Not so super after all

STORY VITA PALESTRANT

Fund members who fall for one of insurance's great myths are paying for a benefit they may never receive

Many super fund members would be astounded to discover that the premiums they pay for default disability cover may be worthless or subject to "offset clauses" that reduce their benefits, with serious financial consequences.

Recent media reports challenge the common notion that in the event of injury or illness your benefits will be paid out, making years of paying premiums worth every cent. It came as a shock to two airline pilots with default total and permanent disability cover that their claim would be offset against their income protection policy benefit, reducing their total and permanent disability (TPD) lump sum of almost $1 million to zero.

Both have serious illnesses that have ended their careers. Neither was aware their income protection benefit, payable to age 60, would be offset against their lump sum TPD. They had paid premiums for each policy separately. Had they taken out policies outside super, the offset would not have applied and the claims would have been treated independently of each other.

Equally shocked was a casual teacher who had her multiple sclerosis claim knocked back. Most group super policies do not pay a claim if you are not a permanent full-time or part-time employee working over 15 hours a week.

Earlier this year the Productivity Commission's draft review on super expressed concern that some fund members were being defaulted into "zombie" policies they were ineligible to claim on.

About 12 million Australians have life, TPD and income protection cover through super, paying $9 billion a year in premiums. This has gone a long way to solving the chronic underinsurance problem, with fund members automatically given basic death and TPD cover they may not have actively signed up for. Premiums are paid for with pre-tax dollars deducted from the member's account. The arrangement is especially valuable for people with health issues who would otherwise struggle to find affordable cover outside super.

"You get the life and TPD cover without any medical underwriting so if you are uninsurable due to pre-existing illness you are still able to obtain cover under automatic acceptance," says Roy Agranat, a specialist in personal and group benefit insurance and a director of Fairbridge Financial Services.

"Some funds have automatic acceptance but exclude pre-existing conditions. Even though they provide you with automatic cover you should make sure it's all-encompassing and that it doesn't exclude pre-existing conditions even though they've given you the cover."

Questionable value

It's been a long-held view that death, TPD and income protection cover bought inside super is good value compared with buying a personal term-life policy outside super. This is based on the fact that group life cover is negotiated at wholesale rates by the trustees of the super fund with the benefit passed onto members. But as the premium comparison shows (page 48), this is not always the case. For instance, a white-collar, non-smoking male, aged 35 next birthday, with $1 million death cover and $1 million in TPD, would be better off getting cover outside super.

The tables, by market researcher DEXX&R, show that premiums for a personal policy taken out through an adviser were cheaper with both zero commissions (independent advisers take no commissions) and even when full commissions were charged.

Annual premiums for death and TPD with AustralianSuper, Australia's largest super fund, were $697 higher than AIA's personal policy at $414 (no commission) or $591 (full commission).

If you take the sum of premiums paid over a 10-year period, the difference is starker: AustralianSuper's $10,317 versus AIA's $6055 on nil commission and $8409 on full commission. The highest premium total was Hesta's at $19,609.

The myth that super cover is always cheaper persists despite comparisons that show otherwise.

On income protection, on a 30-day waiting period (the most common), industry fund Hostplus offered the cheapest cover overall at $681 or $9503 over 10 years. AustralianSuper had the most expensive premiums overall.

Premiums up, benefits down

Mark Kachor, managing director of DEXX&R, says super funds are charging higher death premiums to subsidise their adverse TPD claims experience.

"Over the last 10 years super funds have put premiums up," he says. "The incidence of death hasn't changed but the cost of cover has gone up. Not only have they put up the price of TPD, they've put up the price of death cover so they didn't need to put TPD up as much. Also, they have now made income protection a default cover."

Income protection, also called salary continuance, pays 75% of your pre-disability income if you cannot work because of an injury or temporary disability. TPD means you are permanently disabled and can never work again

"Our research shows that when group policy benefits based inside super are compared with similar retail products, group policies offer inferior benefits and in many cases are more expensive than the equivalent retail cover," he says. This applies as much to the group policies of the banks and AMP as to those of industry funds.

