23 February 2024

Secretary
Senate Standing Committees on Economics
PO Box 6100
Parliament House
Canberra ACT 2600

By email: economics.sen@aph.gov.au

Dear Secretary,

Improving consumer experiences, choice, and outcomes in Australia's retirement system

TAL welcomes the opportunity to contribute to the Senate Economics References Committee inquiry into improving consumer experiences, choice, and outcomes in Australia's retirement system.

Life insurance plays a key role in the financial resilience and wellbeing of Australian households. This role is most visible in the years leading to retirement, where life insurance benefits support individual members and their and families cope with the financial impacts of premature death, illness and disability. Apart from meeting more immediate financial needs, life insurance benefits are also used to continue to prepare member's and their families financially for retirement. For those people who cannot lead a full working life, life insurance plays a critical role to help support a dignified life and retirement.

TAL believes that Australian life insurers alongside superannuation funds can play a greater role in supporting superannuation members to prepare for and manage their retirement. Through products such as annuities and newer innovative retirement income products, life insurers can provide greater certainty of income for individuals in retirement. While the Australian market for such retirement income products has traditionally been small, in recent years the benefits of these products has seen an increased interest in them by policymakers and superannuation funds. TAL supports the renewed focus of policy makers and superannuation funds on these types of products to better support retired Australians, including through this Committee.

Australia is fortunate to have as a foundation of its retirement system a world class superannuation system. In the decades since its inception, superannuation has evolved to efficiently and safely manage the growth of superannuation account balances through an individual's working life.

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Now, as superannuation savings reach a level where they are sufficient to meet a significant share of member retirement needs, attention is increasingly focused on the retirement phase, and how members can maximise the benefit of their working life of contributions.

In this submission we comment on the issues raised in the terms of reference that are relevant to the role life insurers currently play in retirement, and the role they could play in the future. This includes how life insurers can bring choice and confidence to consumers in retirement, by helping address specific retirement risks such as longevity risk. To offer context, we also include a summary of how some other countries are addressing similar challenges as seen in Australia.

We appreciate that in examining retirement related issues and especially the importance of superannuation to retirement outcomes, the Committee may also seek to explore insurance in superannuation. To support the Committee in doing so we include general information on what TAL sees as the important role and value of insurance in superannuation. The clearest evidence of the good achieved by insurance in superannuation is in the insurance benefits paid to tens of thousands of claiming superannuation members and their dependents each year. The most recent APRA data puts the aggregate annual benefits paid through insurance in superannuation policies at over $4bn, covering over 47,000 individual claims.

The Australian life insurance system and insurance in superannuation delivers very good outcomes and value for customers and superannuation members. Nevertheless, TAL also acknowledges the system can always be improved further for the benefit of members, and we make some recommendations to the committee in this regard.

About TAL

TAL is one of Australia's leading life insurers. Together with our partners, we protect over 5 million Australians against the financial risks of death, disability, and illness. In the 2023 financial year we paid $3.5 billion in claims to 45,301 customers and their families.

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 , or by email at
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Yours sincerely

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Chief Executive – Group Life and Retirement

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TAL Group CEO

1. The role of life insurance in retirement

Life insurers have traditionally played a role as a source of income in retirement in Australian and international markets. Many Australian life insurers have been providers of these products at different times, though the number of active issuers is presently small. Now, as larger numbers of Australians enter retirement with having spent much of their working life in the superannuation system, and with the expectation of living longer than ever before, the challenge of ensuring retirees do not outlive their savings means life insurers have the opportunity to partner with superannuation funds to provide retirement income solutions for superannuation fund members.

Historically demand for retirement income products in Australia has been low. In part this is because traditional retirement income products like annuities could only be (or, at least, were more likely to be) accessed through a financial adviser – something either out of reach or out of mind for many people. Now, as retiring people seek greater choice and confidence in retirement, the unique benefits life insurers can bring to retirement income is leading to a renewed interest amongst superannuation funds, members, and at the national policy level. This is led by three related factors:

- Australians are retiring with larger superannuation balances compared to previous generations of retirees. These new retirees are more likely to see their superannuation savings as the primary means of supporting their lifestyle and are natural customers for retirement income products. Recent research has found that the second most important product feature that people approaching retirement seek in a retirement product is that the income lasts for their whole retirement[1].
- Through the Australian Government's *Delivering Better Financial Outcomes* advice regulatory reform, retiring members will have greater access to retirement advice. Coupled with tools, calculators and advice from their superannuation fund, the ability for members to better understand their retirement product options and the impact they would make to their incomes and lifestyles should encourage member take up.
- Successive governments have investigated and implemented policy options to encourage superannuation funds to prioritise the retirement phase of superannuation. For example, the Retirement Income Covenant legislated in 2020 obligates superannuation funds to implement a strategy to assist members to balance three objectives:
  - maximising expected retirement income;
  - managing expected risks to the sustainability and stability of retirement income; and
  - having flexible access to expected funds during retirement.

Effective risk management in retirement supports retiree financial wellbeing

Retirees face several financial risks in retirement. Amongst the most important are:

- Longevity risk – the risk a retiree outlives their savings. This is the principle retirement risk and the fear of it leads retirees to restrict their spending in retirement to be below the level that it may otherwise be.
- Investment risk – the risk that investment volatility negatively affects some or all of a retiree's accumulated savings.
- Inflation risk – the risk that a retiree's savings fail to keep pace with increases in the costs of goods or services.

[1] TAL and Investment Trends October 2023 Retirement Income Report survey of 10,604 Australians.

It is the capacity to insure these and other risks that make life insurers a key part of the overall retirement solution that can achieve better member outcomes.

An individual can choose to self-manage these risks or transfer these risks to an insurer, receiving in return greater certainty of income in retirement. This will have positive effects for both the individual, and their community. From an economy wide perspective, ensuring retirees maintain the capacity and confidence to spend and consume is an important factor in maintaining national prosperity as our population ages and the proportion of retirees as a share of total population increases.

Consumers need choice in retirement income products

To establish individual confidence and support prosperity, it is important for consumers to have choice access to affordable retirement income products that manage retirement risks and provide lifetime income. Currently most retiring superannuation members reaching preservation age and who make a choice, choose an account-based pension or a lump sum payment.

Until recently, consumers who have wanted to acquire a retirement income product had limited options, and most of those options were only accessible through seeking personal financial product advice. This is now changing as superannuation funds look for new ways to support their members in retirement and comply with the Retirement Income Covenant.

TAL has worked with its superannuation fund partners to develop a concept to embed longevity and other risk protections into allocated pension products, effectively adding certainty of retirement income to these commonly used products. To achieve this, TAL issues a group longevity insurance contract to the pension provider (e.g. a superannuation fund) to facilitate the transfer of longevity risk to TAL. The superannuation fund retains management of member assets, enabling the member to benefit from the provider's investment expertise and scale throughout their retirement. This allows the superannuation provider to focus on asset management, while drawing on TAL's core capability of pooling longevity, mortality and morbidity risk.

