



# Chant West Media Release

21 October 2014

## As insurance premiums rise, so does the need for a simple way to compare funds

**Chant West's 2014 super fund insurance survey introduces a simple but sophisticated way to compare funds on the basis of their insurance premiums. The survey report shines a light on some of the quirks that exist in super fund insurance, and how they affect members of different funds depending on their age, gender, occupation and smoker status.**

One of the revelations of the survey is the huge disparity that exists between the cheapest insurance and the most expensive, with some funds having increased premiums by 150% over the past two years.

For example, a 40 year old female worker in a white collar job would pay \$120 a year for \$300,000 of death and disability cover in the cheapest fund. In the most expensive fund, the same cover would cost her \$767. And, the disparity is greater for males and far greater for blue collar workers, as shown in [Table 1](#).

Table 1 | Range of Death & TPD Premiums for White and Blue Collar Workers (\$) | August 2014

Statistic	WC Female	WC Male	BC Female	BC Male
Most expensive	767	767	1,687	1,687
Bottom quartile	345	369	546	622
Median	270	300	397	438
Average	288	213	445	479
Top quartile	209	216	302	308
Cheapest	120	76	128	128

The survey's author, Chant West's Head of Research, Ian Fryer, says this has serious implications for members' retirement nest eggs. "A lot of super fund members get automatic insurance cover when they join. That's a good thing in one sense, because it provides a measure of protection for people who might not do it for themselves. But that cover comes at a cost, because every dollar of premium is a dollar that's not being invested for their long-term benefit.

"Over the past couple of years we've seen premiums rising – dramatically in some cases – largely because of an increase in disability claims. There are reasons for that, including the growing influence of compensation lawyers, but the end result is that being in a fund with high insurance premiums can have a huge impact on the size of your eventual nest egg when you come to retire."





## Growing need for advice

Individuals need advice on whether they're paying too much for insurance, Fryer says. Up to now that has been difficult because insurance is so complex and suffers from poor disclosure.

"It's a minefield," he says, "because competitiveness isn't uniform across all members. You can't say 'This fund is cheap' because it might be cheap for an older blue collar male but expensive for a younger white collar female. There's a lot of cross-subsidising going on, especially in non-profit funds, where males tend to get a good deal at the expense of females. It's also very common in industry funds, and some public sector funds, for younger members to pay more than they should for insurance so that older members can pay less.

"The average consumer has no hope of assessing whether their fund's premiums are competitive for them now, let alone in the future, and even qualified advisers find it a struggle.

"That's where this survey is a breakthrough because it allows us to quantify a lot of the subtle differences that we've always known existed. With a lot of sophisticated modelling in the background, it produces a simple measure that reflects the market competitiveness of each fund overall and also by member occupation, age, gender and smoker status – 1,000 combinations in total, as shown in [Chart 1](#).

Chart 1 | Assessing Insurance Premiums – 1,000 Individual Situations



"Advisers can use the information in the survey tables to cut through all the obscurity and tell their client if the fund they're in represents good value for them and, if not, which other funds they might consider. And, of course, the funds themselves and their insurers can use the tables to assess their own competitive status."

## Premium levels converging

The survey highlights a major shift in the competitive balance between the main industry segments competing for employer-sponsored superannuation. Workers in the public sector still enjoy the lowest cost insurance, Fryer says, but the premium differences between industry funds and corporate master trusts have all but disappeared.

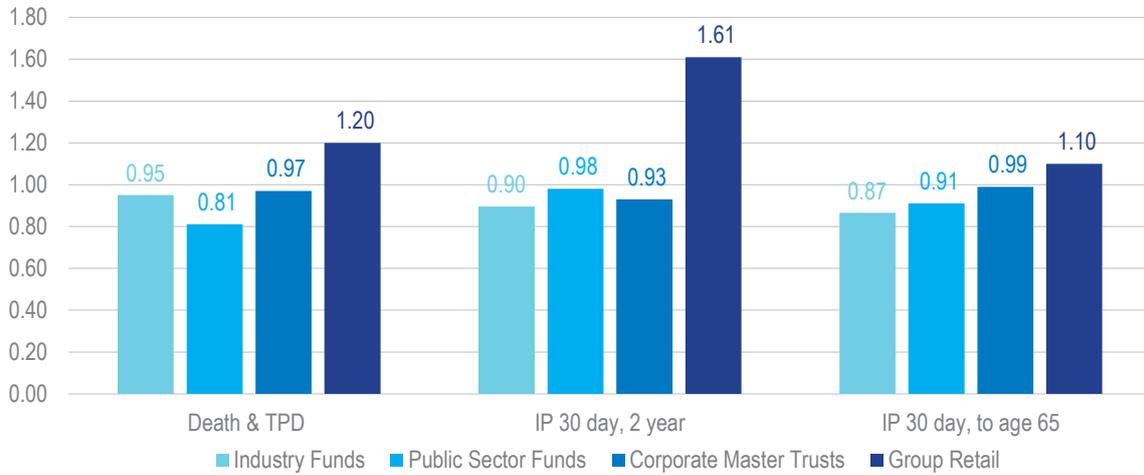
"The two groups' premiums have been moving in opposite directions. Industry fund premiums have been rising in many cases because they've been hit with a mass of disability claims. These are not just more people becoming disabled, but more people realising that they are entitled to claim – even for disabilities that occurred years ago.

"On the other side you've got master trusts removing the commission element from their premiums, because under the new MySuper regime they're not allowed to pay commissions to advisers. So those premiums have come down, by about 20% on average. The end result is that average premiums in those two sectors are now about the same."



This is illustrated by [Chart 2](#), which shows the premium indices for each industry segment for both Death & Total and Permanent Disability (TPD) cover and Income Protection (IP) cover. The indices give an indication of the median premium in each segment, with 1.0 being the median across all funds.

Chart 2 | Overall Premium Indices for Major Industry Segments | August 2014



*Release Ends*