Most members don't realise that the terms and conditions of super can change. This is because group policies are issued for three to five years and then put out to tender. If you have a term-life policy outside super, it is guaranteed renewable and the T&Cs cannot be reduced. Not so in super.

"The trustees can even cease providing insurance if they are not able to secure insurance on acceptable terms," says Kachor. "This means that some members may not be able to obtain alternative cover if their health status has changed. If you look at the TPD definitions inside AustralianSuper today, they are more onerous than they were 10 years ago. There's been two new policies along the way. Your cover is subject to the T&Cs under the current policy.

"If you have a personal policy bought outside, you are guaranteed to get any upgrade that is introduced after you have taken the policy out."

Kachor says the amount of default cover is inadequate and payable in far fewer circumstances than a policy purchased outside, especially for income protection cover. (See table, page 48.)

"It's only of use if you've got an adequate amount to cover your income if you can't work. That's where $2000 or $3000 a month for someone on $10,000 a month is not going to cut it. You're going to get a better contract, which is guaranteed renewable from an individual contract," says Kachor.

"If you are considering an adequate amount of cover, then it's essential that you compare what you could get as a retail insurance policy with what the benefits are inside your fund. It's complex, so ideally you should get advice.

"Using DEXX&R research tools, an adviser can select any super fund and any retail product and generate a report which identifies what's the same, what's better, what's worse, what you get and what you don't get. You will be underwritten so you will have to provide more information at the time of commencement. Once you've got the cover, as long as you pay the premiums you continue to have cover."

Income protection premiums are tax deductible.

How benefits differ

Kachor says TPD lump sum benefits have been downgraded over the past 10 years. Non-super products will pay the TPD benefit if you are unable to do any occupation suited by education, training and experience (ETE) and earn more than 25% of your pre-disability income.

However, inside super there are now five definitions that have been introduced, including "unable to do any occupation suited by ETE for reward" and "unable to do any occupation suited by ETE". Extra conditions can require you to undertake rehabilitation or be retrained for any job that you may become suited to. If you are assessed as being able to undertake unpaid work, say as a volunteer, then a benefit will not be paid.

"If retraining or rehabilitation is required then a TPD benefit will not be paid until all of these options are exhausted," says Kachor. "And if 'reward or not' is included, then a claim will not be paid if the insured can work in an unpaid or volunteer capacity." This

Best of both worlds

You can buy a retail term life and TPD policy from outside super and get a superior product that's guaranteed renewable and pay for it through your super fund, says insurance expert Roy Agranat.

He gives the example of Gertrude, who takes out $1 million life cover and $1 million TPD with ABC insurer.

Her life premium of $1000 is paid via an annual rollover of premiums from her existing super fund to her retail super product with before-tax dollars.

To get an "own occupation" TPD definition rather than super's more onerous "any occupation" definition, she pays the $1000 premium personally (it's not deductible).

To ensure Gertrude's retirement savings aren't eroded by the premiums coming out of her super account, she makes up the difference with extra concessional contributions, being careful not to exceed the $25,000 annual cap.

"Having your own policy gives you flexibility," says Agranat. "If you want to move to another super fund, all you need do is fill out a new rollover form and instruct your insurer to collect the premiums from the new fund. And if you want to change your policy to non-super, it can be done without any underwriting."

Taking professional advice first is recommended.

Income protection – retail

	NIL COMMISSION		FULL COMMISSION	
	Age 35	Sum of premiums over 10 years	Age 35	Sum of premiums over 10 years
AIA	$859.88	$11,150.45	$1228.40	$15,676.66
ClearView	$708.68	$9713.90	$977.50	$13,398.52
CommInsure	$800.10	$11,010.52	$1044.48	$14,457.57
MLC	$814.54	$10,376.94	$1163.63	$14,824.19
Zurich	$877.37	$10,615.45	$1141.76	$13,873.22

Income protection – super

	ALL NIL COMMISSION	
	Age 35	Sum of premiums over 10 years
AustralianSuper	$1458.60	$18,622.50
Hesta	$1001.68	$27,086.47
Hostplus	$681	$9502.50

