



Solving the disability dilemma



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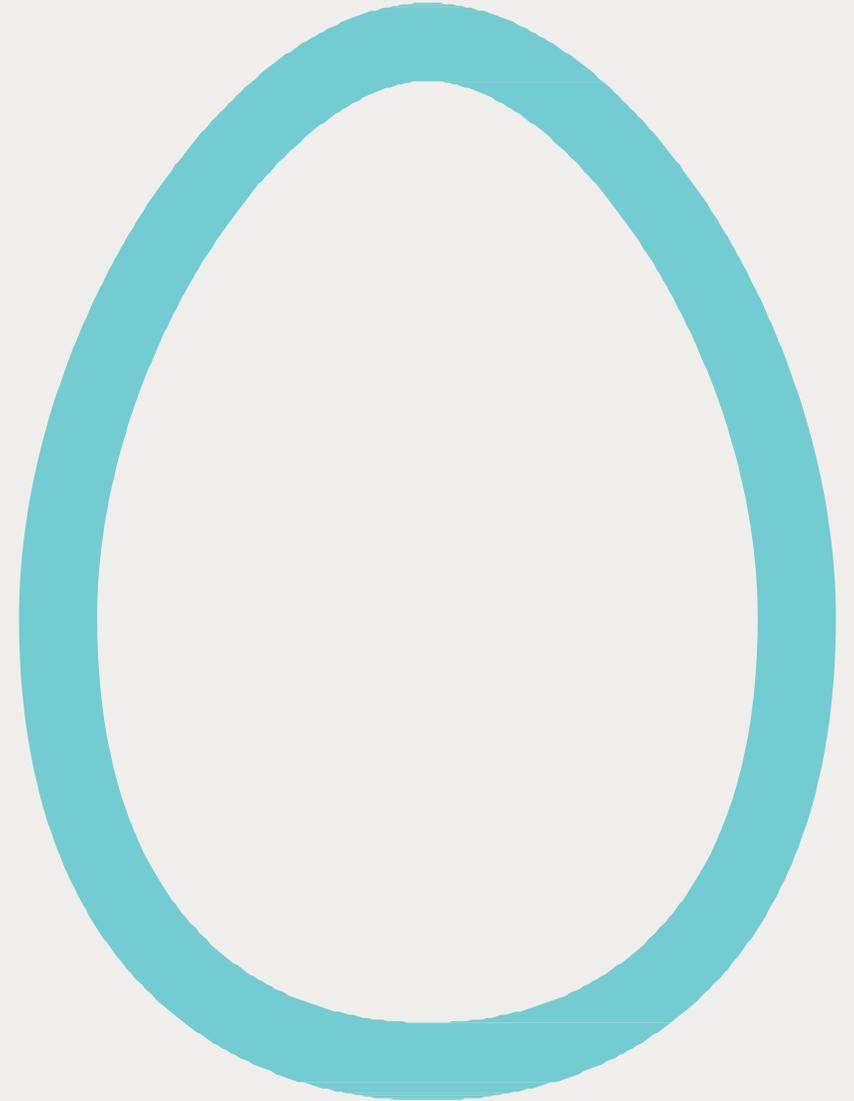
Solving the disability dilemma

Synopsis

The disability insurance space changed dramatically following APRA's 2019 **income protection** intervention and continued sustainability pressures on **TPD**.

To provide **sustainable** risk advice that's tailored to each client's circumstances, we must consider the **interaction** between these two products.

In this session we explore **IP and TPD** strategies to help you provide the **right recommendation**.



Agenda

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Disability cover evolution

2

Changing demographics

3

How clients use Income Protection (IP) and Total Permanent Disability (TPD)

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Diving into the detail of definitions

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Advice considerations

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Example disability product mixes

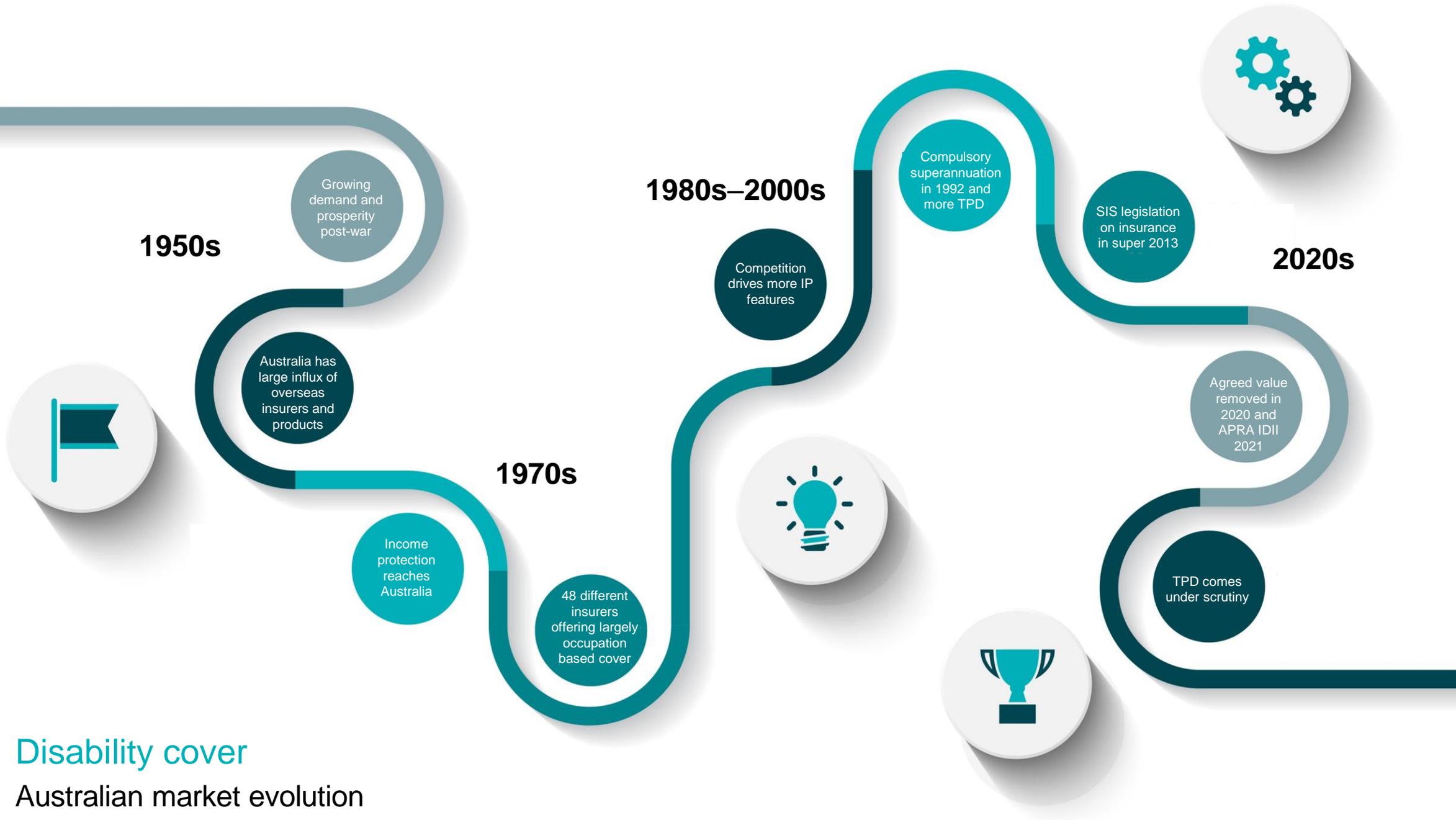
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The value of personalised advice

