

Changes to insurance in super ahead

By the AIA Technical and Education Centre of Excellence (TECE) team

May 2019



From 1 July 2019, superannuation fund members with **inactive** accounts risk losing their insurance cover unless they actively opt-in to retain their cover.

Legislation to make this change effective received Royal Assent on 14 March 2019. The final legislation has impacted both members who have voluntarily taken out personal insurance in a 'choice' fund, along with the intended MySuper account holders who may have insurance they are not aware of under an automatic acceptance group superannuation policy.

Background

This measure was originally announced in the 2018 Federal Budget under the "Protecting your super package" proposals. These proposals aim to address concerns that superannuation balances are being eroded by premiums that members may not need or may not be aware of.

The Government had also introduced two other insurance measures in the main Bill which also relate to opting in to cover, however, these did not pass as certain members of parliament did not support the proposals. The outstanding measures propose that superannuation fund trustees must only provide insurance to a member of a choice or MySuper product if directed by the member where the member:

- Is under 25 years old and begins to hold a new product on or after 1 October 2019, or
- Holds a product with a balance of less than \$6,000 (and the balance has not been \$6,000 or more on or after 1 July 2019).

These measures were reintroduced into a new Bill called *Treasury Laws Amendment (Putting Members' Interests First) Bill 2019* however as the Government has set 18 May 2019 as the date for the next federal election, parliament is now dissolved and Bills that have not been passed by the parliament have lapsed. It would be up to the new Government to reintroduce this Bill after the election, if they wish to do so.

The changes for inactive accounts – what it means for members/clients

From 1 July 2019, trustees of a MySuper or choice fund are prohibited from providing insurance where:

- The member's account is inactive for a continuous period of 16 months or more, and
- The member has not elected to obtain or maintain insurance in that fund.

In other words, from 1 July 2019 a member must opt-in to hold insurance in an inactive superannuation account.

An account will be considered inactive if no amount has been received by the trustee in respect of the member (such as contributions or rollovers) for a continuous period of 16 months.

The period of inactivity will be reset if a superannuation fund receives an amount in respect of the member.

Despite these new rules, a member's right to be covered by insurance for the period for which premiums have been paid for at the time of their account becoming inactive is unaffected.

Tip – the new insurance rules do not apply to:

- Self-managed superannuation funds or small APRA funds
- Members whose employer makes contributions to a fund on their behalf in addition to superannuation guarantee obligations, which cover the full costs of the member's insurance premiums
- Defined benefit members, or
- Australian Defence Force (ADF) Super members (or a person who would have been an ADF Super member if they had not exercised choice).

What trustees will be doing

Trustees are obligated to notify affected members who have insurance arrangements in place before 1 July 2019 in order to provide these members with an opportunity to elect for their insurance cover to continue.

From 1 April 2019, trustees will be identifying which members' accounts have been inactive for the continuous period from 1 October 2018 to 31 March 2019.

On or before 1 May 2019, trustees must give those identified members written notice that:

- From 1 July 2019, the fund will not provide the member with insurance cover if the account remains inactive for a continuous period of 16 months, and
- Cover can be maintained if the member elects to do so, and
- Sets out a method for electing to opt-in to obtain or maintain insurance.

Trustees are not required to provide a notice to members with an inactive account on 1 April 2019 if the member has made a valid written election between 8 May 2018 and 1 April 2019 to opt in to obtain or maintain insurance cover.

What actions are needed

Members with inactive superannuation accounts who wish to retain their cover can either:

- Contribute or rollover an amount to their superannuation fund prior to 1 July 2019 to make it active, or
- Submit a valid election in writing to their superannuation fund prior to 1 July 2019 to maintain their insurance cover.

Tip – If a member wants to retain their cover, they only have to submit a valid written notice to their fund once. The election will apply even if the member's account is inactive for a continuous period of 16 months in the future.

A member can also choose to do nothing if they have an inactive account and do not want their insurance to continue.

It is important to note that contributing or rolling over an amount to a superannuation fund will only rectify inactivity in that fund for a maximum of 16 months, as an account can become inactive again if no further contributions or rollovers are received.

More information

If you would like any more information, contact your Client Development Manager, or for any technical queries, contact the AIA Technical team at tece@aia.com