Research paper

Providing cover to those who need it: The success of insurance in superannuation

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About ASFA

ASFA, the voice of super, has been operating since 1962 and is the peak policy, research and advocacy body for Australia's superannuation industry. ASFA represents the APRA regulated superannuation industry with over 100 organisations as members from corporate, industry, retail and public sector funds, and service providers. We develop policy positions through collaboration with our diverse membership base and use our deep technical expertise and research capabilities to assist in advancing outcomes for Australians.

We unite the superannuation community, supporting our members with research, advocacy, education and collaboration to help Australians enjoy a dignified retirement. We promote effective practice and advocate for efficiency, sustainability and trust in our world-class retirement income system.

Overview and main findings

Group insurance in superannuation, which provides life insurance and coverage for permanent disability, previously covered almost every Australian with a super account. Changes in 2019 saw younger Australians and those with low balances move to an 'opt-in' model which saw a significant reduction in the number of Australians covered by group insurance.

However, numbers are bouncing back. Almost 8 million Australians receive insurance coverage through their superannuation, and the benefits of group insurance are many. It is estimated that as a result over 6 million Australians are covered by insurance through super who otherwise would receive no insurance. In the absence of default cover only a minority of members would opt-in for insurance cover. As a result of group cover through superannuation there was a total of $1.7 billion in death benefit payments and $3.0 billion in TPD payments in 2023-24.

Recently published APRA data provide both updated and more granular information on the provision of group insurance through superannuation:

1. Legislative change in 2019 made insurance opt-in for those with low balance accounts, inactive accounts, or those aged under 25 leading to a substantial reduction in the number of lives insured through superannuation for death benefits.
2. However, in the year to June 2024 there was an increase in the number of superannuation fund members with insurance. Both labour force growth and opting to take up insurance are likely to have played roles in this increase.
3. Around 70 per cent of fund members have their insurance cover at the default level. Around 8 per cent opt for lower cover, while 12 per cent chose a higher level cover of insurance without a need for the member to provide additional personal medical and other information, while 11 per cent had higher cover after providing such information.
4. Insurance cover is at much higher average levels when fund members actively engage with their superannuation account. A lack of affordable and accessible financial advice for many Australians can be a barrier to choosing an appropriate level of insurance.
5. Funds with a relatively young demographic profile and/or a higher percentage of inactive accounts tend to have relatively low insurance coverage rates. This is because insurance generally cannot be provided to those aged under 25, to those with account balances under $6,000 or whose account has been inactive for 16 months or more. An exception is

members who are defined as working in dangerous occupations such as construction which then allows default cover for younger fund members.

6. Fund level data indicate that death benefit payments tended to be in the range of $70,000 to $130,000. These amounts appear to be relatively low but they reflect default cover settings and the fact that deaths are concentrated in older age groups where insured amounts are lower than for younger members. However, in a number of retail funds death benefit payments from insurance exceeded $300,000 on average with one fund having average payments of over $1.8 million.
7. TPD payments tend to show a similar pattern, albeit a little higher than for death benefit payments given that TPD payments tend to occur for a younger set of members than for death benefit payments. For industry and public sector funds TPD payouts tend to be in the $100,000 to $200,000 range on average. Retail funds generally have higher average payments, again reflecting many of their members taking up insurance at levels in excess of default arrangements.
8. Insurers are generally prompt in the finalising death benefit claims. Only a very small proportion take longer than 12 months to finalise, with the great bulk finalised within 2 months.
9. There was an improvement in claims processing time by insurers between 2023 and 2024, with the average time taken to finalise TPD claims down from 4.9 to 4.4 months and from 2.0 to 1.6 months for Disability Income Insurance claims.
10. The APRA data indicate that the incidence of disputes (in terms of disputes per 100,000 lives insured) is much lower for Group Super than policies marketed to individuals. The latter often has exclusions for pre-existing conditions.

Background

Most if not all superannuation funds offer life, total and permanent disability (TPD) and income protection insurance for their members. Typically one or more of these types of insurance is provided on an opt-out basis for members during the accumulation phase up to a specified age. TPD insurance cover in superannuation usually ends at age 65. Life cover usually ends at no later than age 70.

The types of insurance that can be provided through superannuation are limited to insurance types with benefits that are consistent with superannuation conditions of release. There are a very limited number of policies that were in place before July 2014 that pay benefits not necessarily consistent with conditions of release to which transitional arrangements apply. Other forms of insurance provided by life companies such as Funeral, Accident and Trauma are not permitted to be offered by superannuation funds.

