Devil is in the detail

Take a closer look at your cover to make sure you are paying the right price for the protection you need

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People routinely check their super fund's fees and performance but rarely do they check their insurance. While all members should pay more attention to their premiums and cover, it's especially important for women to do so.

Women move in and out of the workforce as they raise the next generation and often shoulder the burden of caring for aged parents. Not only does it impact their super, it also has ramifications for their insurance cover.

The Productivity Commission's report into super noted that while default insurance generally offers good value, for some members it is of no or little value – for example, disability cover that cannot be claimed against. It also took aim at opaque structures: "The lack of comparability across insurance products makes switching to better super products difficult for members and limits competitive forces."

Over the past five years, group insurance through super has pulled in $40 billion in premiums and paid out just $21 billion in claims.

Premiums have increased by about 30% over the past few years, and while default cover may represent good value it's worth checking whether it suits your circumstances.

Alex Dunnin, executive director of research at Rainmaker, says insurance hasn't received the same sort of scrutiny historically that investment performance and fund fees have, but more attention is now being paid to it.

"Default insurance is a good product and offers an important service, but does it have to cost what it costs? You look at some of the massive price variations at what seem to be quite similar products and it's hard to work out why," says Dunnin.

"Some funds give you fantastic, well-priced insurance; with others, it's really expensive and consumers probably have no idea. The point we want to make is simple: insurance can be very expensive – for the same insurance deal it can cost you $1000 here but $200 over there. So price is a brutal instrument, but it's a good place to start."

Default cover

Default insurance includes death and total and permanent disability (TPD) insurance and often income protection insurance. You get a set amount of cover automatically without having to undergo any medical underwriting.

Super funds purchase their group cover in bulk, with the overall insurance risk spread across all members. This means premiums are not assessed on your own health status but on your age and the group's characteristics.

Automatic death cover is usually limited to $300,000-$400,000. While it improves Australia's underinsurance problem, it may not be enough to cover your mortgage and provide for your dependants. If you want more cover than the "automatic acceptance limit" you need a medical assessment.

Some funds may split members into higher-risk or lower-risk occupation groups: blue-collar versus white-collar workers, for example. And some may have a gender bias. Some plans have a gender-based rate and some have a composite rate. Check which is best for you.

Jason Ross, head of super research at Rainmaker, says death and TPD insurance is generally cheaper for women because men are more likely to die when they are younger, but income protection is more expensive for women as they are more likely to be injured.

"The message here is women, when shopping for death/TPD cover, should be wary of being lumped with men because doing so will cost them money," he says. "But for income protection insurance they should aim for gender-neutral policies as it may lower their premiums." (See table.)

Super premiums are deducted from members' accounts and are therefore tax effective. It can help families manage their cash flow when money is tight. It is especially valuable for people with health issues who would otherwise struggle to find affordable cover outside super.

SUPER FUNDS WITH BEST INSURANCE DEALS FOR WOMEN, 2019*

DEATH/TPD	Cost pa for $300,000 cover
AvSuper Corporate	$137
Australian Ethical Retail Superannuation Fund – Employer	$153
AMG Corporate Super	$156
Mercy Super	$157
netwealth Super Wrap Employer Sponsored Super	$160
LifeTrack Corporate Superannuation	$171
Asgard Employee Super Account	$172
Rest Corporate	$177
Bendigo SmartOptions Super – Employer	$181
Progress Super Fund – Corporate	$204

INCOME PROTECTION, 90-day waiting period, 2-year benefit period	Cost pa for $100k salary
GROW Super	$95
LUCRF Super	$106
The Executive Superannuation Fund – Employer Sponsored	$110
Nationwide Super – Employer Sponsored Division	$123
Australian Ethical Retail Superannuation Fund – Employer	$138
smartMonday PRIME	$144
Prime Super (Prime Division)	$146
Asgard Employee Super Account	$157
Emplus Super – Employer Division	$159
Suncorp Brighter Super for business	$160

* Cost for 40-year-old professional woman. Source: Rainmaker Information

But Ross also points out that insurance is only good if you can make a claim when you really need it. So it's important to check what you can and cannot claim for.