1

Disability cover evolution

Disability cover Australian market evolution



Disability cover

Key changes over time



Initially tied to the personal risk of earning an income



Protecting the worker in the event of loss of labour ability



Income protection products became 'catch all'



Homogenization of features making comparison easy



Benefits paid are not always tied to true loss



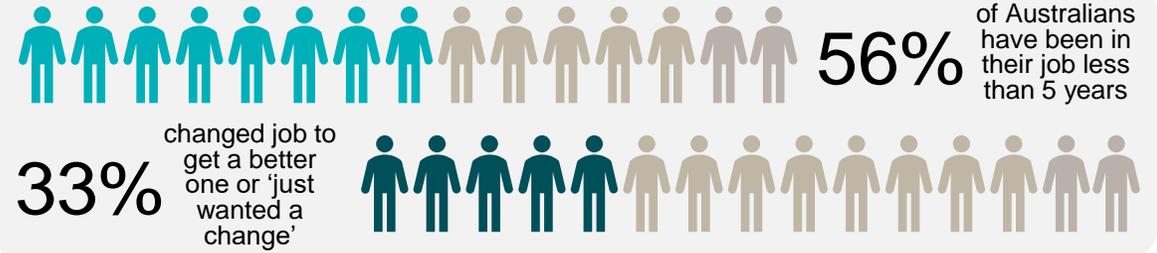
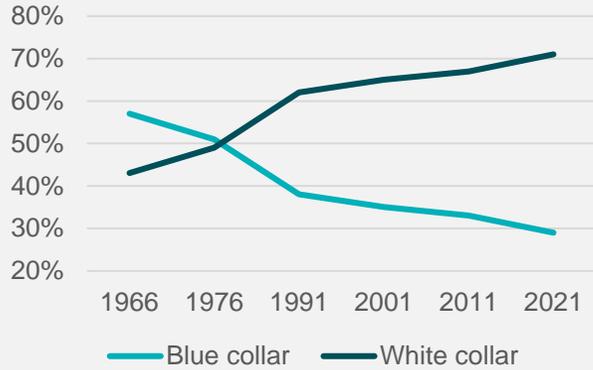
The landscape has changed dramatically.



2

Changing demographics

Australian workforce



Less physical labour participation

More participation in mental labour

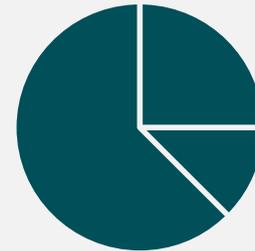
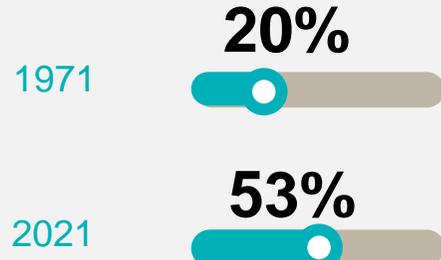
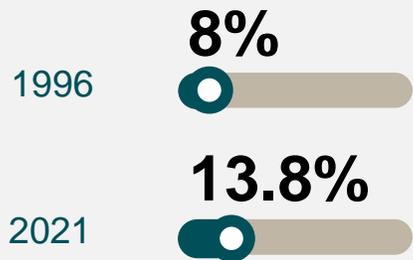
Shift in exposure of risk

Source – Australian Bureau of Statistic 2023

Self-employment and flexible work

Business owners

Australians working 1–39 hours/week



13% of Australians

are employed in professional or financial services



6% of Australians

are employed in manufacturing



Source – Australian Bureau of Statistics 2023

Australians and health

Chronic health conditions



Mental Health

2001

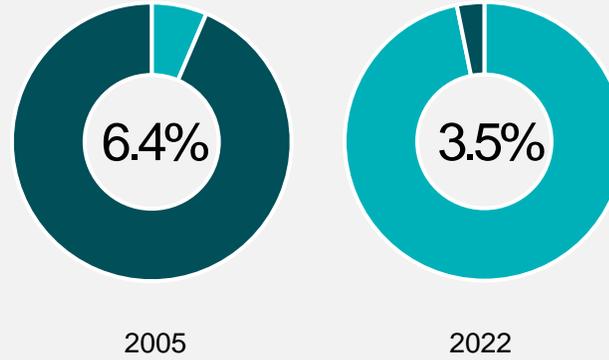


9.5% of Australians reported having a chronic mental health condition

2022

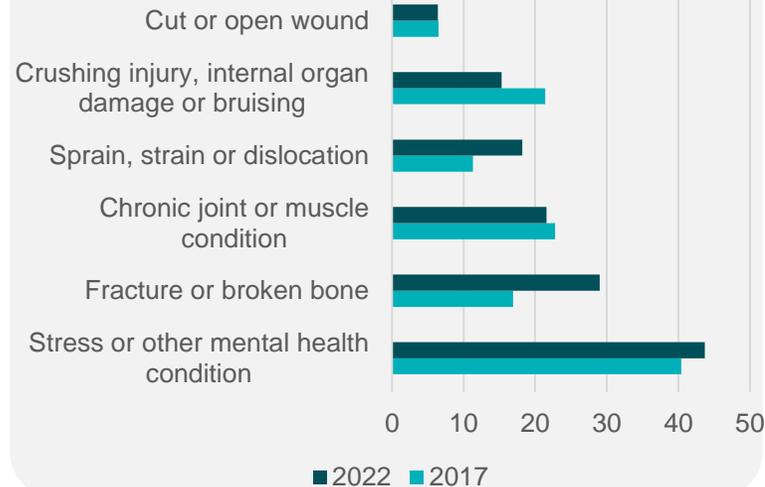


26% of Australians reported having a chronic mental health condition

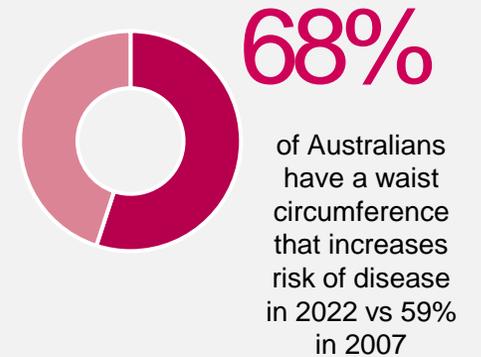
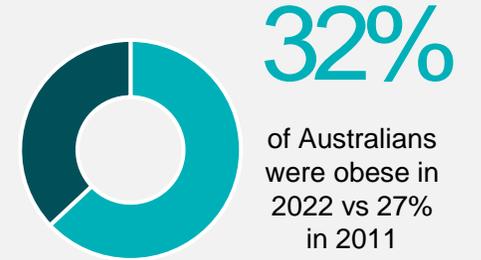