Funds generally allow members to dial up the level of their insurance cover either to an age based automatic acceptance level or subject to individual underwriting. Members can also dial down or turn off insurance cover. In some cases financial advice in regard to insurance cover is provided by the fund or an external financial adviser. Funds also make available educational material and online calculators to assist members make decisions about appropriate levels of insurance cover. As will be demonstrated later in this paper, default levels of insurance dominate the market.

Insurance cover is also available on an individual basis outside of superannuation. That cover can be obtained directly from life insurers. In many instances the taking out of insurance follows the receipt of personal financial advice from a financial planner. An old adage is that "insurance is sold not bought". There are differences in tax treatment of both benefits and contributions between cover through superannuation and cover outside superannuation.

The then Australian Government's *Protecting Your Super Package* (PYS) came into effect on 1 July 2019. The package was designed to protect Australians' superannuation savings from unnecessary erosion by fees and insurance costs.

Under this law, super funds must cancel insurance on inactive super accounts that haven't received contributions for at least 16 months. In addition, some superannuation funds may have their own rules that require the cancellation of insurance on super accounts where balances are too low.

The Treasury Laws Amendment (Putting Members' Interests First) Act 2019 (the PMIF) requires all RSE licensees to cease the provision of insurance to members on an opt-out basis where:

a) the member has an account balance below $6,000 (active low balance accounts); or

b) the member is a new member who is under the age of 25.

The PMIF provisions build on the PYS changes. Both are intended to protect members' account balances from erosion from insurance premiums for cover that members may not want or need. However, members and/or their dependants may subsequently discover that cover was actually needed after experiencing an adverse life event.

The PMIF reforms also permit RSE licensees to make an election to maintain or take out insurance on an opt-out basis for members employed in a 'dangerous occupation'. The election is required to be made in writing, starts on the day it is submitted to APRA, and must be published on the RSE licensee's website. Only a few funds have made such an election. Where such an election is in place the recent APRA data indicate that there are substantially higher percentages of members with insurance cover.

These various legislative changes have had a substantial impact on the market for insurance associated with superannuation fund membership. Data recently published by APRA allows for analysis to be undertaken of the impact of the changes, including the level of impact in specific funds as a result of the age distribution and other characteristics of members in the fund.

The number of members with insurance cover through superannuation had declined substantially since 2018 but is now picking up

As indicated by Table 1 below, after the PYS and PMIF measures came into force there was a substantial reduction in the number of lives insured through superannuation for death benefits. However, in the year to June 2024 there was an increase in the number of superannuation fund members with insurance. Both labour force growth and opting to take up insurance are likely to have played roles in this increase.

Average premiums did not change significantly between 2023 and 2024.

Table 1: Death benefit insurance

June 2024	Lives insured	8,808,140
	Annual premium	$2.1 billion
	Average sum insured	$225,200
	Average premium per life	$236
June 2023		
	Lives insured	8,513,891
	Annual premium	$2.0 billion
	Average sum insured	$220,500
	Average premium per life	$233
June 2018		
	Lives insured	13,353,936
	Annual premium	$2.5 billion
	Average sum insured	$198,600
	Average premium per life	$188

Source for this and following two tables: [Life insurance claims and disputes statistics | APRA]

The reduction in the number of lives insured has been remarkably in line with ASFA's expectation at the time the PYS and PMIF changes were introduced, which was a reduction of around 5 million individuals after taking into account modest levels of opting in by affected individuals and some funds electing to provide insurance on an opt-out basis for individuals employed in a dangerous occupation[1].

While at June 2024 there were around 8.5 million lives covered by group superannuation arrangements, there were around 12 million Australians were receiving the benefit of employer superannuation contributions. This suggests that there is scope for some millions of Australians to opt-in for insurance cover even when allowance is made for those under 25 and/or with low balances who may not be interested in paying for death cover.

Death cover that is individually advised has also declined since 2018, with a fall in lives insured from 2,037,578 to 1,508,065 in 2023, a 36 per cent decline. A number of factors would have contributed to this fall, including regulatory changes to the provision of financial advice and a decline in the number of licensed financial advisers. Adviser numbers have fallen by around 40 per cent since 2018, with risk advisers disproportionately represented in those departing the sector. Traditional life insurance sales skills do not equate to current requirements for formal education and training for advisers.

Developments in TPD insurance cover

As indicated by Table 2, there was a similar decrease in the number of lives insured by TPD insurance between 2018 and 2023, albeit off a slightly lower base. Some funds offer only Death cover on a default basis, and generally TPD insurance ceases at age 65 rather than age 70 which generally is the case for Death cover.