Harnessing life insurer capabilities in retirement

The Australian market has many life insurers, including TAL, who have the capacity, capability, and willingness to accept longevity risk, asset risk and other retirement risk exposure. Importantly, Australian life insurers and superannuation funds are well regulated from both a prudential and conduct standpoint, ensuring consumer financial interests are well supported and protected.

In respect of prudential regulation, Australia's standards are among the world's strongest and this leaves insurers well placed to withstand financial instability and stress. The Australian life insurance system is also integrated into the deep global capital pools that support the long-term commitments involved in retirement income products.

Furthermore, from an insurance perspective, retirement income products are a natural complement to the provision of life insurance through group life insurance arrangements with superannuation funds. Retirement and life insurance products hedge against the insurance risks of the other, meaning an insurer with exposure to each portfolio is inherently more sustainable and customers benefit from this.

Given this, it is reasonable to ask why there is not already more choice of retirement income solutions available to retirees. Focusing on the superannuation sector, in our discussions with superannuation funds they often consider the current most significant barrier to the development and launch of retirement income products to be limited demand from members and the upfront complexity and cost to bring a product to market. Importantly, the supply or price of longevity protection is not considered a significant barrier.

2. Reforms to encourage the development of innovative retirement income products

To be effective, policy reforms that would most effectively support consumer uptake of retirement income products need to understand and address the characteristics of specific retiree cohorts.

Growing access to financial advice

As noted earlier, some new retirees and people approaching retirement are more likely to see their superannuation savings as the primary means of retirement income and want their income to last for life[2]. For these people a retirement income product may be appropriate, but most will seek financial advice before they make a decision. With over five million Australians at or approaching retirement, but only approximately 16,000 financial advisers in the industry, without reform a large proportion of retiring Australians will face barriers accessing financial advice.

For this reason, TAL is supportive of the Australian Government's *Delivering Better Financial Outcomes* package. Of particular importance are the proposals to introduce a new class of adviser authorised to provide simple financial advice to superannuation members. We believe these changes and other supporting reforms will enable millions of Australians to obtain the retirement advice they need and encourage consideration of retirement income products that are in their long-term interests.

Recommendation: The Australian Government proceed with its comprehensive financial advice reform package, as announced in December 2023.

Help for disengaged superannuation members

TAL believes there is merit in considering a regulatory framework that permits superannuation funds to guide or transition members into an appropriate retirement income product in certain circumstances.

Despite the best efforts of superannuation funds to educate their members and help them to take control of their account, it is a fact that some members do not take an active interest in their superannuation. Members reaching preservation age but not actively managing their superannuation should not miss out on the benefits of a retirement product. Therefore, where a superannuation trustee forms the view that it is in the best financial interests of the member to be guided or transitioned into a retirement income product, the trustee could be empowered to do so.

Importantly, members should be permitted to opt-out of being transitioned and be given ample information and opportunity to do so. Based on industry experience with the *Protecting Your Super* changes (which saw higher than expected member response rates), communications informing superannuation members that a change will occur in the absence of action can boost member engagement.

Recommendation: Superannuation funds could be empowered to guide or transition members to retirement income accounts where, in the trustee's judgement, it is in a member's best financial interests for this to occur.

[2] TAL and Investment Trends October 2023 Retirement Income Report survey of 10,604 Australians.

Unlocking the consumer benefits of digital advice tools

TAL believes there is great potential to expand access to digital advice and additional help for members.

One way this can be done is by expanding the use of digital calculators and retirement estimates. Such technology has the potential to help retirees access interactive, engaging, personalised and timely information that helps them explore different scenarios and understand trade-offs. Retirees accessing these low-cost and convenient tools would be empowered to make retirement income decisions, including the ability to track their progress against their goals or strategy, and make adjustments as necessary.

Unfortunately, the current regulatory regime for calculators and income estimates is excessively restrictive – see boxed text for further information. This is frustrating for consumers and inconsistent with the Australian Government's policy goals under the *Delivering Better Financial Outcomes* package.

Calculators and retirement estimates

As a developer and provider of calculators for our superannuation partners, TAL notes the conditions of relief and default assumptions prescribed in the new ASIC superannuation calculators and retirement estimates relief instrument that commenced 1 January 2023 places significant limitations on how calculators may be used. This is especially the case for comparing and estimating lifetime retirement income to help retirees better understand different retirement options and outcomes.

For example, the relief instrument does not apply to static retirement estimates provided to retirees in annual statements, meaning members holding products in the retirement phase can't receive an income estimate that can help them plan.

In testing TAL conducted with superannuation members via our superannuation fund partners, we have observed that presenting members with retirement income estimates that reflect their individual circumstances, and which compare outcomes across a range of products and product settings, increase the likelihood of members taking further action in retirement planning.

Recommendation: Regulators review the regulatory instruments and guidance related to digital advice and consider how they can support consumers to make more informed decisions relating to retirement and other personal financial needs.

Reviewing of prudential standards

While not a barrier on its own to the development and issuing of retirement income products, there are possible changes to insurer prudential standards which would increase supply, access and affordability of retirement income products to consumers.

TAL is engaged with industry groups, the Actuaries Institute, APRA and the Treasury Consultation on Retirement on these matters.

A related matter is the lack of availability of risk-free (i.e. Government-issued) inflation-linked assets with sufficient duration to match long-term annuity and similar liabilities. Government can support annuity issuance through issuing more Treasury bonds with these characteristics.

Recommendation: Regulators work with industry to review existing insurance sector prudential standards to consider changes that would support access and affordability of retirement income products while still ensuring financial safety and stability.

3. The retirement challenge - international perspectives

TAL has reviewed comparable overseas markets and notes the challenges facing retirees, industry participants and policy makers are similar. Common to each is that life insurers play a central role in the provision of retirement income products, even where the accumulation phase is through a public scheme or a highly regulated private scheme. Australia should seek to take a similar approach. Further below we provide further detail on the similarities and differences in retirement income policy in the United Kingdom, United States and the Netherlands.

Australia is not alone in its goal to improve retiree income outcomes, or in respect to the issues that confront both retirees and retirement income industry participants. TAL has reviewed comparable defined contribution markets in the United Kingdom, the United States and the Netherlands and noted a range of similarities and differences.

Similar to Australia, in the reviewed systems, the focus until recently has been on optimising accumulation. But now, with increasing numbers of people retiring with their retirement savings their main or sole source of income, the focus is broadening to address the challenge of converting savings into an adequate retirement income. Managing longevity risk is frequently at the forefront of these considerations.