Work related injuries

Average days Absent by injury



Health and weight



Activity and work

Nearly half (46.9%) of employed adults 18–64 described their day as mostly sitting.

Cost of cover

Changing premium costs and affordability

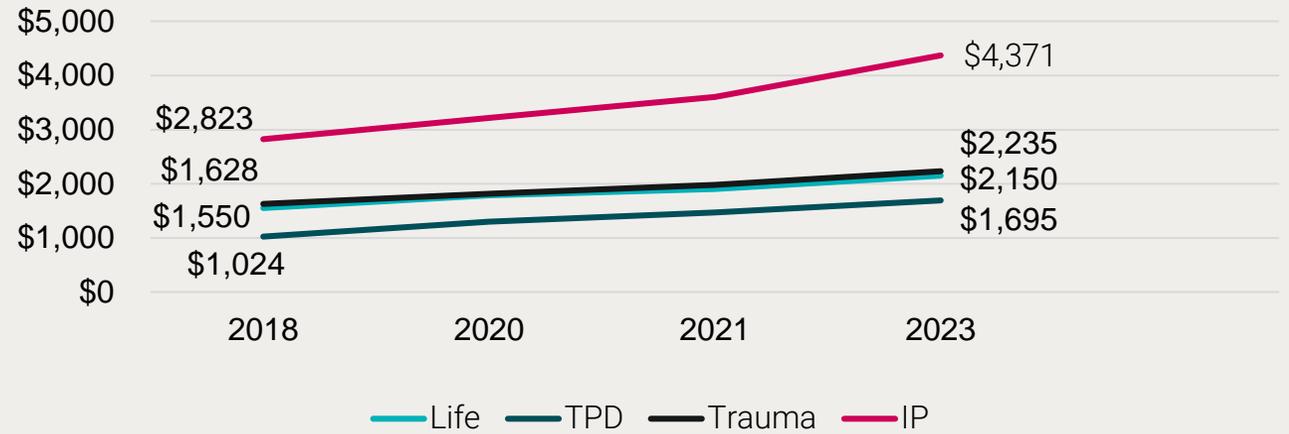
Research by Investment Trends indicates:
38% of people cancelled their life insurance due to cost.

19% said they could no longer afford the insurance and **19%** said that the premiums increased too much.

33% of respondents said that if they could get lower premiums they would be more likely to change their insurance provider.

For those that did switch provider in the last two years, their reasons were premiums increasing too much (**27%**), and finding a provider with cheaper premiums (**21%**)*

Average premium cost



Cost of living



Our clients have less money to allocate to insurance and their dollar of premium is not stretching as far – how do we help them manage this conflict?

Source – APRA 2018-2023 consolidated (via market maven)

Source – ABS, 2023

3

How clients use Income Protection (IP) and Total Permanent Disability (TPD)

Income Protection (IP)

Key insights

Why they claim

Main causes of claim:
21% mental illness
23% musculoskeletal

MLC Life Insurance Claims Data 2022

How long they claim

89% of claimants
return to work within
2 years

MLC Life Insurance 2021

How many return to work

5% of those on claim
beyond 2 years return
to work

MLC Life Insurance 2021

How many claim

On average around 1%

APRA Claims Data 2018-2022

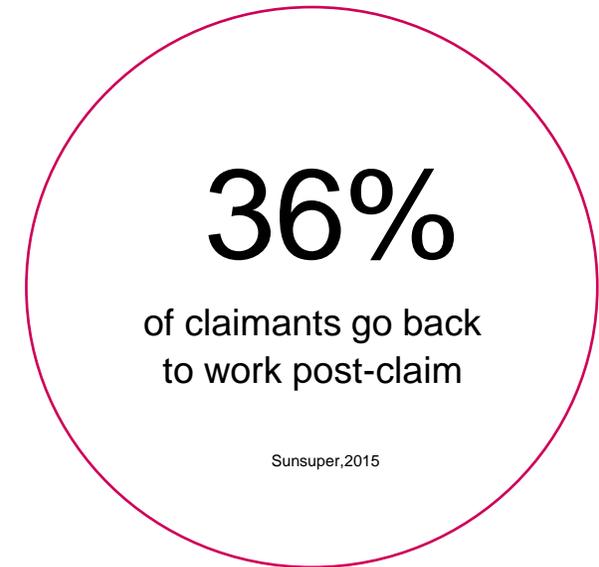
How much they spend

Around \$4k/year on
IP and \$1.5k/year on
TPD

As of Q2 2023 via Market Maven

Total and Permanent Disability (TPD)

