More changes for insurance in super

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Default insurance cover for many young super fund members and people with low super account balances will be changed as of 1 April 2020.

More changes are coming for the default insurance cover of young super fund members and members with low super balances under new laws passed by Federal Parliament.

The *Treasury Laws Amendment (Putting Members' Interests First) Act 2019*[1] means that as of 1 April 2020:

- On joining a super fund, automatic insurance will no longer be provided to:
  - People aged less than 25 years
  - New accounts with a balance less than $6000; and
- Existing accounts with insurance and balances less than $6000 on 1 November 2019 will have that insurance cancelled—unless the member opts to retain the insurance cover by 1 April 2020.

A dangerous occupations exception may apply whereby members will remain 'opted-into' insurance if the member's occupation is in the riskiest quintile of Australian occupations or they are defined as an emergency services worker.

Currently, most new members joining a super fund are typically automatically provided death and total and permanent disability insurance. Some super funds also automatically provide members salary continuance insurance (or income protection).

Under the new laws, which were passed by Federal Parliament in September last year, members aged under 25 with account balances less than $6000 will only be provided insurance if they opt-in to the insurance offered by their super fund or take out insurance outside super.

Benefits of the changes

The key benefit of the changes is younger super fund members and members just starting to build their super savings will no longer have their balances reduced by insurance premiums (fees). As a result, they will more quickly build their super balance.

A further potential benefit is the removal of insurance for younger members is appropriate given they are less likely to need the type of cover provided by death and total and permanent disability insurance.

Potential downsides

While there are views that younger members may be less likely to need insurance, these views may be open to question.

What cannot be questioned, however, is that deciding to not take out or continue with suitable levels and types of insurance carries with it some very real and possibly significant risks.

Any young super fund member or member with a low account balance with no insurance who suffers a misfortune will find themselves without the protections, supports and financial benefits provided by these types of policies.

Writing in the Australian Financial Review on 14 May 2018, the Chief Executive of the Association of Superannuation Funds of Australia (ASFA), Dr Martin Fahy, said of the then proposed changes: *"It will be the families and dependants of young Australians suffering misfortune who will be left to pick up the pieces if the measures pass."*[2]

The benefits of taking out insurance via your super fund

Young super fund members and members with low balances who want to take out insurance will need to actively choose between cover offered by their super fund or retail insurers.

In considering these options, keep in mind that premiums for insurance via your super fund, in most instances, will be lower compared to retail insurers as super funds can offer insurance on a 'group' basis across many members.

Many super funds automatically accept you for cover without requiring a health check and you can vary the amount for which you are covered or cancel the cover entirely.

Taking out insurance via your super fund is usually easier and more convenient to manage. Insurance premiums are automatically deducted from your super account rather than your hip pocket. Most super funds will also pass on the tax benefit of the deduction for premiums.

Automatic deduction of premiums ensures you avoid a time of crisis of not having cover as payment of premiums was overlooked.

Notifying affected members

Pursuant to the *Treasury Laws Amendment (Putting Members' Interests First) Act 2019*, by 1 December last year all super funds were required to write to members with a less than $6000 balance as at 1 November 2019, informing them any insurance they have via their super fund will be cancelled on 1 April 2020 unless the member elects to opt-in and continue their cover. The 1 April 2020 date replaces an earlier proposed date for this (and the other changes covered in this column) of 1 October 2019.

Super fund members who will be affected by these changes should contact their fund for more information. Employers may also wish to contact their super fund to arrange a workplace visit to explain the changes to their staff. ■

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1 See https://www.aph.gov.au/Parliamentary_Business/Bills_Legislation/Bills_Search_Results/Result?bId=r6331

2 See https://www.afr.com/opinion/columnists/federal-budget-2018-changing-super-cover-means-less-insured-for-a-higher-price-20180513-h0zzwe