

## Life insurance



The government is being forced to spend more on the Age Pension bill because life insurers are draining the superannuation savings of low and middle-income Australians by up to \$125,000, the Productivity Commission says.

In a new supplementary paper for the Productivity Commission's landmark inquiry into the \$2.7 trillion super system, the government's independent policy adviser has skewered the life insurance industry's claim that opt-out cover saves the budget money through fewer disability pension payments.

It comes as Assistant Treasurer Stuart Robert continues to negotiate with the crossbench over government proposals to end automatic insurance cover for super members under 25 years of age. The government is planning to pass the measures, announced in this year's federal budget, by the end of the year.

While the Productivity Commission could not calculate the total cost to the age pension bill, due to a lack of accurate data on insurance and claims, it found that for some members insurance could erode super balances significantly and push retirees onto the age pension earlier than they would otherwise be.

"Balance erosion can be excessive and highly regressive," the Productivity Commission said, noting that low income workers, employees with patchy job histories, and savers with unintended multiple accounts were most affected.

The Commission found retirement balances for these workers could be reduced by between \$85,000 and \$125,000, or as much as 25 per cent over a lifetime. Insurance in super, where 70 per cent of Australians receive cover on an opt-out basis, costs between \$300 and \$2000 a year, which is deducted automatically from savings. Insurance premiums collected by the industry have jump 35 per cent over the three years to 2017, and now total more than \$9 billion a year.

"The deduction of insurance premiums over a member's lifetime reduces their superannuation balance, resulting in less disposable income in retirement," the PC said.

Reports from KPMG and industry actuarial consultants Rice Warner has previously said removing total-and-permanent disability insurance from super would force the government to spend more on disability pensions if workers were injured at work. However, neither report considered the impact of savings erosion on retirement balances.

The PC also found total-and-permanent disability payouts "barely" reduced the disability pension bill, especially for younger workers without significant super balances that could be paid out.

The PC said Treasury should conduct further modelling of the cost of insurance in superannuation to the age pension bill, as the department had expertise in the area and could use the assumptions created for the intergenerational report.

Ending life insurance for younger members is expected to slice \$3 billion a year off revenue in the sector, while the government is also looking to limit total fees charged to super accounts to 3 per cent. Along with scrapping the \$450-a-month earnings threshold to qualify for mandatory super payments, Labor announced a plan to expand super to women on maternity leave under a \$400 million plan that it argues would help close the retirement gender gap.