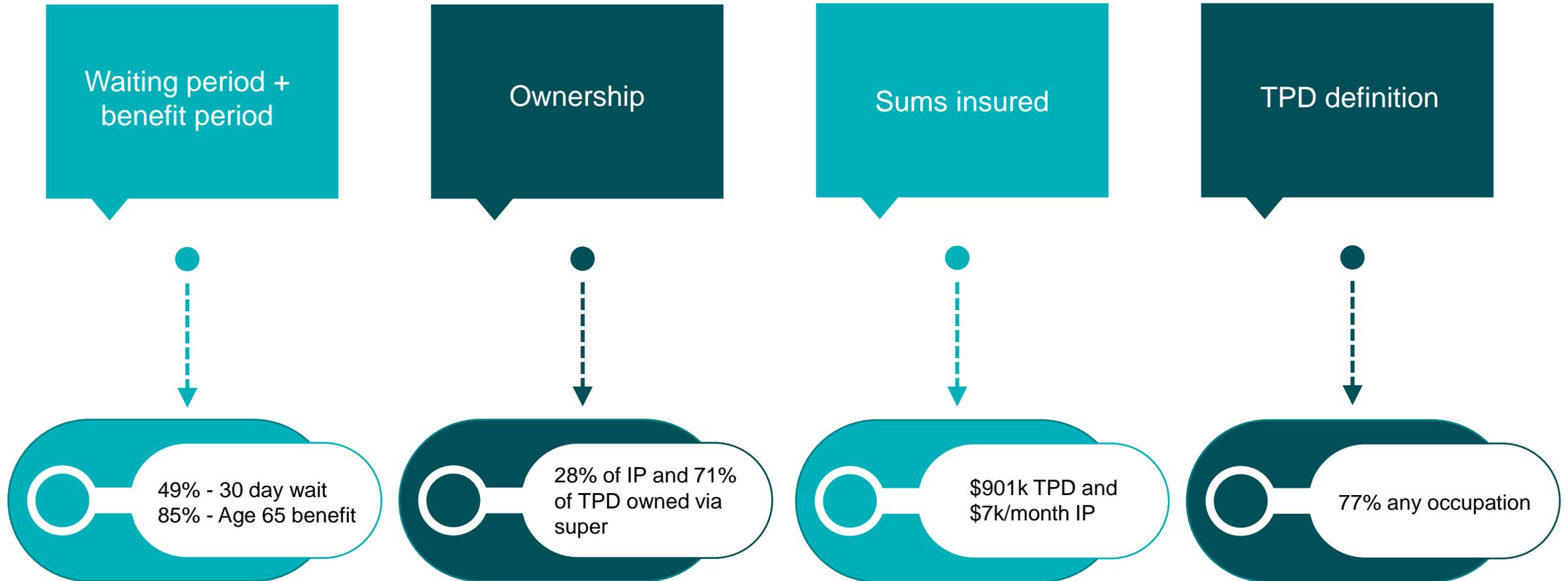
Key insights



**Data shows that a higher sum insured correlates with a higher likelihood to claim.
Is anti-selection and moral hazard to blame?**

How clients historically insure

Key insights



4

Diving into the detail

IP

Common definitions and considerations



Long term disability: Will either shift to 'any' after approximately 2 years and/or have severity of disability requirements.



Accessing claim: Requirements to be disabled during the waiting period, along with inability to complete all income producing duties.



Partial disability: Income may be offset at increasing rates throughout life of claim.



Early access to claim: Benefits such as the accident option and bed confinement benefit vary by availability.



Offsets: How income is treated, particularly for self-employed clients will differ and impact long term planning.

**It is important
clients understand the
terms of their income
protection contracts.**

TPD

Common definitions and requirements



Waiting period

- Most products will require a period of **no** work for up to six months
- Consider whether this restarts with repeated attempts to return to work
- Consider how long claims processing may take on top of this (*average is around 6 months – APRA Claims Data 2020-23*)



Occupational definition

- Any vs own
- What is the client work history and current specialisation?
- What would the expectation of the client be, particularly in conjunction with their IP product?



Other access to claim

- Partial TPD
- Automatic TPD triggers based on tiers of impairment
- Severity based products

Putting it together

Where's the alignment?



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Advice considerations

Professional and legal standards

The measuring stick of our advice

4

Standard 4 – informed consent

5

Standard 5 – confidence the client understands the advice

6

Standard 6 – long term circumstances and consequences

10

Standard 10 – maintain a high level of competency and skill



From both an ethical and professional perspective, it's essential our clients receive informed advice, appropriate to their circumstances – *not just today* – but in the context of their long-term financial affairs.

Guiding principals

Informed consent and appropriateness

Informed consent

To deliver advice in the best interest of the client, the advice must be clearly understood by the recipient and acted on with informed consent – this includes all consequences and trade-off implications.

Appropriateness

The measuring stick for our recommendation is its appropriateness to the client's circumstances – not whether it is the most comprehensive, lowest cost or fully featured.



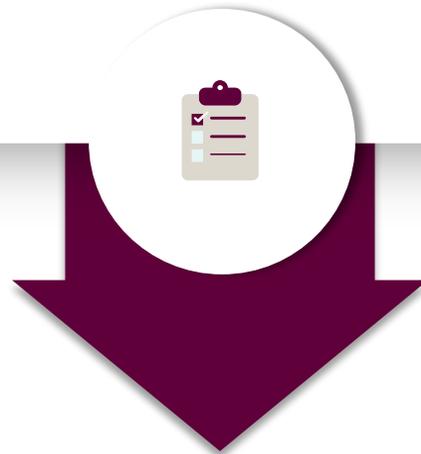
The individual

Process driven by what is important to the client and their situation.



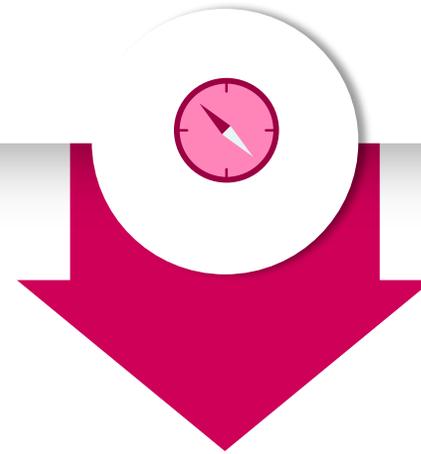
Asking the right questions

Understanding the client and their drivers is the only way to gauge appropriateness and achieve understanding.



Presenting mix/trade-offs

Informed consent means understanding the direct impact of risk decisions.



Show impact over time

Premiums come with an opportunity cost to long term goals.



Balanced solution

Meet expectations and goals while also providing risk mitigation and peace of mind.