United Kingdom

As a proportion of total pension fund assets, the United Kingdom (UK) defined contribution market is just 19% but is rapidly growing[3]. Over the last decade the UK has seen substantial change in the way these pensions are structured and managed. Until 2011, it was compulsory for pension holders to "annuitise" a portion of their savings, but reforms since this date have removed this obligation, and pension holders now have increased flexibility around how they use their savings. This has seen a sharp decrease in the rate of annuitisation, and an increase in more account holders relying on drawdown plans similar to Australian account-based pensions[4].

In the UK insurers play a different, somewhat larger role than in Australia, both in the accumulation phase and crucially at and around retirement. The role of life insurers in the UK pension market essentially blends together that of Australian life insurers and superannuation funds. Insurers:

- Offer and deliver a range of relevant pensions products to meet the needs of customers and scheme trustees. These are mainly drawdown-based products and annuities.
- Provide support to customers making retirement decisions both during accumulation and decumulation phases. Support can take the form of guidance, enhanced guidance or advice depending on need and customers' ability / willingness to pay.
- Fulfil the products sold during the decumulation phase (drawdown services, annuities in payment).

The market challenges in the UK are similar to those in Australia, with researchers identifying demand side issues such as complexity, low financial literacy, underestimation of life expectancy and financial advice access issues. On the supply side, issues identified include a lack of product innovation (especially for products that combine drawdown with longevity risk protection) and the risks of developing products.

[3] Pension Policy Institute, *What can the UK learn about other countries' approaches to accessing DC savings?*, November 2023
[4] AJ Bell Investcentre; Why the annuity market is out of favour, 2021, https://www.investcentre.co.uk/articles/ why-annuity-market-out-favour accessed 2024.

Like Australia, the UK is exploring changes to financial advice regulation intended to aid the ability of product issuers to provide limited advice on their products directly to consumers.

United States

The United States is similar to Australia in that most current and future retiring workers are a part of defined contribution schemes (e.g. commonly known as 401k schemes), with participant retirement incomes based on a combination of social security and income generated from retirement savings[5]. Also, like Australia, millions of workers are poised to retire in coming years, driving an expected surge of interest in retirement income products[6]. In a further similarity, there is a tendency for US retirees to hold onto rather than spend their wealth in retirement[7].

To prompt consumer uptake of longevity insurance, the United States has introduced tax incentives to encourage the purchase of longevity insurances. Since 2014, qualifying products called Qualified Longevity Annuity Contracts (QLAC) have received favourable tax treatment. A QLAC is a deferred fixed annuity that meets a set of minimum standards set by the United States Government. The cost of purchase is tax free and will also quarantine a portion of their retirement account balance from tax calculations, resulting in lower income tax liabilities[8].

From a policy and regulatory standpoint, while most policy activity is focused on the accumulation phase of retirement, there has been some limited reform of decumulation settings. The United States Congress passed a bill in 2019 (the SECURE Act) containing provisions intended to reduce some of the barriers that have traditionally discouraged the use of retirement income products and to encourage participants to consider retirement income streams. The provisions include:

- New disclosure obligations on providers, including to express benefits as a retirement income stream by default.
- New laws to reduce the liability of fiduciaries should their retirement income insurer fail to meet their obligations, as long as the fiduciary meets a suite of safe harbour obligations when selecting the insurer.
- The removal of complexities stifling product portability[9].

Additionally, the US has tax rules to ensure that assets in pension funds are drawn down during later life. From age 73 retirees are required to take a Required Minimum Distribution (RMD) from their accounts each year, with the amount withdraw intended to extinguish the assets in their remaining expected life span.

The Netherlands

In contrast to Australia, the defined contribution system in the Netherlands covers a relatively small proportion of employed people - approximately 20%, compared to 80% of people in defined benefit schemes[10]. The retirement phase is also quite different, with account holders obliged to convert their pension funds into a retirement income stream, though either a fixed or variable annuity. Variable annuities retain investment risk, allowing for the possibility of higher incomes.

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[5] Pension Policy Institute, *What can the UK learn about other countries' approaches to accessing DC savings?*, November 2023
[6] McKinsey, The Key to Growth in U.S. Life Insurance: Focus on the Customer, 2016, https://www.mckinsey.com/industries/financial-services/our-insights/the-key-to-growth-in-us-life-insurance
[7] Pension Policy Institute, *What can the UK learn about other countries' approaches to accessing DC savings?*, November 2023
[8] Forbes Advisor; Qualified Longevity Annuity Contract: What Is A QLAC?, July 2023.
[9] Groom Law Group, Lifetime Income Provisions Under the SECURE Act, 2020 https://www.groom.com/resources/lifetime-income-provisions-under-the-secure-act/
[10] This is changing - almost all employers, when setting up a new pension plan, opt for a defined contribution plan and from 2027 defined benefits schemes will be disallowed. Lexology, *Q&A: occupational pension schemes in Netherlands,* 2023. https://www.lexology.com/library /detail.aspx?g=bba90362-ae12-498a-90e2-89602f1e6b86

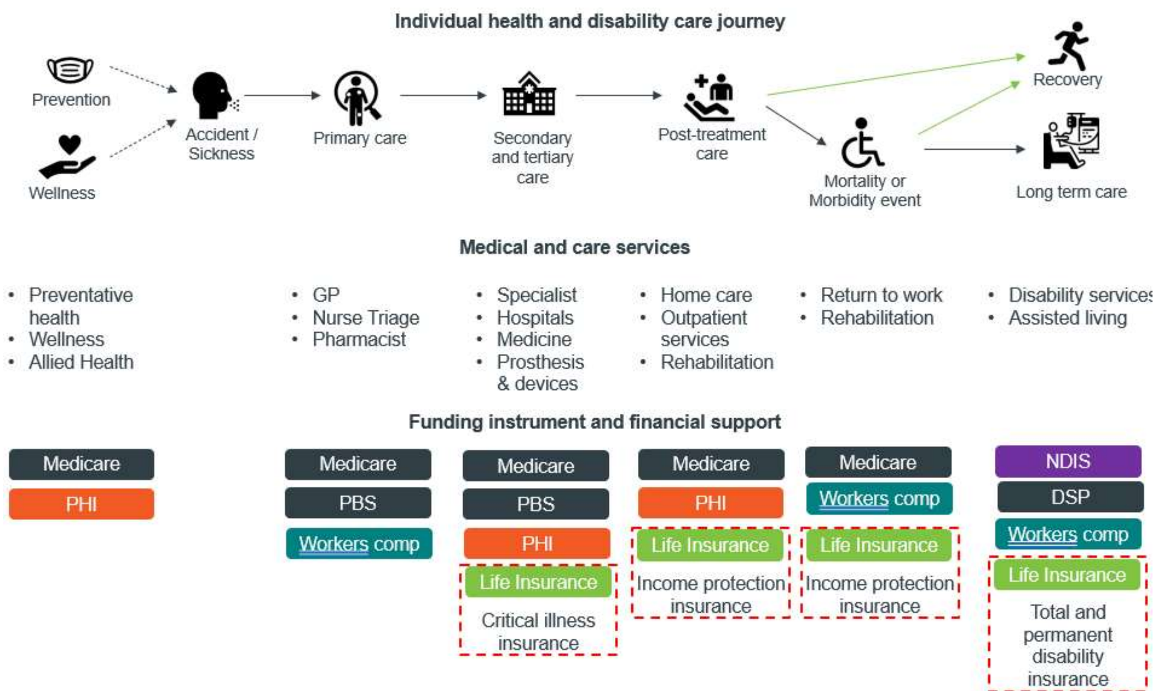
Traditionally fixed annuities have been the most popular choice for Dutch retirees, but recent reforms aimed at making variable annuities more attractive have been introduced. These include:

