



Mr Luke Spear
Assistant Secretary
Member Outcomes and Governance Branch
Retirement, Advice and Investment Division
The Treasury
Langton Crescent
PARKES ACT 2600
By email: superannuationobjective@treasury.gov.au

31 March 2023

Dear Mr Spear

Legislating the objective of superannuation consultation

Thank you for the opportunity to provide feedback on the proposed objective of superannuation. MLC Life Insurance is pleased to provide our consultation comments below.

MLC Life Insurance supports legislating the objective of superannuation and is comfortable with the proposed objective. We have had the opportunity to contribute to the submission by the Council of Australian Life Insurers (CALI) and have reviewed the final draft. We support and endorse the CALI submission.

We believe life insurance is part of the promise of superannuation and this is currently acknowledged in several ways as part of the architecture of superannuation, including the life insurance covenants in section 52(7) the *Superannuation Industry Supervision Act 1993*.

Insurance through default superannuation cover will continue to grow in importance as the way in which most Australians access life insurance. The group insurance system is effective and efficient, but only half the population have life insurance. Rising levels of indebtedness, particularly due to increases in property prices and related mortgages, mean default group cover is likely to not have kept pace with this increase.

The passive placement system of default superannuation is of global standard delivering a broad, basic generic life coverage. However, well-intentioned reforms to superannuation have had unintended consequences for superannuation, including where vulnerable people, mostly women, have unknowingly lost life insurance coverage due to the accumulation of interventions in superannuation.¹

As such, the critical role of life insurance in superannuation must be acknowledged as part of the process of legislating the objective of superannuation. While not specifically addressed in the proposed objective wording, we ask this is referenced in the Explanatory Memorandum and the Second Reading Speech for the enabling legislation. This issue is covered in greater detail in the CALI submission to this consultation.

¹ MLC Life Insurance Media Release, 19 July 2022: [YFYS Review an opportunity to improve protection for women](#)

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1. Public policy must balance protection and wealth

Government, industry, and society must balance two key financial needs in consideration of the objective of superannuation and the development of the superannuation ecosystem: wealth protection and wealth.

The importance and benefits of superannuation are well understood and considered in the consultation paper. The protection of life insurance is essential for families to accumulate the wealth needed to retire with dignity:

- 1) Most Australians draw comfort from the knowledge that they have or are growing wealth in the form of the family home and superannuation for retirement in addition to any private investments.
- 2) While half the population accesses life insurance, mostly by virtue of passive placement, half the population do not have access to that protection.
- 3) For those without life insurance who suffer an event that would otherwise be covered, there is a high risk that they will never achieve their wealth and retirement objectives, with them and their family experiencing a lower quality of life until and possibly even after they become eligible for the pension.

Regulatory and economic developments have tended to favour wealth at the expense of, or even to the exclusion of, protection. Public policy focus on maximising retirement incomes is laudable, but too narrow. This fails to ensure a balance with adequate protection for that proportion of society who are actuarially certain to experience a tragic but insurable event.

For example, record property prices have benefitted property owners, but the average new mortgage now vastly exceeds superannuation balances and average life insurance coverage by passive placement through default insurance. Conceptually, this means a shift from 'saving the house' by paying off their mortgage, to just 'buying time'.

There are trade-offs involved in balancing protection and wealth. Public policy may not have sufficiently considered protecting the economic security of individuals and families before they have had the opportunity to attain wealth, particularly given the timeframes implicit in the design of the accumulation phase of superannuation.

Wealth protection and accumulation can and must sit side by side. We need to revisit the balance of the system and the public policy which drives that balance. Referencing the role of group insurance in the process of legislating the objective of superannuation may help address this challenge.

2. Life insurance in superannuation can help address low engagement with superannuation

In November and December 2021, we interviewed 1500 everyday Australians, together with industry experts, to better understand how members want to engage with their insurance products held through super. We produced a report with Kantar Research, *Designing Group Insurance for the Future*.²

The findings confirmed that urgent steps are needed to help combat startlingly low levels of engagement and awareness of life insurance coverage amongst superannuation fund members. In fact, just 25 per cent of people surveyed claim to understand what they are covered for. At the time of the research, many members were not aware that stapling had come into effect (60%). This was particularly pronounced in younger cohorts and amongst those with lower incomes. We also saw in the research that many people believe that insurance is very similar across superannuation funds.

Positively, the vast majority (80%) of respondents said they'd be interested in their superannuation fund asking additional questions about their life circumstances during the onboarding process to help provide the best insurance product for their needs. Most (60%) want their superannuation fund to tell them what insurance needs they should be considering. This opportunity for tailoring coverage and engagement with superannuation funds

² MLC Life Insurance Research Report, April 2022: [Designing Group Insurance for the Future](#).

is a clear example of how life insurance and superannuation are linked, with both benefiting the interests of members.

3. A dignified retirement – the importance of insurance in superannuation

Life Insurance products are designed to provide working Australians with peace of mind that their financial needs, both during their working life and in retirement. It provides the confidence they will be protected in the unfortunate event that they suffer a major illness or a disability and are unable to participate in the workforce at some stage during their working life.

We believe this fits within the core of the ‘dignified retirement’ element of the proposed objective of superannuation and believe that this objective of a dignified and equitable retirement is underpinned by sustainable and cost-effective insurance cover held within the superannuation environment which results in less reliance on the limited financial support that the government provides.

4. Preserving savings to deliver income – driving innovation in retirement incomes solutions

Legislating the objective of superannuation is an important step in further developing the Australian retirement market, and to help drive innovation of retirement income solutions to better meet the needs of Australians preparing for, or in, retirement.

The introduction of the Retirement Income Covenant (RIC) has helped to progress thinking within the industry on the needs of retirees and what strategies or product solutions may be appropriate to meet these different needs. However, the RIC has not addressed key behavioural biases at retirement, which includes retirees seeing superannuation as a savings ‘nest egg’ instead of a key source to fund their income throughout retirement. Until there is a fundamental shift in these biases, it is unlikely that awareness and demand for retirement income solutions that deliver stable retirement income, maximising available retirement savings, will increase and the proposed objective of superannuation will be frustrated.

Introducing within the objective of superannuation the intent to ‘deliver income’ as a component of the objective of superannuation will be clearer and the public policy reforms required to enable the behavioural shift may start to occur, which will help more Australian’s achieve financial security in retirement by drawing down on their superannuation savings to deliver retirement income.

In recent times, superannuation funds and trustees have been focused on the protection of retirement savings and ensuring that insurance cover provided inside the superannuation system is not inappropriately eroding these savings. In response to this, MLC Life Insurance has been working with its superannuation partners to develop appropriate group insurance products that align with this objective but also ensuring that the insurance offer continues to provide sound outcomes for superannuation members.

Thank you for the opportunity to provide this submission. We respectfully request you consider referencing the critical role of life insurance in superannuation within the Explanatory Memorandum and the Second Reading Speech for the enabling legislation.

If you require further information, please contact our General Manager of Sustainability and Corporate Affairs, Mark Powell on 0477 706 922 or by email at Mark.Powell@mlcinsurance.com.au.

Yours sincerely



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