On the right terms

STORY SUSAN HELY

Check the policy's fine print to make sure you won't be disappointed if you have to make a claim

When did you last check on the financial package that protects you in case of sickness or an accident? You could be in for a nasty surprise if you need to claim on an insurance policy, because the terms have significantly changed in the past few years, along with the premiums.

Australians typically hold their life, disability and income protection through their superannuation fund. But the generous insurance arrangements offered in the past have changed. Many funds are under pressure from their insurance companies and have raised their premiums, cut the level of cover, tightened the terms and added more exclusions, so if you have a pre-existing condition you may not be able to claim. This means you may not have the cover you thought you had.

It's important to be aware of what cover you have before a crisis arises. If you haven't checked the benefits and terms recently, don't delay.

Insurance arrangements can vary widely from fund to fund. When you weigh up different funds, it is crucial to compare the premiums and the benefits. If the number of claims is high, all the members are slugged with higher premiums. If necessary, you can move to a fund with the same cover for a lower cost, other things being equal. Ideally, you want quality insurance at a low cost.

After all, the more you spend on insurance through your super fund, the less money you have for retirement, points out Roy Agranat, founder and director of risk advisory firm Fairbridge. You may need to contribute more to super to meet your savings goal. He says the recent steep increase in insurance premiums by large super funds means that they can be more expensive than personal insurance plans. He recommends comparing the rates and benefits. "People can use any insurer," he says. "They don't have to stay with their super fund. Often personal plans have better definitions of disability. Some super funds reserve the right to reskill you."

He says that premiums for total and permanent disability (TPD) and income protection have increased significantly, in some cases by more than 150%.

If you buy income protection outside super, you can claim a tax deduction. If you buy it through super, there is no tax benefit to you personally.

If you leave your job, take an active interest in your insurance, advises Agranat. Often you are vulnerable because you are not covered for TPD and income protection but could still be paying premiums. "The only time you find out is at claims stage. You want to know at an early stage."

When you leave a job, your super fund generally moves you from group insurance into a personal plan. Agranat says, typically, premiums rise by 20%-40% in a personal plan. He says super funds apply a standard rate increase when members leave the employer plan, and he has also found they have moved his clients into different categories that have a higher premium – such as from non-smoker to smoker, even though they do not smoke – plus change the employment category from white collar to light blue collar rates. "There are thousands of people who don't pick this up," he says.

He says people should check the smoking category and collar employment rating. Otherwise they could pay thousands in unnecessarily high premiums. As well, make sure that income protection benefits are not capped but indexed for inflation.

Martin Fahy, CEO of the Association of Superannuation Funds of Australia (ASFA), says that group insurance offered by funds has resulted in better protection against illness and accidents for people from all walks of life.

But he believes there is room for improvement. An ASFA insurance working group is looking at the cost of insurance on super accounts, particularly what is appropriate for young people who work part time and have low balances. "Default cover may not be required, particularly by young people entering the workforce. They are wasting money on premiums for cover they don't need," says Agranat.

ASFA is also looking at what do you do about the multiple default insurance policies held by members. It also wants to improve the claims experience and the communication about insurance.

Payouts differ

Even if you have insurance with your fund, it doesn't necessarily mean that you will be paid out the full amount of cover. For example, of the death benefits paid in 2016, SuperRatings research indicates 16% of super funds paid out less than the amount of cover. Some 8% of funds paid out 61%-70% of the death benefit.

TPD continues to be difficult for claimants. Only 28% of super funds gave their TPD claimants 91%-100% of the full benefit while 12% of them paid less than 60% of the amount insured, 15% paid 61%-70%, 20% paid 71%-80% and 24% paid 81%-90%.

Income protection is another insurance that typically pays less than the full amount. Only 47% of super funds paid 91%-100% of the cover. Some 25% paid 81%-90% while 11% paid 71%-80% and 4% paid less than 60%.

SuperRatings found that the payout rates had improved in 2016 compared with 2015.

Adam Gee, CEO of SuperRatings, says many funds tightened the terms and conditions of their policies in early 2016 and the impact is still to be recorded. While it is pleasing that payouts generally remain strong across the industry, he says there are a small number of recalcitrant funds with very low ratios of 21%-30% that should either review their eligibility criteria or the tightness of their terms and conditions. *M*

INSURANCE CHECKLIST

- Call your fund to find out what cover you have. Ask it to explain it in plain English. Also read the fine print.
- Ask your fund if it is appropriate for your circumstances (funds can give you free intra-fund advice on super). Does it cover you, your spouse and children adequately?
- If you are in more than one fund, see if you have more than one salary continuance policy, keep the most suitable and discard the other because you can't claim twice.
- For death cover and TPD you can have more than one policy and a claim can be made on each. However, make sure you are getting the right cover at the best price – it may make sense to consolidate into one new policy.
- If you are young with no dependants, do you need insurance? You can tell your super fund you want to opt out.
- If you make a claim, call your fund, not a lawyer.
- For complaints, contact the Superannuation Complaints Tribunal (sct.gov.au).