- Retirees are provided with retirement estimates to illustrate the expected outcomes from different investment strategies and assumed returns, as well as outcomes in 'optimistic' and 'pessimistic' scenarios.
- More investment risk also allows providers to apply, within regulatory limits, an assumption for outperformance.
- Product issuers are required to tailor their offers to those most appropriate for the differing cohorts within their membership and to alert account holders to choices that may not be optimal.

Retirees have portability at the point of retirement only, at which point they are free to select from their preferred annuity product and provider. Once entered into these products, they are not portable as the individual has entered a longevity insurance contract[11].

4. Life insurance is an important part of Australia's health and disability ecosystem

Australia enjoys a comprehensive health and disability care system that blends public and private funding mechanisms and public and private service provision. The funding mechanisms include broad access systems such as Medicare and statutory workers compensation schemes; impairment assessed supports such as the National Disability Insurance Scheme (NDIS) and Disability Support Pension (DSP); and personal insurances that facilitate individual affordable choice, such as life insurance and private health insurance. Health and disability services may be provisioned and allocated by the Commonwealth, state or local governments, or may be accessed via private markets. Together these interwoven systems form a comprehensive safety net for Australians.



[11] Pension Policy Institute, *What can the UK learn about other countries' approaches to accessing DC savings?*, November 2023

Life insurance is a key part of this broad social safety net, in particular through "living benefits" – life insurance benefits for customers living with or recovering from a significant injury or illness[12]. This category of insurance includes total and permanent disability insurance (TPD), income protection cover and critical illness insurance[13]. Benefits paid to an insured person's dependents in their event of their premature death also help the dependents manage the financial shock and personal consequences that can be associated with such an event.

Focusing on living benefits in insurance in superannuation, superannuation regulations mandate the inclusion of total and permanent disability benefits as part of their default insurance arrangements. Many superannuation trustees also opt to add income protection insurance as well. The inclusion of these insurances in superannuation arrangements reflects their important contribution to member welfare both in accumulation and in the retirement phase:

- During accumulation, insurance in superannuation income protection and TPD benefits help absorb financial shocks to an employed person's income as they deal either temporary or permanent incapacity.
- Insurance benefits can also be added to the accumulated account balance, maximising the monies available to them in retirement, particularly for those members unable to work a full working life to retirement.

Expanding the role life insurers play in the health and disability lives of their customers

TAL observes many members who are ill or injured and receiving income protection benefits want to return to meaningful employment. Employment not only maximises their income potential but opens the way to a range of long-term physical, psychological and wellbeing benefits. However, achieving this goal can be expensive for individuals with only limited publicly funded support available. TAL seeks to actively support these customers to reach this goal, but is constrained in the range of services we are permitted to fund.

Unlike in countries overseas, Australian life insurers are not permitted to fund treatment that would help a customer recover their health, even where the both the customer and the insurer agree this would be a desirable outcome.

As part of our claims service, TAL often works with customers who are unable for various reasons to access needed healthcare in a clinically relevant timeframe. Often this is due simply to costs but may be because of capacity constraints in the healthcare system. TAL would like the option to support some of these customers to obtain treatment, especially where the customer is engaged in their own health and there is a good chance treatment will be successful.

Economic benefits of insurer treatment funding

Deloitte found 11% of IP insurance claimants who access rehabilitation treatment and services are likely to return to work where they otherwise would not have. Broader access to treatment is also estimated to result in those who would have returned to work anyway doing so on average 5 weeks earlier. Smaller benefits also exist for TPD.

If life insurers could support members obtain better access to treatment it could assist an estimated 29,300 members to return to work over the first forty years. This would yield an additional 4,400 full-time equivalent workers to the Australian economy by 2062, boosting GDP by around $1.1 billion in that year. At the same time a further $126 million in social and other costs of unemployment would be saved.

[12] In the six months from 1 April 2023 75% of TAL's total benefits paid were living benefits, up from 72% in the 2022/23 financial year.
[13] Critical illness benefits are paid upon the occurrence of a specified illness or injury. It is available through financially advised products, or directly from insurers only. It is not available through default superannuation in superannuation.

As noted in the boxed text, Deloitte Access Economics has examined the possibility of insurers funding treatment services for insured people, finding that greater access to treatment and services amongst insurance in superannuation members is likely to improve return to work outcomes among members who suffer from injury or illness. This would have benefits across the economy[14].

More broadly, life insurers provide cover to large pools of healthy, employed and productive people - especially through insurance in superannuation. It is in the shared interest of these people, their employer, their superannuation fund and their life insurer, as well as in the national interest, to avoid debilitating episodes of ill health. If permitted, life insurers working with superannuation funds and employers, could provide targeted preventative care to these people to help them stay healthy, or where necessary, obtain early diagnosis and treatment before a health issue grows to become a cause of long-term illness, disability or death. Improving member health would also be expected to reduce claim durations, placing downward pressure on insurance in superannuation premium costs.

Recommendation: The Australian Government consider the opportunity and benefits of life insurers funding healthcare treatment for insured people on claim, and of becoming a focus of preventative healthcare delivery and support.

5. Long-term (or aged) care insurance

Long-term care insurance, sometimes also referred to as aged care insurance, is an insurance product designed to assist policy holders fund the costs of care associated with long-term incapacity. People claiming against these products may be experiencing difficulty in performing activities of daily living, such as bathing, dressing, eating, basic mobility and transportation. Support services to assist with these activities are often available at cost, and benefits paid under long-term care insurance can support access to them.