Despite a fall in the number insured, aggregate premiums increased, leading to a large increase in the average premium charged. However, as will be discussed later in this paper there also has been an even larger increase in aggregate claim payments, placing pressure on the profitability and sustainability of group TPD insurance cover through superannuation.

Between 2023 and 2024 there was an increase in the number of superannuation fund members with TPD cover.

Table 2: Total and Permanent Disability insurance

2024	Lives insured	8,110,000
	Annual premium	$2.7 billion
	Average sum insured	$188,800
	Average premium per life	$335
2023	Lives insured	7,597,083
	Annual premium	$2.3 billion
	Average sum insured	$186,450
	Average premium per life	$308

[1] 1910-Implementing_the_PYS_changes_and_Putting_Members_Interests_First.pdf (superannuation.asn.au)

2018	Lives insured	12,170,717
	Annual premium	$2.2 billion
	Average sum insured	$171,450
	Average premium per life	$184

Developments in Disability Income Insurance

As indicated in Table 3 there also was a reduction between 2018 and 2023 in the number of individuals covered by Disability Income Insurance, but the 19 per cent reduction was less than the reduction for Death and TPD insurance. However, substantially fewer individuals are covered by DII insurance compared to Death and TPD. Between 2023 and 2024 there was a modest increase in the number covered through superannuation and a small fall in the average premium paid. The average monthly income amount that was insured changed very little.

Table 3: Disability Income Insurance

2024	Lives insured	4,257,000
	Annual premium	$1.9 billion
	Average sum insured (per month)	$3,670
	Average premium per life	$451
2023	Lives insured	4,045,588
	Annual premium	$1.9 billion
	Average sum insured (per month)	$3,623
	Average premium per life	$477
2018	Lives insured	4,993,946
	Annual premium	$1.8 billion
	Average sum insured (per month)	$3,464
	Average premium per life	$358

APRA has also started publishing data on fund-level insurance related statistics[2]. These statistics provide data on the number of members with default insurance cover and also the numbers with cover that is less or more than the default amount.

As indicated by Table 4, around 70 per cent of fund members have their insurance cover at the default level. Around 8 per cent dialled down their cover, while 12 per cent chose a higher level cover of insurance without a need for underwriting, while 11 per cent had higher cover with underwriting. Underwriting is where an insurer requires medical and other information from the insured person in order to determine whether to offer insurance and on what terms.

The table suggests that a total of around 30 per cent of those with insurance cover actively engaged in a process of considering the amount of cover needed.

[2] Annual fund-level superannuation statistics | APRA

Table 4: Insurance cover for death benefits relative to the default cover level

	Less than default cover	Members with default cover	More than default – no underwriting	More than default – with underwriting
Number	678,220	6,158,300	1,098,190	976,430
Percentage	7.6%	69.1%	12.3%	11.0%

Source: [Annual fund-level superannuation statistics | APRA]

The percentage of members with death cover varies markedly between funds and sub-plans of funds. Some small retail plans have death cover of members at close to zero, as do some sub-plans in public sector and industry funds which involve defined benefit members and/or have other arrangements in place which provide adequate insurance cover.

Funds with a relatively young demographic profile and/or a higher percentage of inactive accounts tend to have relatively low insurance coverage rates given that default insurance generally cannot be provided to those aged under 25, to those with account balances under $6,000 or whose account has been inactive for 16 months or more.

Death benefit coverage rates for Rest were 33 per cent, and 43 per cent for HOSTPLUS. Large funds with diverse membership profiles tended to have slightly higher coverage rates. AustralianSuper had a coverage rate of 43 per cent, Australian Retirement Fund 46 per cent (but higher for some large sub-plans of the fund at up to 98 per cent), Unisuper 54 per cent, Mercer Super Trust 56 per cent, HESTA 58 per cent, Aware Super 63 per cent, and Cbus 76 per cent.

Cbus has put in place a declaration of dangerous occupation for many of its members, which then allows default cover for many of its younger fund members. A total of 236,460 Cbus members, as of 30 June 2024, have either retained insurance cover or been provided automatic cover under this exemption. A total of $106.9 million (846 claims) have been paid to Cbus members or their families/ beneficiaries between 1 April 2020 and 30 June 2024 because of this exception.

There is a range of retail superannuation funds with coverage levels around the 100 per cent mark, reflecting both the demographic characteristics of their membership and also the fact that many retail members are receiving financial advice.