Financial objectives

Disability cover doesn't exist in a vacuum

“

I want to pay down my mortgage well before retirement

“

I want to grow our investments to fund a standard of living we can enjoy

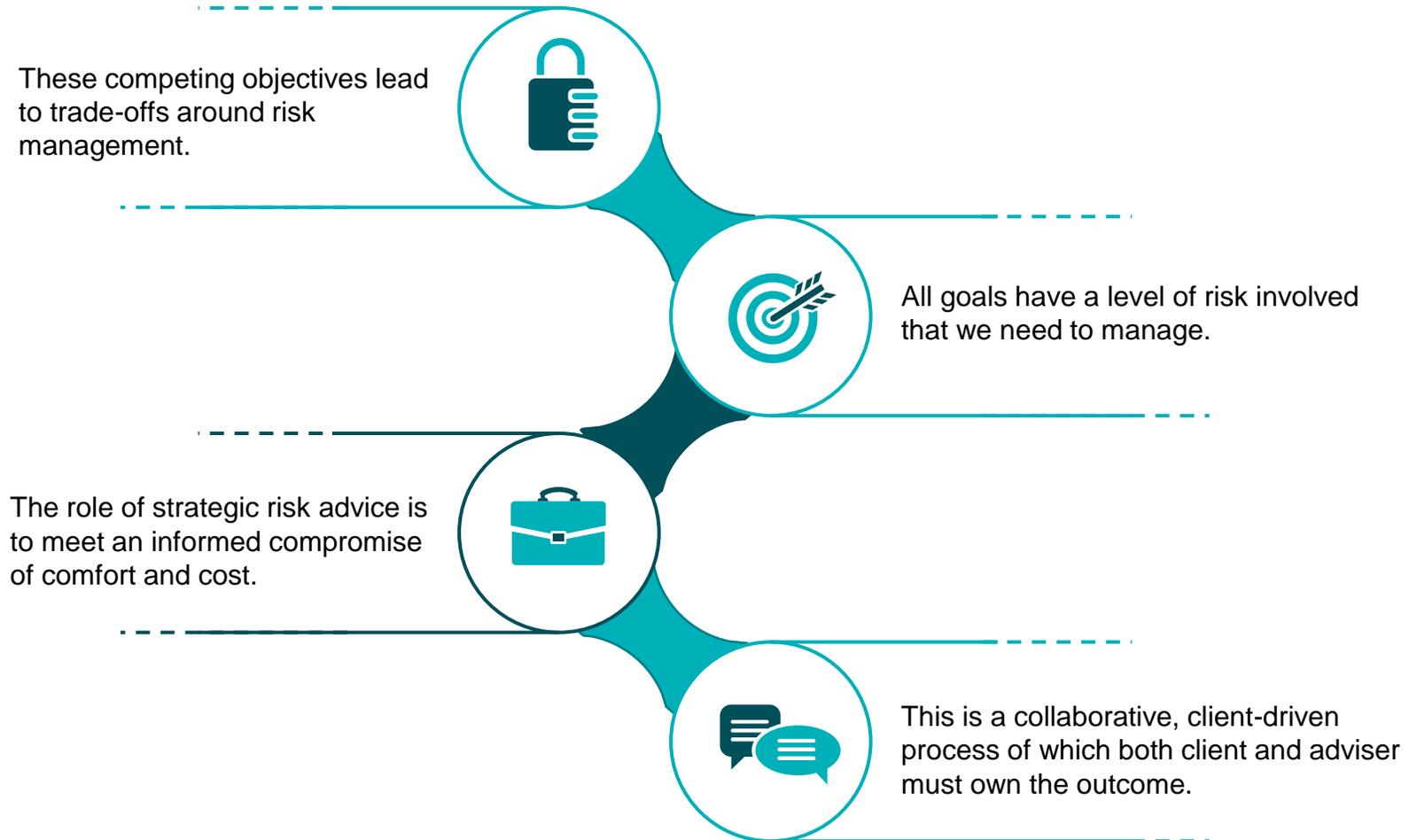
“

I want to send our children to the best schools available for their education

Clients have all kinds of goals and objectives that insurance can protect and support. It's essential that our insurance recommendations fit the context of these financial objectives today and into the future – it isn't always possible to have it all!

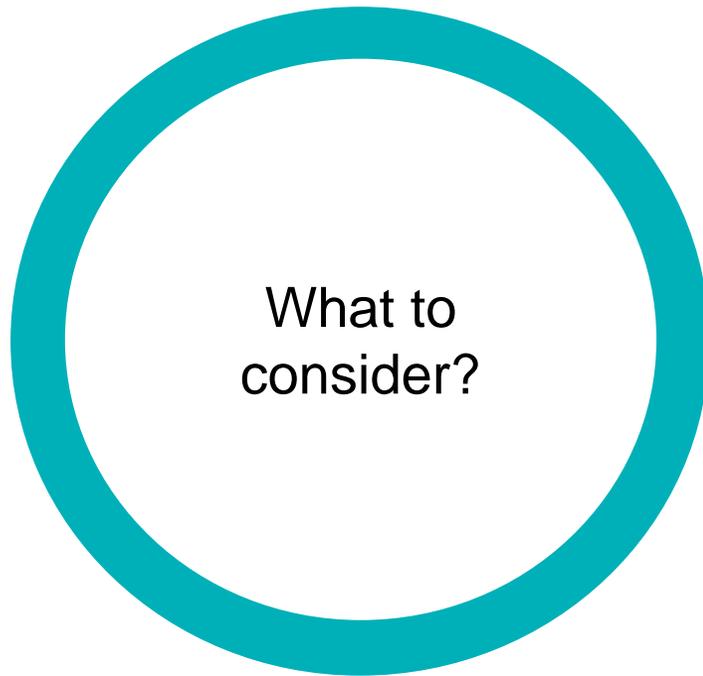
Trade-offs

Truly understanding exposure



Considering overlaps

IP and TPD



Replacement income (long term)

What is the true need:

- If I have IP?
- If my mortgage is discharged?
- If my disability expenses are accounted for?
- If my spouse still works?



True compensation for loss

Should we be including provisions if:

- The existing 'plan A' doesn't include them
- They will put us in an overall better position
- They can't be directly quantified into a dollar figure



Targeted values for expenses

When including elements, they should:

- Be based on objective data
- Be able to be referenced
- Be simple and transparent so the client understands



Debt repayment

When repaying debt:

- Do we always need to discharge all debt?
- How do we treat investment or business debt?

Demonstrating clearly

Consequences and trade offs

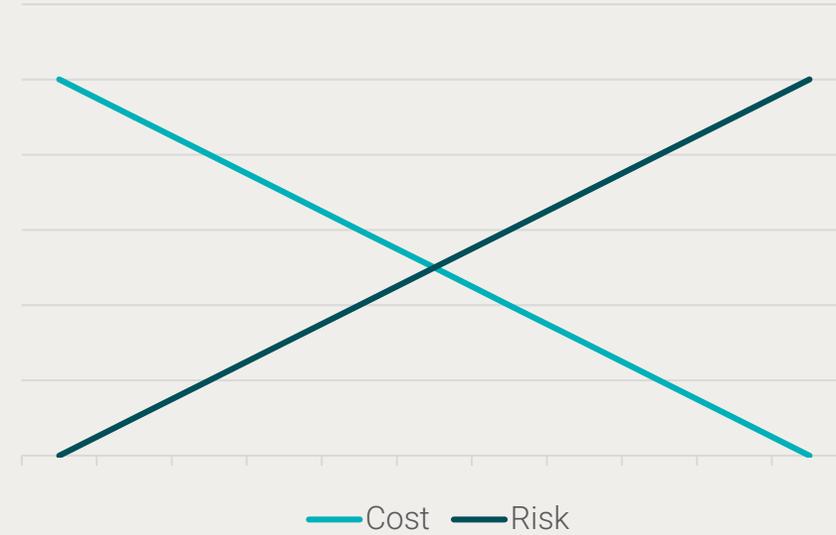
Lump sum disability plan

Goal	Risk exposure	Amount insured	Risk self-insured	Self-insurance strategy
Pay down family debt	\$750k	\$750k	0	N/A
Fund comfortable retirement/lifestyle	\$1.5m	\$1m	\$500k	Lifestyle alteration, family support, spouse increase work capacity
Send children to private school	\$200k	\$100k	\$100k	High school only

