

Further changes to insurance in super now law

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

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Superannuation fund members under the age of 25 and members with balances below \$6,000 risk losing their insurance cover unless they actively opt-in to retain their cover.

Legislation to make these measures effective received Royal Assent on 2 October 2019 and the changes apply from 1 April 2020.

Background

These measures were the remaining “Protecting your super package” (PYS) measures that did not pass through parliament when the federal election was called in May this year. This second tranche of measures is known as ‘Putting Members’ Interests First’ or PMIF changes.

Originally announced in the 2018 Federal Budget, these measures aim to address concerns that superannuation balances are being eroded by premiums for insurance that members may not need or may not be aware of.

The changes add to the already legislated PYS legislation which requires trustees to switch off insurance cover for members if their superannuation account has been inactive for 16 months or more, unless they wish to maintain their cover.

The PMIF changes – what it means for members/clients

From 1 April 2020, a trustee cannot provide insurance for a member under a MySuper or a choice product where:

- The member is under the age of 25 and begins to hold the product on or after 1 April 2020, or
- The balance of the product is less than \$6,000 and has not been \$6,000 or more on or after 1 November 2019,

unless the member has elected to maintain their insurance.

Tip

A written direction by a member who is either under 25 or who has a balance of less than \$6,000 to opt-in will be valid indefinitely unless the product subsequently becomes inactive.

Further, an election to opt-in by a member who is under 25 will be taken to satisfy the opt-in requirement for low balance products, and vice versa.

Exemptions from the PMIF changes

There are a number of clients who will not be impacted by the PMIF changes, including:

- Existing members who have opted-in or elected to take out or maintain insurance (i.e. had underwritten policies) before 1 November 2019. This means that existing clients who are members of the AIA Insurance Superannuation Scheme No2 or members of another superannuation fund (ie. A platform superannuation fund) will not lose their cover if they had elected to take out or maintain insurance before 1 November 2019
- Self-managed superannuation funds (SMSFs) 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
- Australian Defence Force (ADF) Superannuation members (or a person who would have been an ADF Super member if they had not exercised choice), and
- Clients engaged in dangerous occupations (see following).

The PMIF legislation includes a 'dangerous occupation' exemption that allows trustees to continue to provide opt-out insurance to certain new members aged under 25 years and members with balances below \$6,000. The exemption applies to:

- Emergency services workers, including members of the police force or service, fire service or ambulance service, and
- Members who are employed in an occupation considered to be in the riskiest quintile of occupations in Australia (as certified by an actuary based on rates of death, or death and total permanent disability).

What trustees will be doing

Trustees are required to:

- Identify members with account balances below \$6,000 on 1 November 2019
- If members have elected to take out insurance policies (ie. underwritten policies) before 1 November 2019, they will not be impacted as they are deemed to have opted-in. This means members will not need to be provided with another written notification from the trustee asking them to opt-in
- Notify all other members (in writing) by 1 December 2019 that they will lose their cover on 1 April 2020 if their balance remains below \$6,000
- Explain that cover can be maintained if member elects to do so, and
- Set out their opt-in method in the written notice that is sent to members (i.e. opt-in via paper based form, web-based form submitted online, email to trustee, etc).

What actions are needed

Members impacted by the PMIF changes who wish to retain their cover can do so by submitting a valid election in writing to their superannuation fund prior to 1 April 2020 to maintain their insurance cover.

Alternatively, impacted members can also choose to do nothing if they do not want their insurance to continue.

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