While often associated with the needs of older people (hence the aged care insurance label), long-term care products are not necessarily exclusive to older people. Benefits paid under these products may be just as relevant to people of any age who experience incapacity either earlier than anticipated, or for reasons unrelated to ageing. The products are also not necessarily associated with assisted living or aged care facilities, and in fact could be called upon to support a person living independently in their home. That said, long-term care markets overseas are frequently geared to aging populations, so it is reasonable to conclude that any Australian product that may emerge in the future would also be aimed primarily at older people.

Long-term care insurance in Australia

Long-term care insurance is not presently offered by any Australian life insurer, but TAL is aware that interest in the product is growing, particularly since the Royal Commission into Aged Care Quality and Safety[15], and the 2020 Retirement Income Review. More recently, stakeholders to the Aged Care Taskforce raised the possibility of private long-term care insurance becoming part of the overall funding mix, although it remains to be seen if this topic makes it into the Taskforce final report.

At present, TAL's focus is supporting our superannuation partners to improve member outcomes in retirement through high quality life insurance solutions and services, including insurance products aimed at ensuring retirement income for life. We believe that providing retirees more

[14] Deloitte Access Economics, *The future of insurance through superannuation*, 2022
[15] The Royal Commission final report raises the possibility of both socialised and private insurance playing a role in Australia's future aged care funding model. It stopped short of making any specific recommendations relating to private insurance.

certainty of income in retirement is the most important first step in supporting their long-term care. Once policy and regulatory settings are in place to achieve this goal, further investigation of the potential of long-term care insurance in Australia should follow.

Long-term care insurance in selected overseas markets

Long-term care insurance is available in various forms overseas, and there may be lessons for Australia that can be drawn from these markets.

- **Japan** has a well-developed long-term care insurance market, aimed at people on middle incomes. The system is based on a socialised insurance model, with premiums paid 50% from compulsory long-term care premiums, and 50% from taxes. Participation is mandatory for Japanese citizens aged 40 and over[16].

  TAL's parent, the Japan-based Dai-ichi Life Group, launched a simple, easy to access dementia product in Japan in January 2019 that pays benefits in the event the insured person is diagnosed with dementia. The product is aimed at older people, and includes preventative health services that assist customers to improve their health and lifestyle and access health checks. TAL is monitoring the performance of this innovative insurance product.

- Insurers in the **United States** have been issuing long-term care cover for decades, but the market remains relatively small with approximately six million people covered. Most policies require customers to pay an annual premium that may increase as the risk of the claiming increases, which can create affordability issues for older people on reduced incomes. Product sustainability issues have caused many insurers to exit the US market.

  Since 2010 a new generation of products have been made available that combine long-term care insurance with another benefit such as life insurance. Premiums for these products can be paid upfront or fixed over a period of years, helping to manage the cost. The life insurance payout is reduced or eliminated if the customer claims against the long-term care benefits[17].

- In **Germany**, two types of private long-term care insurance products have developed. The first is a compulsory private long-term care insurance for individuals who have opted out of the state-run social health insurance. This market provides coverage for about 9% of Germany's population and is highly regulated. The second type is voluntary supplementary long-term care insurance for expenses not covered by the state-run social program[18].

- **Singapore** recently instituted a system of mandatory long-term care insurance for those born in 1980 or later. Citizens and permanent residents are automatically enrolled in an insurance plan called CareShield Life starting at age 30. They must pay premiums until they retire or turn 67 (whichever comes later) or are approved to use services[19].

6. The value of insurance in superannuation

Insurance in superannuation is a key feature of Australia's superannuation system. This highly efficient and equitable system provides an affordable, world-class safety net to millions of superannuation members and their families. Benefits paid to claiming members and their families

[16] Royal Commission into Aged Care Quality and Safety, Final Report Volume 3B, Pp. 774-5
[17] Painter, Kim; *Understanding Long-Term Care Insurance*; AARP; 2021; https://www.aarp.org/caregiving/financial-legal/info-2021/understanding-long-term-care-insurance.html
[18] OECD, Germany Long-term care; https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&ved=2ahUKEwi0ssuT0ZuEAxXktlYBHbF7CsgQFnoECDkQAw&url=https%3A%2F%2Fwww.oecd.org%2Fberlin%2F47908655.pdf&usg=AOvVaw0KY_HLRr_vp0ZLv_Hw4k_R&opi=89978449
[19] Fortune, What long-term care looks like around the world, November 2023, https://fortune.com/well/2023/11/16/what-long-term-care-looks-like-around-the-world/

support them during and after sickness or injury, or after the death of a loved one. For those who cannot lead a full working life, life insurance helps support a dignified life and retirement.

Almost 10 million superannuation accounts have insurance provided automatically through their superannuation fund's policy, with benefits for death cover, total and permanent disability (TPD) and income protection[20]. The over $4 billion in insurance benefits paid to superannuation members and their dependents each year supports them to manage the adverse financial impacts of illness, disability and premature death.

Unless they decide to opt out, most active superannuation members over the age of 25 and with more than $6000 in their superannuation account are generally automatically covered under a superannuation fund's group insurance policy. Group insurance differs from an individual policy through having the policy benefits and premiums calculated based on the needs and risks of the insured group as a whole, rather than the characteristics of individuals. This makes insurance more efficient, affordable and easier to access – especially for people whose individual risk profile means finding other life insurance cover is difficult or sometimes not possible at all.

Individuals may also choose to cancel their cover, reduce their cover, or upgrade their cover within superannuation if their automatic cover does not meet their needs. Or they may purchase cover outside superannuation. It is common for people to structure their insurance arrangements so that an insurance in superannuation policy sits alongside a complimentary individual life policy.

Alignment with the objective of superannuation

The rationale for including insurance in superannuation rests in the alignment between life insurance and the objective of superannuation. Superannuation produces the best results for members who are able to live a full and active working life. Regrettably, the reality is not every Australian will be so fortunate. In the event of an insurance claim, the benefits paid help put the member and their dependents in a financial position closer to where they would have been in retirement, but for the occurrence of the insured event. Supporting the most vulnerable in our community should collectively be our priority, and insurance in superannuation is an important part of Australia's approach to that end.

This purpose of insurance in superannuation has been confirmed in several policy and regulatory reviews and studies. The 2010 Cooper Review found that life and TPD insurance strongly supports the principles of the superannuation system[21]. More recently, the explanatory memorandum to the Superannuation (Objective) Bill 2023 (currently before the Parliament) notes that access to affordable group insurance is consistent with the objective of superannuation, in particular by helping members achieve a dignified retirement[22]. In a 2022 study into the future of insurance in superannuation commissioned by the Association of Superannuation Funds Australia (ASFA), Deloitte Access Economics described the alignment of superannuation and life insurance as below[23]:

[20] Deloitte Access Economics, *The future of insurance through superannuation*, 2022, page 4.
[21] Cooper, J., Casey, K., Evans, G., Grant, S., Gruen, D., Heffron, M., Martin, I. and Wilson, B. 2010, *Super System Review Final Report — Part One: Overview and Recommendations*, Canberra.
[22] Superannuation (Objective) Bill 2023, Explanatory memoranda, paragraphs 1.20 and 1.21.
[23] Deloitte Access Economics, *The future of insurance through superannuation*, 2022, page 12.