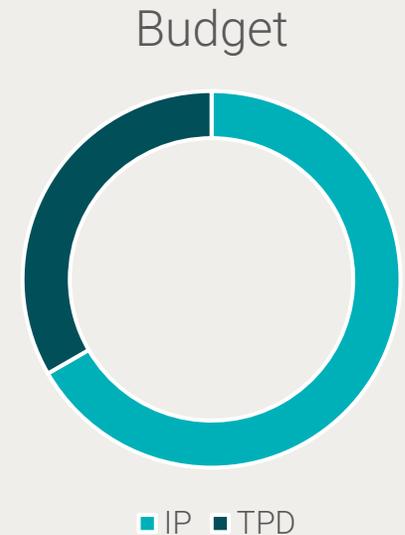
Monthly income disability plan

Goal	Risk exposure	Amount insured	Risk self-insured	Self-insurance strategy
Fund immediate expenses	\$6k/month	Beyond 30 days	First 30 days	Sick leave/savings
Fund medium-long term expenses	\$6k/month	Up to 5 years	Beyond 5 years	Assets/savings/TPD
Retirement savings	\$1/month	\$0	\$1k/month	Catch up contributions/spousal contributions

Visually help our clients understand the relationship between cost and risk exposure and the consequences of decisions



Budget is finite, and the allocation to each disability cover is going to directly impact ability to spend on sum insured/features on the other

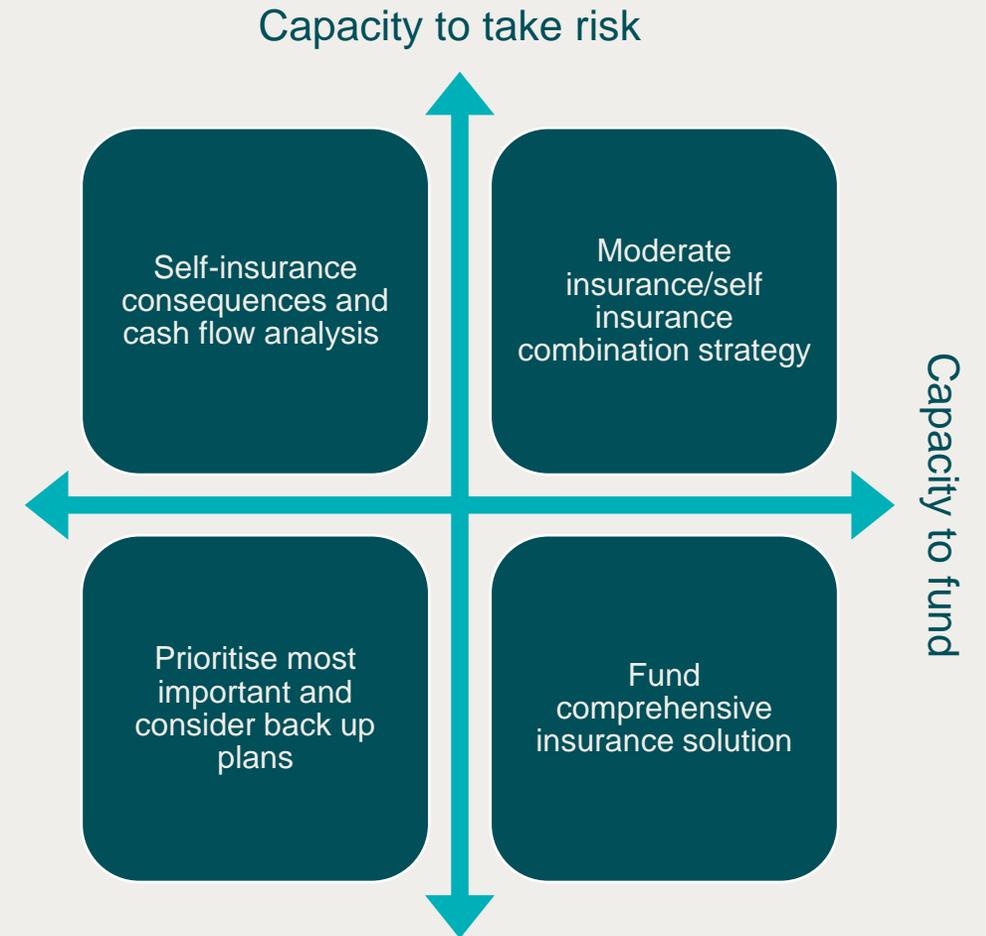
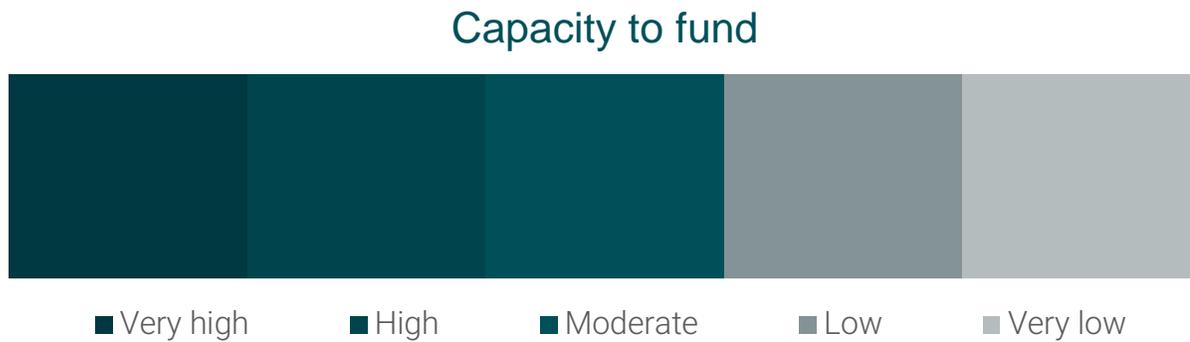
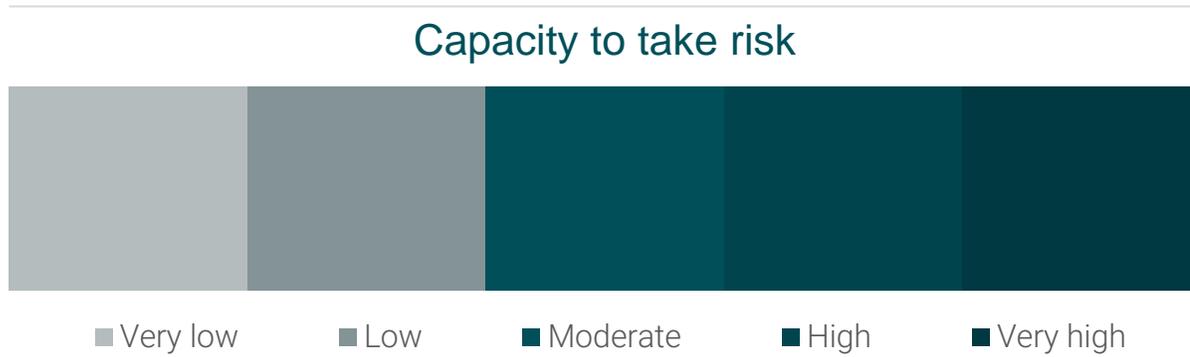