For income protection insurance cover the coverage rates are more diverse.

The overall average incidence of income protection insurance is around 25 per cent of member accounts, lower than for death and TPD. However, in some funds the take up rate is higher, particularly when income protection insurance is a default arrangement. For instance, 54 per cent of HESTA members have income protection insurance, with 30 per cent of Rest members having such insurance. However, take up rates can be substantial even when there is no default arrangement. Around 37 per cent of AustralianSuper members have income protection insurance. In contrast, only around 6 per cent of HOSTPLUS members have income protection insurance.

Factors impacting on coverage levels appear to be the demographic composition of the membership of specific funds, default arrangements and the level of member engagement through provision of information, use of insurance need calculators and access to financial advice.

Average benefit levels

For group cover through superannuation average payouts were in line with the average sum insured, although a little lower given that default insurance cover generally provides a higher benefit for younger individuals who are less likely to have a claim made in regard to them. The average Death payment in 2023-24 with 2022-23 average payment in brackets was $139,000 ($133,000), for TPD the average was $144,000 ($141,000) and for DII insurance the average was $4,000 a month (same as previous year).

Fund level data indicate that death benefit payments tended to be in the range of $70,000 to $130,000. These amounts appear to be relatively low but they reflect default cover settings and the fact that deaths are concentrated in older age groups where insured amounts are lower than for younger members.

However, in a number of retail funds death benefit payments from insurance exceeded $300,000 on average with one fund having average payments of over $1.8 million. Receipt of financial advice and opting for higher insurance cover are likely to have been responsible for this.

TPD payments tend to show a similar pattern, albeit a little higher than for death benefit payments given that TPD payments tend to occur for a younger set of members than for death benefit payments. For industry and public sector funds TPD payouts tend to be in the $100,000 to $200,000 range on average. Retail funds generally have higher average payments, again reflecting many of their members taking up insurance at levels in excess of default arrangements.

Insurance payouts also are substantially higher for those who are Individually Advised and who arrange cover outside of superannuation, but average premiums are also much higher. The payout ratio for cover through group arrangements is much higher reflecting lower distribution and administrative costs amongst other factors. For Death cover, average claim payments in 2023-24 for this category were around $496,000, for TPD the average was $661,000 and for Disability Income Insurance the average was $8,000 per month. These figures were almost identical to the year before.

Different insurance needs calculators provide different estimates of how much insurance cover a person will need. Some calculators focus on the payment of funeral or care expenses and payment of debt obligations following death or disability while others allow for both such expenses and payments and also make allowance for future reductions in income. Calculated needs restricted to expenses are more in line with default cover provided through group cover. Calculated insurance needs that involve income replacement typically involve much higher estimates, particularly for younger individuals.

Insurance cover provided through group arrangements in superannuation is cost effective, particularly compared to individual advised cover, which has higher distribution and administration costs.

As indicated by Table 5, the claims paid ratio is higher for Group Super in comparison to Individual Advised. This means that a greater proportion of the premiums paid are returned in the form of benefits to those covered. For TPD and DII through Group Super the claims paid ratio is around 100 per cent, reflecting the low profitability to insurers from such cover.

Table 5: Claims Paid Ratio, June 2024 (a)

	Death	TPD	DII	
Individual Advised	45%	55%	68%	
Individual Non-Advised	38%	58%	113%	
Group Super	81%	100%	99%	
Group Ordinary	57%	57%	74%	

Source: Life insurance claims and disputes statistics | APRA

(a) Claims paid ratio refers to the dollar amount of claims paid out in the reporting period as a percentage of the annual premiums receivable in the same period. Claims paid ratio for DII is estimated using a 24 month payment period.

Number of claims paid

Between 2018 and 2024 there was a sharp decline in the number of death benefit claims associated with insurance through superannuation reflecting the limitations that were imposed on the provision of default insurance cover. Younger fund members and those with inactive superannuation accounts are not immune from death. The number of death benefit claims rose between 2023 and 2024, but there also was an increase in the number of individuals covered.

The situation with TPD is more complicated. Despite a decrease in the number of individuals covered, there was an increase in finalised admitted claims. In the year to June 2018 there were 15,969 finalised TPD claims and in the year to June 2024 there 20,574 finalised claims.

While death age specific death rates were relatively stable over the period (apart from a blip from COVID related deaths) there was a marked increase in TPD claims, particularly claims associated with mental health issues. This has led to pressures on the provision of such cover and marked increases in premiums over the period.