Table 2.1: Types of insurance and their objectives within superannuation

Type	Compulsory	Features	Objective
Life insurance	✓	Life cover (also known as term life insurance or death cover) pays a lump sum amount of money when the insured person dies.	Insurance payout partially replaces a deceased member's lifetime earnings to minimise disruption to the family and dependents.
Total and permanent disability (TPD) insurance	✓	TPD cover pays a lump sum amount to cover the costs of home modifications, debt repayments and the future cost of living if the insured person is permanently disabled and unable to return to work.	Insurance contributes to retirement income, as it insures against the risk that a member's accumulation phase is cut short.
Income protection (IP) insurance	—	IP is paid in instalments and replaces the income lost through an inability to work due to injury or sickness. IP payments will stop when the beneficiary is capable of returning to work, or at the end of the benefit period.	IP payments may include a superannuation contribution in lieu of the individual's contribution, or if relevant, the insurer may fund programs to assist the worked re-enter the workforce (for example, through facilitative occupational rehabilitation programs).

Source: Deloitte Access Economics (2021), Productivity Commission (2018).

Insurance in superannuation creates value for members and the wider community

The clearest evidence of the good achieved by insurance in superannuation is in the benefits paid to tens of thousands of claiming superannuation members and their dependents each year. The most recent APRA for the period 1 July 2022- 30 June 2023 data puts the aggregate annual benefits paid through insurance in superannuation policies at over $4 billion, covering over 47,000 individual claims[24]. TAL was a significant proportion of total industry claims, paying $2.4 billion to over 30,00 members in the same period.

Insurance in superannuation is highly efficient, providing excellent value to millions of superannuation members. This value is demonstrated by the industry loss ratio (the proportion of premiums returned to members through claims), which APRA data shows to be 84%. This means that for every dollar of premiums collected, 84 cents is paid to members through benefit payments – a leading outcome in any private life insurance market in the world

Insurance in superannuation members can have confidence that, if they need to claim, their insurer will fairly assess their claim, and where their claim meets the policy terms a benefit will be paid. This is demonstrated by the latest APRA claims admittance data, which shows:

- 98% of death claims are admitted
- 92% of TPD claims are admitted
- 97% of income protection claims are admitted.

Where a claim is declined, it is generally because the claiming person is not covered by the policy, or the claim does not meet the terms of the policy.

Apart from the benefits to claiming members, Australia's efficient and equitable insurance in superannuation system provides superannuation members and the broader community with a number of unique benefits. In its analysis Deloitte found insurance in superannuation provides:

- **Greater access to cover** for people who would not otherwise have had cover. Automatic cover for most superannuation members means there is no barrier to cover. This is a real advantage for high-risk individuals who may not be able to access risk rated life insurance, such as people with pre-existing medical conditions or who work in high-risk occupations.

[24] Based on APRA Life insurance claims and disputes statistics. Note APRA does not publish aggregate claims data, so TAL has derived this figure from total claims paid and average sum insured data. It is consistent with past estimates of total claims paid.

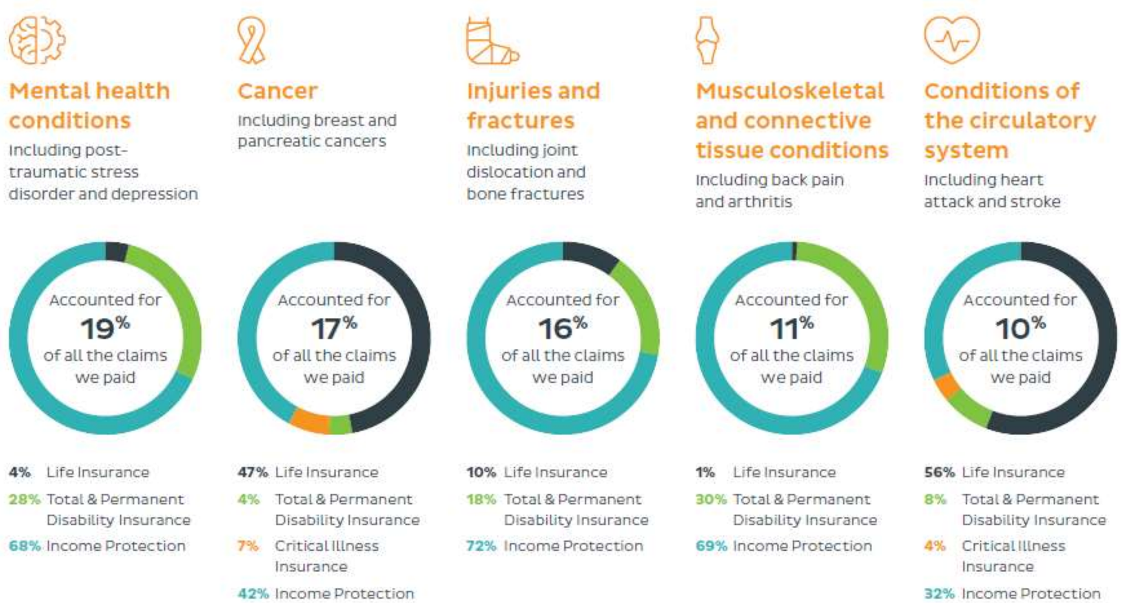
More broadly, the wide distribution of insurance via superannuation also helps address the level of underinsurance in Australia.

- Group insurance policies can **lower the cost of insurance to individuals**, by pooling risk over a larger population, and through a lower cost to insurers to cover and administer insured people. In addition, because individual premiums are paid through superannuation rather than take home income, the cost of insurance in superannuation does not directly impact household budgets, avoiding members needing to make hard decisions on their insurance coverage when balancing cost of living pressures.
- By supporting individuals financially at their time of greatest need, **communities and taxpayers benefit** from insurance in superannuation coverage. Benefits paid to members enable ongoing participation in the social and economic activities of a member's community, while lessening their need for social security support. Rehabilitation and return to work services provided by insurers to claiming members also support their return to the labour force and full community participation.

TAL notes that if this important safety net were to be removed from the community, then the need for it, and the level of disability requiring support, would not go away. Any suggestion for insurance in superannuation cover to be reduced must then also address what would fill the gap left behind.

