broader membership considerations where cover is ceased arbitrarily. This can introduce either anti- election risks if cover is later reinstated, as well as having wider loss ratio implications based on a segment of the membership not having cover or paying premiums.

22. The MyGov site being used to advise members and facilitate the consolidated cover across providers and the typical cost to their retirement savings to maintain this cover so members can make an informed decision when completing their tax return.

23. Administering cessation of cover provisions would be difficult and a number of members would ultimately be uninsured (particularly females with broken work patterns) or anti-selection risk would be introduced by introducing recommencement provisions which would not be in the interests of all members.

24. The insurance risks implications of ceasing and recommencing cover would be uncertain. Recommencement rules in isolation would work to introduce anti-selection risk so that members will be able to reactivate cover when they feel they need it most or they may be provided with cover that will not permit claims for pre-existing ailments as an anti-selection measure.

25. Ceasing cover would potentially mean that members with an identified need to claim will be active to maintain cover while others (for example members who do not pay adequate attention) would lose cover and any re-commencement rules may not reflect the cover removed so a member could be significantly impacted and lose important insurance benefits.

B.4

26. Careful consideration needs to be given to the fact members may actively maintain multiple covers to ensure the aggregate of cover from all sources adequately provides benefits for their needs. For example, a member may have IP cover with Fund A for $1,000 and Fund B for $1,000 and may have a pre-disability income greater than $2,000 so should obtain benefits from both providers.

27. The protocols should consider the sharing and co-ordination of assessment to avoid the need for multiple ongoing claim forms where the member seeks to and is eligible to claim from two providers based on their pre-disability income. It should also be considered that the terms and conditions in policies can be very different and this may impact on the best interests of members where protocols are adopted. It should further be considered that the advent of Hybrid policies may need to be taken into consideration in the adoption of any protocol.

B.5

28. Refunds would be too difficult to administer. There may be times where a members pre-disability income is supportive of benefits from more than one provider in some circumstances. Income Protection can also be offset by Transport Accident Insurance and Workers Compensation insurance. It would be too simplistic to single out IP cover in these circumstances. A holistic approach to members having unnecessary cover through multiple providers should be considered rather than an isolated approach that seeks to address anomalies in IP cover in isolation. One must remember that IP cover is very supportive of a return to work strategy and is therefore a form of insurance that seeks to address the social good of continued employment. It also supports the growth in a superannuation account by addressing the long-term disability which is a product of Lump Sum TPD coverage. To single out IP cover as resulting in anomalies that need addressing in isolation would not acknowledge the social good that it seeks to address.

29. For the reasons expressed in 26-28 refund provisions for IP policies would add unnecessary complexity and would not be in the interests of members as a whole. Furthermore it would be inequitable to refund premiums only at claim time and it would be difficult to ascertain if a member's historical income could have justified a claim from more than one provider during a period of coverage as illustrated in 26 above.

30. If an industry standard on refunds is introduced this should be limited to no more than 24 months.

31. Significant administrative issues would be introduced for superannuation funds and insurers as there may have been historical instances where a member who is underinsured at more than 1 provider could have had an entitlement to at least partial benefited had they claimed from both providers.

32. This should not apply for the reasons expressed above (in 31) as significant complexity and inequity would be introduced by such an approach particularly if refunds were only instituted at the point of claim.

33. Yes, any approach that seeks to introduce refund protocols should have a considerable lead time (current rate guarantee) as the administrative issues could be considerable.

C.1

34. Better education with relaxed advice provisions around the use of standardised calculators would assist members in making a better judgement about the adequacy of cover and could be used as a method to flag and encourage consolidation. More prominent messaging around consolidating insurance through providers should be standard within providers.

35. Disclosure of cover with each provider and an insurance consolidation protocol across providers would aid in this regard.

36. Insurance, as well as superannuation balances should be reported to the ATO so as to facilitate consolidation through standardised protocols that address areas of policy concern. This would reduce the risk members may consolidate their super without fully comprehending the insurance implications.

37. Communication to members using their preferred contact method would facilitate messaging around the importance of consolidation of insurance arrangements.

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