

31 March 2023

Mr Luke Spear
Superannuation Insurance and Governance Unit
Member Outcomes and Governance Branch
Retirement, Advice and Investment Division
The Treasury

By email: superannuationobjective@treasury.gov.au

Dear Mr Spear,

Legislating the objective of superannuation

TAL Life Limited (TAL) welcomes the opportunity to provide a submission to the *Legislating the objective of superannuation* consultation paper.

TAL endorses the objective of superannuation in the form proposed in the consultation paper:

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

While it is our view this objective accurately captures and prioritises the primary purpose of superannuation, we also consider the proposal could be strengthened if the process to legislate it recognised the integral role insurance in superannuation plays within the superannuation system.

Insurance in superannuation provides a safety net for millions of working Australians as a critical integrated element of their retirement planning, helping meet the financial needs of superannuation members and their dependents when they are unable to work due to injury, illness or premature death. This protection ensures that Australians who are unable to participate fully in superannuation to the end of their working life are not left behind, acting to preserve their superannuation savings and the opportunity for a dignified and financially secure retirement. Almost 10 million Australians rely on insurance in superannuation today, ensuring financial security and equity in the superannuation system with \$6.6bn¹ in claims paid in 2021.

In the attached submission we outline the importance of insurance in superannuation and make some suggestions on how this could be recognised when legislating an objective for superannuation.

Yours sincerely,



Brett Clark
Group CEO and Managing Director

¹ Deloitte Access Economics, *The future of insurance through superannuation*, 2022, p 4.

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Introduction

Insurance in superannuation produces significant benefits for members. Recent research by Deloitte Access Economics found the reach and benefits of insurance in superannuation are considerable:

- Almost 10 million Australians have at least one type of insurance (life, total and permanent disability (TPD) or income protection (IP)) provided through their superannuation.
- Almost 50,000 new claims were admitted through superannuation life, TPD and IP insurance policies in 2021, totalling \$6.6 billion in claims paid.
- Coverage extends to people who might not otherwise be able to qualify for insurance due to their medical history or occupation
- Insurance in super is efficient and very cost effective for members, admitting 98% of claims, and with a payout ratio ranging from 80-95%².

These benefits do not only flow to the individual, but also accrue at the community level, to the economy and to the taxpayer. Deloitte Access Economics found that from a fiscal perspective, insurance through superannuation reduces the social security costs of supporting underinsured individuals³.

Insurance in superannuation is of particular relevance to some of the most financially vulnerable people in the community. Superannuation members claiming a life insurance benefit, and their dependents, are typically experiencing a period of financial vulnerability, such as a sudden and unexpected loss of income. The benefits received from their insurance in superannuation policy help these members recover from the vulnerability, while protecting their superannuation balance for their retirement years.

The connection between superannuation and insurance is long standing. As noted by the Productivity Commission, life insurance companies began offering superannuation products to select employee segments in the 1950s. The association continued following the introduction of compulsory superannuation in 1992, with insurance provided in most default products. The inclusion of a minimum level of life cover became a legal requirement in 2005⁴.

The 2010 Cooper review extended on these reforms by recommending the inclusion of default life and TPD insurance in all MySuper products. Defaulting MySuper members into life and TPD was on the basis that these types of cover provide *“a safety net to members who might otherwise not consider their insurance needs...This will lower the cost of insurance for most members in MySuper, because there is pooling of risk between members who face different risks and financial circumstances”*⁵. These recommendations were legislated in 2013.

Given the clear and enduring connections between insurance and superannuation, TAL considers it important for the role of insurance in superannuation to continue to be recognised and placed on the public record when legislating the primary objective of the system.

On this basis we recommend the Explanatory Memorandum to an objective of superannuation bill to set out the importance of insurance in superannuation as a core part of Australia’s superannuation system. Doing so will confirm the ongoing and important link between superannuation and insurance, prevent ambiguity in the future through overly narrow interpretation, and inform future policy making.

² Deloitte Access Economics, *The future of insurance through superannuation*, 2022, p 4.
<https://www2.deloitte.com/content/dam/Deloitte/au/Documents/financial-services/deloitte-au-fs-future-insurance-through-superannuation-100622.pdf> accessed 15 March 2023

³ Ibid, p.6.

⁴ Productivity Commission, *Superannuation: Assessing Efficiency and Competitiveness*, page 374.

⁵ Super System Review, *Chapter 5 Insurance in superannuation*, page 144.

Links between the proposed superannuation objective and insurance

While the proposed objective does not contain any references to life insurance in superannuation, several of the key principled terms embedded within the objective are consistent with the goals of insurance in superannuation. To support consistent interpretation of these terms over time, TAL recommends they be explained and contextualised in the Explanatory Memorandum to an objective of superannuation bill, much as they have been on pages 9-11 of the Consultation Paper.

