Inactive super fund accounts may lose insurance cover

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Changes to super set to come into effect on 1 July 2019 have serious implications for those potentially affected in relation to insurance cover.

Super fund members who have not had a contribution paid into to their account for 16 months could lose their insurance cover under new legislation passed by the government in February this year.

Other changes also loom for inactive accounts with a balance of less than $6 000.

The changes, which come into effect as of 1 July this year, are contained in the Treasury Laws Amendment (Protecting Your Superannuation Package) Bill 2019, which was passed by Federal parliament in February this year.

Members can take action to prevent these changes impacting their accounts, but they must act soon.

The changes follow the introduction of the Federal government's Protecting Your Super package—a comprehensive package of regulatory reforms announced in the 2018-19 Budget and designed to protect Australians' superannuation savings from undue erosion by fees and insurance premiums.[1]

Inactive superannuation accounts

On 1 July 2019, regardless of balance, inactive superannuation accounts (meaning those accounts where no contributions or rollovers have been received for 16 months) will have any insurance cover cancelled.

Affected super fund members should receive a communication from their super fund between May-June this year asking whether they want to maintain their insurance cover. If a member does not actively choose to maintain their insurance cover, it will be cancelled on 1 July.

Members should be aware that if they do not act and their insurance cover is cancelled, but at a later date apply to recommence insurance cover via their super fund, any such application will be subject to underwriting and more stringent conditions compared to receiving default or automatic cover provided by most super funds.

Types of insurance cover

Most super fund members are able to access three types of insurance cover via their super fund: death; total and permanent disability; and salary continuance.

Death cover, also known as life insurance, provides a lump sum benefit to your beneficiaries if you die.

In relation to death cover, the independent ASIC MoneySmart website notes that if you have a partner or dependents, "By setting up a way to support your loved ones after you die, you can ensure they can continue to pay the mortgage and school expenses, go on holiday and buy essentials."[2]

Total and permanent disability cover, also known as TPD, provides insurance cover if you are totally or permanently disabled via illness or injury and cannot continue to work and earn an income.

TPD insurance typically applies irrespective of whether the illness or injury was sustained at work or elsewhere and can help cover the costs of rehabilitation, debt repayments and the future cost of living.

Salary continuance cover, also known as income protection, pays you an income stream, usually up to 85% of your gross salary, for a specified time period if you cannot work due to temporary (as opposed to permanent) disability or illness.

In deciding whether or not to take out salary continuance cover in addition to death cover and TPD cover, the ASIC MoneySmart website states: "It is an important consideration for anyone who relies on an income. It is especially suitable for self-employed people, small business owners or professionals whose business relies heavily on their ability to work."[3]

While it is possible to take out these types of insurance cover via retail providers, super fund premiums are in most cases cheaper compared to retail insurance providers as super funds are able to purchase insurance in bulk quantities for a large number of members—this is referred to as 'group insurance'.

One other advantage of taking out insurance via your super fund is insurance premiums are automatically deducted from your super account. It is important to note however that the payment of insurance premiums from your super account will reduce the amount of retirement savings you will accumulate.

Automatic deduction of premiums has the added benefit of avoiding finding yourself, at a time of crisis, without cover because they forgot to renew their policy.

Other advantages from taking out insurance via your super fund include that some funds automatically accept you for cover without requiring a health check, and you can usually make an application to vary the amount for which you want to be covered or cancel the cover entirely.

ATO control of inactive accounts

From 1 July 2019, all inactive super accounts with a balance of $6 000 or less will be transferred to the Australian Taxation Office (ATO) unless within the last 16 months you have:

- provided written notice to the ATO, declaring that you are not a member of an inactive low-balance account;
- changed investment option(s);
- made changes to your insurance cover;
- made or amended a binding beneficiary nomination; or
- the super fund is owed an amount in respect of your account.

The ATO will then seek to allocate the balances of these inactive accounts into an active account of the member, if such an account exists.

It is important to point out here that in the first instance the inactive accounts will leave the super fund and be paid to the ATO.

Super fund members who will be affected by these changes should receive correspondence from their fund.

Those members who do not wish for the ATO to take control of their account will then need to write to the ATO, electing to maintain their super with their chosen fund. At the time of writing, the details of this process, including the wording for any member 'Written Notice' form, are currently being clarified by the ATO. As such, you should contact your super fund to discuss further if you want to ensure that your account is not automatically transferred to the ATO. ■

About & contact

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