Insurance in superannuation claims handling

In life insurance, the most important thing we do for our customers is to pay their claims. For TAL, the leading causes of claims across all product types and distribution channels are:

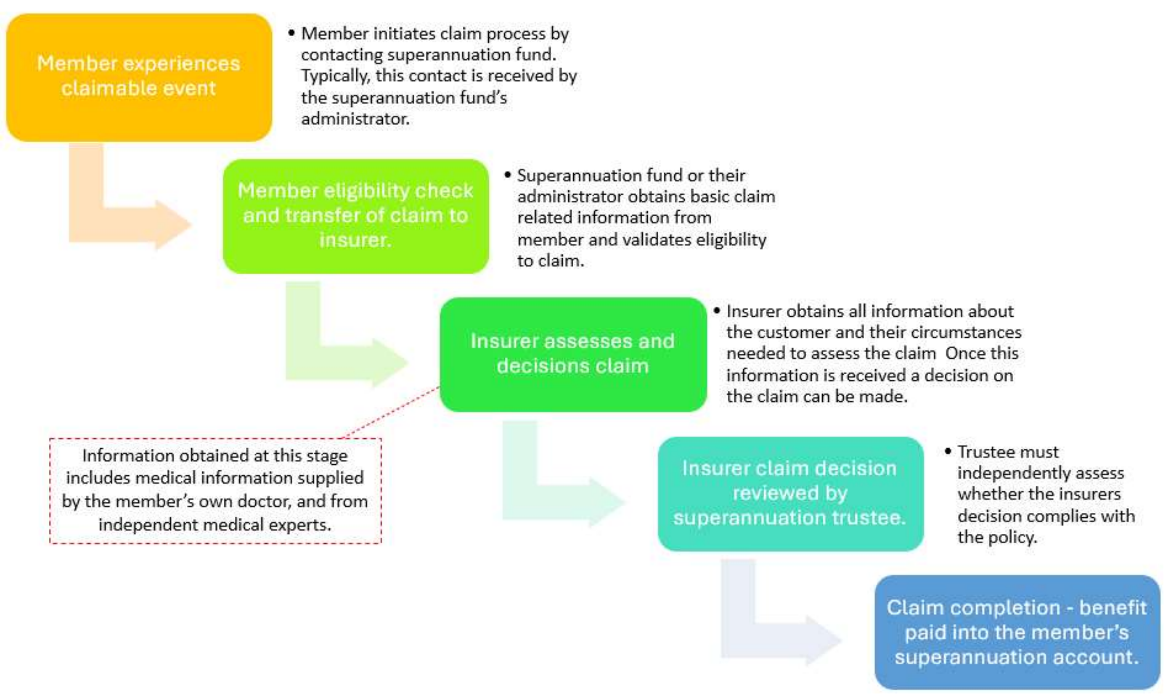


Assisting and suporting superannuation members to understand, manage and claim on their insurance in superannuation is a responsibility shared amongst several superannuation system participants including TAL. At the centre of the insurance in superannuiation system sits the member and their interests, and it is the superannuation fund and its trustee who are directly responsible for the protection and priotisation of those interests. The key participants in insurance in superannuation are:

- The superannuation fund **trustee**, who is responsible for ensuring the superannuation fund operates effectively and in the best interests of its members. They safeguard the members' retirement savings and have the delegated authority to make decisions regarding insurance arrangements on behalf of the superannuation fund. The trustee plays a crucial role in ensuring that the members' insurance claims are handled effectively and in their best interests. They are the advocates for the members during the claims process, review all adverse decisions, determine the appropriate beneficiary for a death benefit, and confirm release of benefits (both insurance and superannuation account balances) once regulatory requirements have been met.

- The **life insurer**, who issues the policy to the owning superannuation fund and works actively with the superannuation fund to manage and administer the insurance, including regular reporting to the superannuation fund and to regulators. The most important aspect of this for individual members is claims processing, at which point the insurer works directly with the member to collect the information required to make a decision on the claim. Claims decisions also need to be validated by the superannuation fund. Insurers may also offer members preventative health, rehabilitation and return to work support services, which adds value for members while placing downward pressure on premiums.
- The superannuation fund's **administrator** (internal administrator or externally sourced). The role of the administration varies from superannuation fund to superannuation fund, but with an insurance claim it is often the administrator that is the first point of contact for members, and who validates the member's eligibility to claim, provides forms and other upfront information, initiates the documentation process and is often also be responsible for processing claim payments on behalf of the trustee. Once sufficient information is received and processed by the administrator, it passes the claim to the insurer to assess.
- **Healthcare providers –** health information and medical opinion is essential to life insurance claims processing. Generally, the member's own doctor(s) will be the key healthcare provider involved, and the member may need to engage directly with them to obtain the required information. Member's healthcare providers may also lead or support rehabilitation and return to work programs, in cooperation with the superannuation fund and insurer.

The diagram below is a simplified representation of the steps involved in receiving and processing an insurance in superannuation claim, demonstrating the role of each system participant.



Claims handling times

Claims handling timeframes vary according to the type of claim and complexity. TAL understands that a person making a claim for life insurance is going through a difficult and stressful time and we try to assess a claim as quickly as is reasonably possible.

Most death claims require a death certificate and are more straightforward to assess by TAL More complex are Total and Permanent Disability (TPD) claims, which generally require the insurer to assess the permanency of an insured person's condition and the likelihood that they will never be able to work again in a role consistent with their education, training and experience.

During the assessment of TPD claims medical reports need to be sourced from a member's treating practitioners. Additionally, doctors may opine that a member's medical condition is not yet stabilised and until this stability has reached permanence it is difficult to assess.

Due to this greater complexity and the reliance on external parties, TAL's average time to decision a TPD claim is 4.3 months. At industry level, average TPD claims handling time is 4.9 months.

TAL closely monitors its claims handing time and in addition to its own monitoring and governance processes, is externally held to account for our performance via the Life Insurance Code of Practice. Claims handling timeframes set out in the Code are as follows:

- Income Protection Claims: insurers have 2 months from the claim received date or re-opened date to gather all reasonable information, complete reasonable enquires and determine a decision.
- TPD claims: insurers have 6 months from the claim received date or re-opened date to gather all reasonable information, complete reasonable enquires and determine a decision.

Life Insurance Code of Practice timeframes commence from when the insurer obtains notification of the claim from the superannuation fund (or the superannuation fund's administrator) and the minimum information a insurer requires in order to commence assessment of a claim is received[25]. While this is the case, we also appreciate that for a member the waiting time for their benefit starts from when they first initiate the claim with their superannuation fund or administrator, and doesn't finish until they receive the benefit. This is why we look for opportunities to work with our partners to improve claims handling for members.

Improving insurance in superannuation claims handling for members

TAL strives to give claiming members a positive experience, to ensure they understand and feel confident in how we handle their claim and feel they have been treated fairly and empathetically during the claims handling process.