Male non-smoker
White collar
Income: $120,000
Monthly benefit: $7500
Including increasing claims benefit
Benefit period: to age 65
Waiting period: 30 days
Stepped premiums
Annual premium

Death and TPD – retail

	NIL COMMISSION*		FULL COMMISSION*	
	Age 35	Sum of premiums over 10 years	Age 35	Sum of premiums over 10 years
AIA	$413.88	$6054.71	$591.26	$8409.08
ClearView	$529.98	$6808.10	$731.01	$9390.50
CommInsure	$467.54	$6325.30	$602.13	$8221.22
MLC	$452.99	$5529.37	$647.13	$7899.11
Zurich	$535.03	$6550.74	$686.64	$8466.97

Death and TPD – super

	ALL NIL COMMISSION	
	Age 35	Sum of premiums over 10 years
AustralianSuper	$696.80	$10,316.80
Care	$970	$11,810
Hesta	$1118	$19,609.20
Hostplus	$1120	$15,930
Rest	$1248	$18,564

Male non-smoker
White collar
Death sum insured: $1 million
TPD sum insured: $1 million
Stepped premiums
Annual premium

These examples are for a typical advised amount of cover that might be recommended where the member is married with children and has a mortgage.
Age is 35 next birthday.
Independent advisers do not charge a commission.
Retail product premiums are based on payment by partial rollover each year.
Hesta premiums are for a benefit to age 67.
Individual premiums include health assessment discounts.
Care and Rest do not offer four-week wait to 65 benefit period.

Source: DEXX&R

How TPD benefits compare

	Retail cover inside super	Australian Super	Hostplus	Hesta	Care	Rest
Guaranteed renewable	✔	✘	✘	✘	✘	✘
Guarantee of upgrade	✔	✘	✘	✘	✘	✘
TPD ETE definition	✔	✘	✔	✔	✘	✘

A tick for guaranteed renewable means that provided premiums continue to be paid the policy will remain in force until the expiry age. The terms applicable at the time of acceptance apply for the duration of policy irrespective of any future change in the insured's health, pastimes or occupation.
A tick for TPD ETE definition means that the occupational requirements for a TPD benefit to be paid are limited to being unable to perform any occupation to which the insured is suited by education, training or experience for reward.
A cross for TPD ETE definition means that the definition has extra conditions that must be met before a claim will be paid.

raises the question of what, if anything, would be paid.

Agranat also points out that if you make a TPD claim, the death benefit will be reduced by the amount of the TPD payment. "Personal cover will allow you to reinstate the benefit after 12 months so you're not left uninsured in the event of death."

Again, during periods of unemployment, you won't be covered under the income protection cover in your super fund. "The requirement to be working at the time of claim is not an automatic requirement under non-super policies. Personal cover will allow you to remain insured in many cases up to 12 months on your own occupation definition," he says.

These are just a few examples of how different the benefits are inside your super fund compared with those bought outside. Many members don't check the dense fine print in their fund's PDS and take it for granted that the trustees will act in their best interests when it comes time to claim.

"The trustee waits for the insurer to make a decision and then they tick off on it. They don't test it and they don't ask questions," says Agranat. He points out that it is the trustee who picks the insurer and is party to the agreed T&Cs. "Life cover isn't cheaper inside super and the trustee won't go in to bat for you."

Add to that the risk of potential problems with your cover when switching super funds.

If you want to move to a better fund and transfer your cover, it can be done under what's called "takeover terms", usually by answering a short questionnaire. "Be careful how you answer them – you always have a duty of disclosure," says Agranat. "You may find that the cover offered under the incoming fund is limited cover and you may not be covered for pre-existing conditions for a two-year period, or for as long as you have the takeover cover."

You also cannot change super cover inside your fund to a non-super product. It is embedded cover, which means you have to be a member of a super fund to hold the cover. It lacks the flexibility – or advantages – of a retail personal super product bought outside your fund. *M*