Where relevant, this explanation should refer to the way insurance in superannuation links with the term. Examples include:

- The concept of **preservation**, which aims to maintain superannuation savings for income in retirement. For those superannuation members who are unable to work through to age 65 due to permanent incapacity or death, any insurance benefit received supports members or their dependents to postpone drawing down on the accumulated superannuation account balance.
- For the same reason, insurance benefits received by superannuation members due to temporary or permanent incapacity, terminal illness or premature death also assists them to have a **dignified** retirement proposed in the draft objective. An insurance benefit can be the difference between maintaining basic financial freedoms and becoming dependent on family, community and government support.
- Insurance benefits are also consistent with the concepts of **equity** and **sustainability** as set out in the proposed objective. Insurance supports equity by ensuring the superannuation system is inclusive of all system participants, including those who are unable to work through to retirement due to temporary or permanent incapacity, terminal illness or premature death. This is important in a mandatory system. In respect of sustainability, insurance benefits reduce individual reliance on community and government provided benefits, while promoting individual self-reliance.

Insurance is legally embedded into superannuation

As already noted, existing superannuation law makes it clear that life insurance benefits are a part of the superannuation system. The law sets out in detail how trustees should provide and govern insurance in superannuation benefits. For example:

- The *Superannuation Industry (Supervision) Act 1993* (SIS Act) and its subsidiary regulations permits trustees to release superannuation benefits due to temporary or permanent incapacity; being diagnosed with a terminal medical condition; and death.
- In the case of permanent incapacity and death benefits, the SIS Act not only permits the release of benefits, it obliges trustees provide these benefits to their MySuper members by way of insurance that members receive automatically⁶.
- In addition, section 52(7) of the Act SIS Act also requires trustees to (amongst other things) formulate, review regularly and give effect to an insurance strategy that includes consideration of the kinds and levels of insurance to be offered and acquired for all members.

To assist trustees to meet their legal obligations, the Australian Prudential Regulation Authority (APRA) maintains Prudential Standard SPS 250. This standard requires funds to have an insurance management framework that sets out how it will meet requirements set out in the SIS Act, plus its processes for ensuring members interests are at the fore when managing insurance benefits and claims.

⁶ With some limitations related to members with inactive accounts, low balances or who are aged under 25 years. These limitations and exceptions to them are set out in detail in section 68 of the SIS Act.

These laws and regulations leave no doubt that insurance is an important ancillary purpose of the superannuation system, deserving of reference when the objective of superannuation is legislated.

Response to consultation questions

TAL has responded to selected questions from the *Legislating the objective of superannuation* consultation paper.

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

A practical risk is for the objective to be legislated so narrowly that it is misinterpreted in the future to exclude related objectives that are a core part of superannuation now. Insurance in superannuation is an example of this, for despite it being a long-term key part of superannuation, there is no reference to it in the objective. While TAL accepts this, reducing ambiguity relating to insurance in superannuation would ensure the objective would not become the basis of a future change that reduced or removed insurance benefits that almost 10 million Australians rely on, and to ensure ongoing equity in the superannuation system, particularly for those most vulnerable.

As noted above, to mitigate this risk TAL recommends the Explanatory Memorandum to an objective of superannuation bill sets out the importance of insurance in superannuation as an ancillary superannuation objective. This would provide an important counterargument to any party contending that insurance in superannuation is not a key part of the Australian superannuation system.

A benefit of the proposed objective is that it reinforces the emerging importance of the retirement phase of superannuation. The reference to **delivering income** in the objective is consistent with stated policy goals and the recently legislated Retirement Income Covenant. TAL would welcome the Explanatory Memorandum also reinforcing the key themes from the Retirement Income Covenant – for trustees to formulate, review regularly and give effect to a retirement income strategy addressing longevity, investment and inflation risks for all members.

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

TAL supports the proposed objective on the basis that it clearly locates the objective of the superannuation system as being income in retirement. This is consistent with our understanding of the superannuation system, and we believe is likely to coincide with the views of most superannuation members, most employers and of superannuation trustees and administrators.

Notwithstanding our support, as set out earlier in this submission, existing legislation and regulation explicitly mandates an insurance in superannuation strategy for all members. Given the multiple and overlapping requirements on trustees to provide insurance benefits, insurance can only be considered a core objective of the system.

As already noted, TAL understands the omission from the proposed words setting out the objective of superannuation but contends that in order to prevent any ambiguity on the role of insurance in superannuation, the Explanatory Memorandum ought to link key concepts in the objective to life insurance. This could be done in the Explanatory Memorandum much as it has on pages 9-11 of the consultation paper. Where relevant, this explanation should refer to the way insurance in superannuation links with the concepts. TAL has suggested how insurance links to key concepts on page 3 of this submission.

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

TAL has not responded to this question.

4. What are the practical costs and benefits of any alternative accountability mechanisms to the one proposed?

TAL has not responded to this question.

About TAL

TAL is one of Australia's leading life insurers. Together with our partners, we protect 4.9 million Australians against the risks of death, disability, and illness. In 2021-22 we paid more than \$2.7 billion in claims to 39,000 customers and their families. We provide life insurance cover in several different ways – through our partnerships with superannuation funds, via financial advisers, and directly to consumers through digital and other platforms.

TAL is a part of the Japan based Dai-ichi Life Group. Starting with the Dai-ichi Life Insurance Company, which was established in 1902 as Japan's first mutual insurance company, today the Dai-ichi Life Group is one of the world's largest life insurance groups. Dai-ichi Life Group is also one of the world's leading providers of retirement income products.

For further information

Should you have any questions regarding the information in this submission, or about TAL generally, we would be pleased to assist. Please contact in the first instance Mr James Connors, Head of Corporate and Government Affairs, on 0484 083 208, or by email at james.connors@tal.com.au.