We also acknowledge the insurance in superannuation system is not perfect and there are ongoing opportunities to improve the system, including in claims handling which we are focused on with our superannuation fund partners. Sometimes, despite our best efforts, we do not meet the expectations of members or community. When this occurs, we always seek to understand where we can make improvements, to share those learnings internally and with our partners, and to use the experience to improve our processes and systems.

We know that along with our superannuation partners, we are accountable for improving the system. Currently we are working closely with our superannuation partners to evolve and improve the claims experience for our members.

Recently TAL has worked with a large superannuation fund and its administrator to improve the claims experience for its members. This involved implementing a new claims management model

[25] Generally a doctor's statement and a member's statement are the minimum requirement.

that streamlined the claims lodgement and assessment process for some types of claims, resulting in TAL playing an expanded role in their assessment. As a result of these changes, TAL, the superannuation fund and its administrator have been able to jointly improve the efficiency of claims handling for these superannuation members, shortening the time from claim lodgement to claims decision and payment. This continues to be key focus for us.

More broadly, TAL is presently investing to our digital claims management capability. TAL offers a range of services through modern, scalable, and secure technology enabling personalised digital member experiences and seamless integration between TAL and our superannuation partners. For our members we offer a platform called Claims Assist, which is currently being rolled out to TAL's superannuation fund partners. With Claims Assist, superannuation members can easily lodge and manage their claim, provide medical information, add payment details, see payment schedules, and access health support, all in real time. The service has delivered measurable improvements to the claims experience, including:

- A strong uptake in members engaging directly with TAL, with close to 50% of members wanting to lodge a claim by interacting digitally with TAL via Claims Assist; and
- Over 40% of members who start their claims digitally, complete the lodgement process within 24 hours, reaching claims consultants significantly faster than via traditional lodgement channels.

As we roll out this program, we expect we will see members benefit from simplified and more timely connections between TAL, superannuation funds and fund administrators, which should improve claims management timeframes.

Regulation and the Life Insurance Code of Practice

Insurance in superannuation is a heavily regulated product. Life insurers are prudentially regulated by APRA to ensure they have sufficient capital to meet their claims obligations. APRA also regulates some elements of life insurer and superannuation fund conduct, a duty shared with ASIC. These regulators regularly cooperate to proactively investigate issues of concern, publishing reports and communiques into their findings. The close scrutiny results in a process of continual improvement across the insurance in superannuation sector and should be a source of confidence to superannuation members and policy makers alike.

Superannuation funds have specific obligations under the *Superannuation Industry (Supervision) Act 1993* (the SIS Act) to formulate, review regularly and give effect to an insurance strategy that meets the needs of the members to be covered by the insurance. This includes a specific oblgiation to ensure the cost of the insurance does not inappropriately erode member retirement incomes.

Outside of the insurance in superannuation channel, life insurers are subject to extensive regulation including via the *Corporations Act*, *Life Insurance Act* and *Insurance Contracts Act*. The body of law covering life insurance has seen extensive reform since the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, including making claims handling a financial service. This means that claims related activities provided by insurers, such as assisting a person to make a claim, assessing a claim and making a decision on the claim are subject to the broad legal obligations in the Corporations Act.

TAL is a signatory to the Life Insurance Code of Practice (the Code), introduced in 2017 and updated to a new version with strengthened commitments in 2023. The Code explains to superannuation members and other stakeholders what they can expect when they interact with life insurers, creates an enhanced level of industry governance, and provides guidance on

Improving consumer experiences, choice, and outcomes in Australia's retirement system

complex issues. TAL and other subscribing insurers are held to account by the independent Life Code Compliance Committee.

Since its implementation the Code has helped drive continuous improvement of industry standards and conduct, across all channels of insurance. There are some limits to its reach however, and it should be noted that within the insurance in superannuation ecosystem, it is only life insurers that are subject to the governance and accountability standards of the Code, as it does not extend to superannuation funds or superannuation administrators.

Recommendations for future system improvements

Australia's insurance in superannuation is a world class system that provides broad based insurance participation which delivers very good value, at a fair and sustainable cost for members. In addition to our own efforts to improve member experience, TAL proposes three system level changes that would improve the system for the members it serves.

1. TAL endorses the suggestion from Deloitte Access Economics in the study cited earlier in this section, which identified benefits if superannuation funds and their insurer had access to more member demographic data.

While Group insurance provides a cost-effective way of providing basic cover, default cover only matches the "average" consumer. Although the average member within a cohort is suitably insured, those with less/more need than the average member are technically over or under-insured. If superannuation funds and insurers could access more data about members, such as income levels, debt and parental status, benefits and premiums could be more optimised to individual member need, without losing the benefits of the group insurance model.

Recommendation: The Australian Government consider strengthening the insurance in superannuation system through better use of data.

2. TAL notes community concern relating to the time taken for superannuation funds to disburse superannuation funds upon the death of a member. From our observation, the core issue of concern is generally not related to the payment of an *insurance* death benefit by an insurer, which in most cases is completed quickly. Rather it largely relates to the challenges superannuation fund trustees face in identifying the deceased members potential beneficiaries, in the absence of a binding nomination being in place. TAL understands the need for sensitivity in this process, which seeks to balance potential beneficiary desire for a speedy resolution, with accuracy of distribution.

To address community concerns, TAL looks to how insurers deal with similar circumstances in relation to individual life insurance policies that are held outside of superannuation. Upon the death of an insured person who is also the policy holder, an insurance death benefit payable under the policy is typically paid directly to the estate, and the estate manages the distribution. On average, the time taken for benefits to be paid following the acceptance of an individual policy death claim is far shorter than that ~~report~~ for superannuation death benefits. For TAL issued retail policies (polices purchased via a financial adviser) the average time between claim acceptance and payment of benefit is eleven days.

TAL considers that adopting a similar approach for superannuation death benefits may streamline superannuation fund processes and better achieve the outcomes sought by deceased member beneficiaries.

Recommendation: Superannuation funds, regulators and relevant governments consider the merits of making a deceased person's estate responsible for the distribution of superannuation death benefits.

3. TAL notes that superannuation industry bodies have produced claims handling guidance that applies to superannuation funds directly, and through them to service providers such as an administrator. By providing superannuation funds with suggestions on how to manage systems and processes, the guidance supports the improvement of member experience and outcomes.

TAL considers member experience and outcomes could be further improved if the industry guidance were to be specifically developed and targeted at superannuation fund administrators. Administrators are a crucial part of the insurance in superannuation system, but currently subject to far lower levels of accountability than superannuation funds or insurers. Ideally, guidance would be supported by transparent reporting of administrator performance against guidelines.

Recommendation: Providers of superannuation fund administration services develop guidelines prioritising member experience and outcomes, and transparent reporting against these goals.