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Disability product mixes

Client need and product mix

Risk aversion and ability to fund



Scenario 1

-  40-year-old male, white collar, income \$100k per annum
-  Married to fellow professional, with 2 children (yet to start school)
-  Mortgage on family home in capital city
-  Limited savings + constrained ability to fund insurance + very low super balance and high mortgage repayments
-  Pragmatic approach to risk, seeking to find a balance between peace of mind and competing objectives

Considerations

- Long retirement horizon
- Significant expenses and obligations
- Competing financial objectives
- Need for risk protection due to exposure
- Challenged to fund that mitigation

Considerations

- Retirement is a goal to plan for – how will it be funded/protected?
- High income but sole income, to fund goals.
- Cost of debt and children have reduced
- Need to protect lifestyle goals
- Cash flow is available to fund insurance, but other objectives also in play

Scenario 2



50-year-old female, white collar, income \$180k per annum



Married to homemaker spouse, with 2 children (starting secondary school)



Mortgage on family home in capital city have owned for 10 years



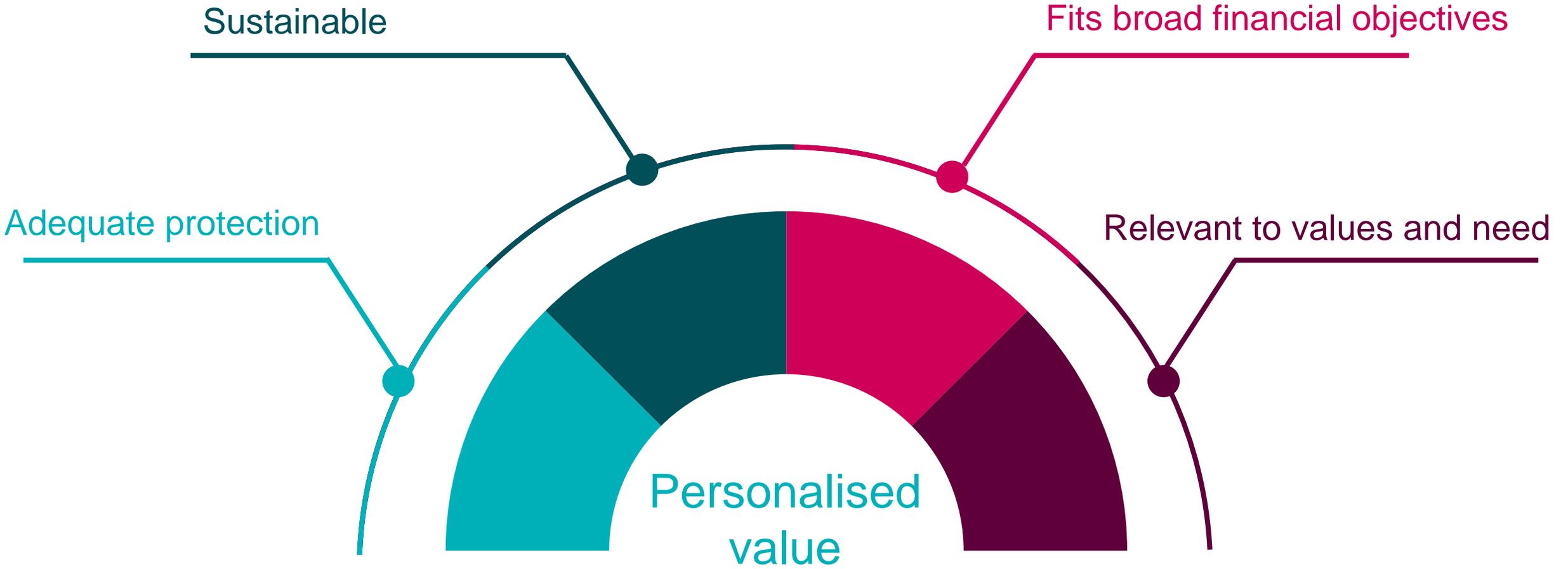
Some savings, but very low super balance due to prior period as self-employed



Relatively comfortable with risk but wants to protect ability to enjoy the future as children grow up. Wants to travel regularly and wind down to an early retirement.

7

Value of personalised disability cover



Through taking a tailored approach we can deliver solutions specifically designed for each client

This has immense long-term value and creates loyal, retainable clients.

Being confident in the ability to provide this tailored solution allows us to positively position for new clients

Client need and product mix

Value of long-term personalised cover

Aligning personalised, appropriate disability mixes to the right kind of client in a way they can understand.



