Avoid the insurance traps

Check the fine print to make sure you're not wasting your money

When you pay for a service or product you expect to derive a benefit from it. Otherwise, why pay? But many super fund members are paying for insurance of questionable value.

Your default super automatically includes death, total and permanent disability (TPD) and often income protection cover. Many people mistakenly assume they get the cover for nothing and pay little attention to it. In reality, the premiums are automatically deducted from their super.

As people move from job to job, they accumulate default accounts, all taking premiums. However, if you have previously received a TPD payment, you are unlikely to be eligible to make further TPD and income protection claims.

As the CareSuper insurance guide highlights: "If you have previously been paid a TPD payment of any type as a result of a TPD claim, you will only be eligible for death cover with CareSuper, not TPD or income protection cover.

"If you have previously been paid a terminal illness benefit or have been diagnosed with an illness that reduces your life expectancy to less than 12 months, you will not be eligible for death, TPD or income protection cover with CareSuper. If you aren't eligible for cover as a result of a TPD payment, or terminal illness benefit or diagnosis, you will need to notify us or cancel your cover. Otherwise, premiums will continue to be deducted from your account."

In other words, you need to be proactive and cancel, or opt out of, any insurance that is pointless. To complicate things, policies vary and are difficult to compare.

Consumer advocacy group Choice says the average person takes a $16,000 hit to their super balance as a result of duplication. It estimates 43% of members have more than one account.

But what if you have three accounts? In the event of death each would pay the sum insured. However, income protection policies apply "offsets", which means if you receive a payment from one fund the other two may apply a blanket offset, in which case you may get nothing further.

"It is common that policies contain a definition that says any amount payable is offset against other insurance for the same event," says Kirby Rappell, research manager at SuperRatings.

It's not the only trap. Some funds require you to work a minimum number of hours each week to be eligible for a claim. "It can be different amounts for each type of insurance, although it is less common on death insurance," says Rappell.

Some funds require a minimum account balance of $2000 to $10,000. "It's quite scary because if the balance drops below a certain amount you can find your cover has been cancelled and not even know it. During the GFC a client's account dropped below the threshold not because of anything he did but just because the market dropped by over 30%," says Roy Agranat, director of risk advisory firm Fairbridge.

When it comes to consolidating accounts, some funds will allow you to transfer cover from another fund without providing medical evidence, so long as you transfer the whole account balance and are under 60.

If your current insurer covers pre-existing conditions, first check whether your new insurer will do the same. You don't want to find after you've switched that premium loadings, exclusions or limited cover apply. "All these funds have varying definitions and people have to check them out. And they need to get advice, more than anything else, before they consolidate their super accounts," says Agranat.

UNFAIR TERMS

In its recent submission to a parliamentary inquiry into the life insurance industry, Choice says there's no reason why an insurer should be able to deny a claim based on a member's super account balance when premiums are paid up.

It quotes the case of a worker who took his own life and his family's battle to get his $92,000 insurance payout. The claim was rejected on the basis that his account balance had fallen below $1200 and no contributions had been received for 62 days. This was despite the fund continuing to take out premiums until his death.

It also wants insurance to be better targeted. "Some types of insurance, such as TPD, may be appropriate for younger workers but further thought should be given to the appropriateness of defaulting younger people with no dependants and often part-time or casual work arrangements into death and income protection cover.

"Given the prevalence of multiple accounts and the possibility that these may not be consolidated for many years, there are potentially large portions of retirement balances which are being eroded due to poorly targeted and duplicate policies."

Vita Palestrant was editor of the Money section of The Sydney Morning Herald *and* The Age. *She has worked on major newspapers overseas.*