Traps to avoid

Group insurance is put up to tender every three to five years by the super fund trustees. This means the terms and conditions of their cover can change and any claim is then subject to the T&Cs under the current policy.

Adele Martin, a certified financial planner at Firefly Wealth, says: "I preface this to everyone – every insurer differs so much you almost need a law degree to understand the finer details of each contract. Just because you are paying premiums doesn't mean you are covered."

Martin says maternity leave and time out of the workforce complicate matters and she usually urges women to get their insurance cover as early as possible, before they start a family. "Once you start looking at cover for women, it's a lot more complicated than it is for men." (See case study.)

If clients can afford it she prefers them to buy income protection in their own name. "Agreed value policies give females that want to have kids more certainty, but unfortunately you can't get these inside super," she says.

If you have income protection through your super fund you will not be covered during periods of unemployment.

"If you are unemployed or leave the workforce, which a lot of women do, because they want to spend a few years with the kids, they are not covered for income protection because they no longer meet the requirement to be employed under super rules," says Roy Agranat, a specialist in personal and group benefit insurance and a director at Fairbridge Financial Services.

"If it's approved maternity leave, it's generally fine. But you should have an agreed return-to-work date. Make sure you document it with your employer because they will ask for that at claim stage."

Women also need to check what happens to their TPD if they return to work part time or as a casual. Many policies require you to work a minimum number of hours, typically 15 to 20, each week.

For example, Agranat helped a single mum who went back to work while on maternity leave for 14 hours a week to put food on the table.

"It immediately meant she wasn't covered for disability. So she was in a worse-off situation only because she was trying to make ends meet. Meanwhile, someone else on maternity leave with a more stable financial position was able to stay off work, fully covered during maternity leave," says Agranat. "The key thing here is you need to check with your fund. Are you covered for disability and income protection insurance if you decide to leave the workforce?"

If you make a TPD claim, your death benefit will be reduced by the amount of the TPD payment.

Finally, if you want to move to a better super fund, check the rates, says Agranat. "Some plans will have a gender-based rate and some plans have a composite rate. Check which is best for you. You might find that the unit rate for a woman is actually lower than a composite rate."

You can transfer your cover under what is called "take-over terms". You will need to fill in a short questionnaire. "Be careful how you answer the questions as you have a duty of disclosure," says Agranat. Make sure the new cover is in force before you cancel the old one.

To check an insurer's claims experience, go to ASIC's MoneySmart website. For more detail on super fund insurance head to the learning centre at the SelectingSuper website. M

CASE STUDY

OVERCOMING THE OBSTACLES

Logistic co-ordinator Saira Allen, 32, is expecting her second baby this month. She's hugely relieved that she set up her insurance properly before starting a family.

Before seeing certified financial planner Adele Martin, at Firefly Wealth, Saira had no idea how complex insurance could be for women taking time off work.

"One of my best friends was diagnosed with breast cancer just after I started seeing Adele, so for me it was a realisation that anyone can get sick and that life is not guaranteed."

"I knew my super wasn't well set up because I had three different accounts from three different jobs. I had paid no attention to it. One fund had only a few hundred dollars in it because it basically got drained by fees."

Martin recommended death and TPD cover from another super fund because of its less onerous TPD definitions if she needed to claim while on maternity leave. Under her employer's automatic cover she would have to be in a vegetative state to get a benefit.

For income protection Martin recommended an "agreed value" policy. "She made sure I was fully covered at my current pay rate for income protection, especially if I went on maternity leave, and if I returned to work part-time I would still be covered at that higher rate should anything happen," says Allen.

Super funds can only offer indemnity policies, which means the insurer assesses your income based on the last year or so when you were working. The benefit could be worthless for those on maternity leave who return to work part time.

Another plus is that her agreed value income protection is tax deductible and her super balance is not being reduced by insurance premiums.

Allen says the advice fees were worth it. "I didn't want to leave behind a heap of debt to family members. My husband and I wanted insurance in place so that if anything happened to us we didn't have to worry about money on top of everything else."