Scenario 1

40-year-old male, white collar, \$100k income



Scenario 2

50-year-old female, white collar, \$180k Income

Mix 1: 2 Year BP (own occ) & \$3,000,000 TPD own occ

Mix 2: 2 Year BP (own occ) & \$1,960,000 TPD own occ

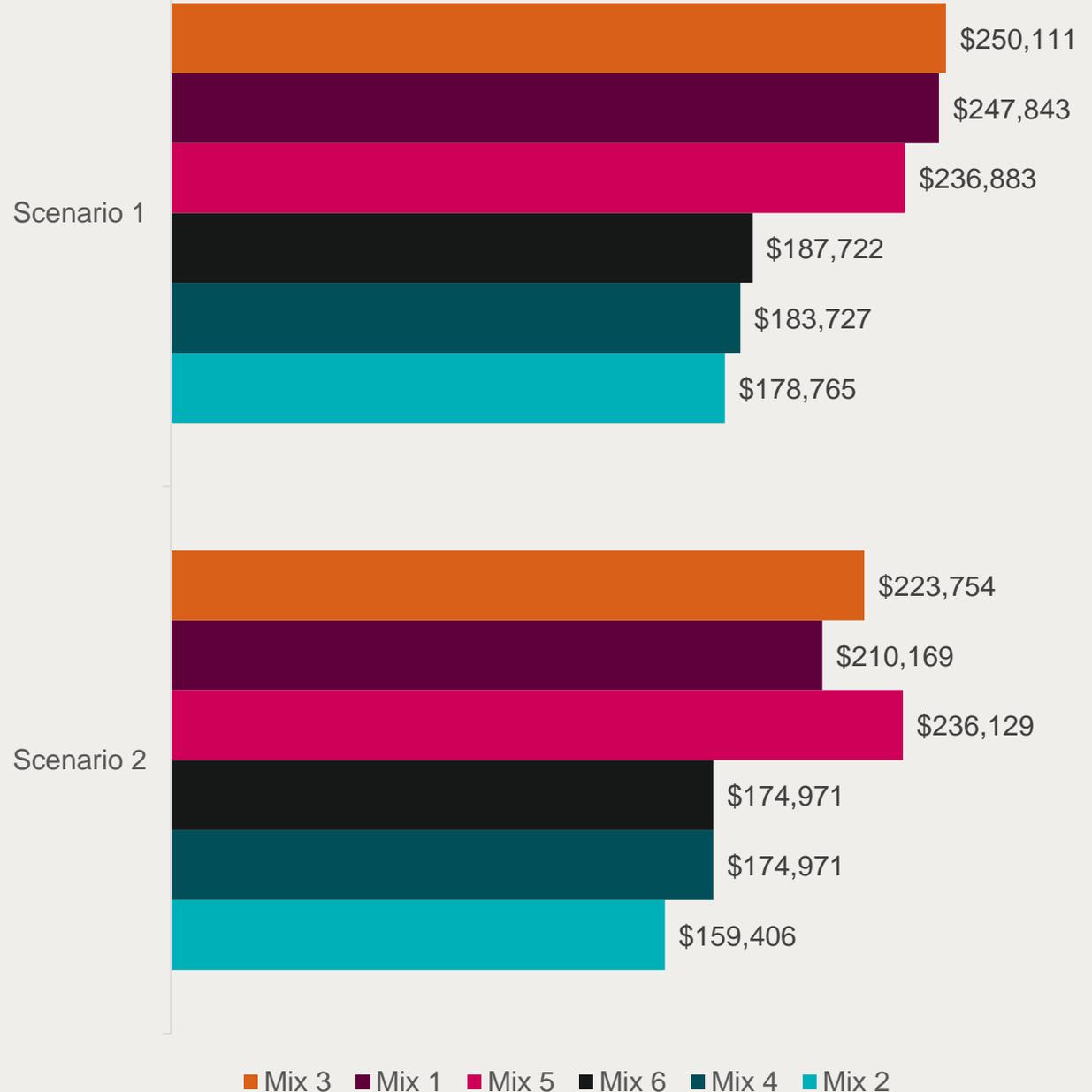
Mix 3: 5 Year BP (own occ) & \$2,900,000 TPD own occ

Mix 4: 5 Year BP (own occ) & \$1,900,000 TPD own occ

Mix 5: Age 65 flat 70 & \$2,250,000 TPD own occ

Mix 6: Age 65 flat 70 & \$1,500,000 TPD own occ

Cumulative premium to age 60



Source – based off MLC Life Insurance quoting software, January 2023

Client need and product mix

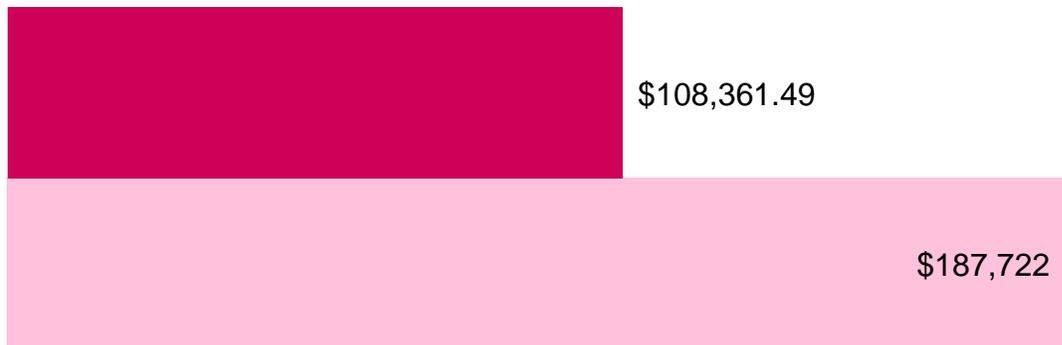
Value of long-term personalised cover

What if we proactively manage in line with need?



Scenario 1

40-year-old male, white collar, \$100k income



■ With reductions ■ Age 65 (flat 70%) \$1,500,000 TPD



Scenario 2

50-year-old female, white collar, \$180k income



■ With reductions ■ 2 year BP & \$1,960,000 TPD

Client need and product mix

Value of long-term personalised cover

What is the opportunity cost of cover that doesn't necessarily align with clients' values/objectives?

Mortgage/superannuation

Additional monthly contribution	Mortgage interest saved	Mortgage years saved	Additional super at retirement
\$250	\$56,663	2.6	\$63,637
\$500	\$101,380	4.6	\$127,274
\$1000	\$167,771	7.7	\$254,549

Source: ASIC Superannuation Calculator + CBA Mortgage Calculator 2023

Investment portfolio

Additional monthly contribution	Balance 5 years	Balance 10 years	Balance 20 years
\$250	\$17,898.23	\$43,271	\$130,231
\$500	\$35,796	\$86,542	\$260,463
\$1000	\$71,592	\$173,084	\$520,926

Source: Rabobank Investment Calculator with 7% rate of return

Schooling cost (full education)

	Sydney	Brisbane	Melbourne
Public	\$94,819	\$85,177	\$108,879
Private	\$377,993	\$277,015	\$324,559
Catholic	\$188,759	\$204,197	\$194,826

Source: Futurity 2023

Holiday home/investment property

Type	NSW	QLD	VIC
Apartment	\$700,000	\$484,000	\$528,000
House	\$800,000	\$510,000	\$635,000

Source: Australian Bureau of Statistics 2021



Summary and next steps

Summary

Solving the disability dilemma



The economy
and society have
changed

Clients have a
limited ability to pay
rising premiums, so
we must adjust our
mindset



Client centric =
success

Use a collaborative
process where the
client understands and
gives informed
consent



'Best' will look
different for all

Tailor cover thresholds
to client comfort,
budget and objectives



Clear and
transparent

Not just text on a page
– make it clear to the
client and document it

Additional resources

Upcoming webinar:

The not-so-scary world of risk advice



Scan to register



Quarterly
LinkedIn/Zoom live
technical Q&As on
risk advice



Education and support



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Access ongoing
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Thank you