Some funds have a very large volume of insurance claims to process, reflecting the number of members insured and the incidence of death and disability. For instance, AustralianSuper had over 2,200 death benefit claims finalised in 2023-24, followed by ART, Cbus, HESTA, HOSTPLUS, Aware Super and Rest. The ten funds with the largest numbers of claims handled nearly 60 per cent of total claims that were finalised.

For TPD, ART had over 5,000 finalised claims, followed by Aware, AustralianSuper, Cbus, Rest and HOSTPLUS. These six funds handled around 70 per cent of finalised claims. The ten funds with the most claims handled 80 per cent of finalised claims.

ART and Aware have emergency service and police amongst their members, with those occupations tending to have higher prevalence of TPD claims. In part due to the high prevalence and cost of TPD lump sum claims, from October 2024 NSW Police TPD claims have moved from Aware Super lump sum payments to NSW Police administration of weekly income payments.

Claim admittance rates

Claim admittance rates tend to vary between categories of funds.

Funds with high levels of default cover and lower levels of cover tend to have higher admittance rate for claims than funds which commonly individually underwrite higher levels of cover.

In the case of death benefit claims, five year average admittance rates are typically 98 to 99 per cent for industry funds while around 92 to 95 per cent for retail funds. Pre-existing conditions are not relevant to default cover but can lead to claims being denied when there is underwriting, depending of course on the terms of the underwriting and disclosure obligations. In the case of default cover, there are only very narrow exclusions (such as suicide within a 12 month period from cover commencing) or disputes over whether cover had lapsed due to premiums no longer being deducted.

Average admittance rates tend to be lower for TPD as the claimant needs to establish that they satisfy the definition of TPD. For industry funds admittance rates are typically over 90 per cent of claims, while for retail funds admittance rates tend to be in the 75 to 85 per cent range. For the latter, pre-existing conditions again are likely to have an impact on cover that has been underwritten.

Average time taken to finalise insurance claims tends to be associated with admittance rates. The lower the admittance rate the longer the average assessment period tends to be.

Cbus and a number of public sector funds had the highest admittance rates for TPD claims.

Time taken to process benefit applications

Service standards have been very much in the news of late. Much of that focus has been on the time taken by superannuation funds to consider applications for benefit payments and to make payments.

Of course, not every benefit payment involves an insurance payment. Many death benefit payments relate to individuals aged over 70 when cover has ceased.

Benefit payments also require further consideration by a fund even after an insurance payout is approved. For instance, there may be competing beneficiaries for a death benefit payment. As well, there may be identification and other administrative requirements to be met. The data below relate to the duration of consideration by insurers, rather the time taken from a fund receiving a claim to the fund paying a benefit. Data in regard to the latter is not currently available.

Insurers are generally prompt in the finalising death benefit claims. Only a very small proportion take longer than 12 months to finalise, with the great bulk finalised within 2 months.

In the case of TPD and DII claims there often is a need for medical reports and assessments to be made. While the bulk of such claims are finalised in under six months, around 5 per cent of TPD claims take more than 12 months to be finalised by insurers with 14 per cent taking 6 to 12 months.

There was an improvement in claims processing time between 2023 and 2024, with the average time taken to finalise TPD claims down from 4.9 to 4.4 months and from 2.0 to 1.6 months for Disability Income Insurance claims.

Table 6: Number of claims and time taken to finalise claims, June 2024

Death	**0-2 weeks**	**> 2 weeks to 2 months**	**> 2 months to 6 months**	**> 6 months to 12 months**	**> 12 months**	**Est. average duration (months)**
	%	%	%	%	%	
Death	72	19	7	2	1	1.6

TPD	16	22	43	14	5	4.4
DII	45	40	12	3	1	1.6

Number of disputes and time taken to resolve disputes

Only a small proportion of Death benefit claims lead to a dispute with an insurer (presumably in regard to whether the individual was covered by a policy or in regard to an exclusion that applied such as death by suicide within the first year of cover of the individual).

The APRA data indicate that the incidence of disputes (in terms of disputes per 100,000 lives insured) is much lower for Group Super than policies marketed to individuals. The latter tends to be individually underwritten, with exclusions for pre-existing conditions common. It can be a complicated issue of fact whether death or a TPD condition is unrelated to an excluded pre-existing condition.

Table 7: Incidence of disputes by type of insurance cover, June 2024

Dispute lodgement ratio				
Cover type	**Individual Advised**	**Individual Non-Advised**	**Group Super**	**Group Ordinary**
Death	14	27	1	0
TPD	93	47	28	6
DII	334	425	67	39