

Under-insured and most don't know it: Super fund survey

One in two industry super funds members are under-insured by \$100,000 or more and a disturbingly high proportion overestimate the amount of personal insurance they actually have, according to new research from the \$450 billion not-for-profit super sector.

The 2008 joint report between **The Australian Institute of Superannuation Trustees (AIST)** and **Industry Funds Forum (IFF)** shows that when it comes to personal insurance there is a sizeable disparity between perceptions and reality among super fund members with many having only a sketchy knowledge of their insurance status.

The report – based on a survey of more than 2000 members of 9 large industry super funds and conducted by Sweeny Research - is believed to be the first major Australian research project to compare 'actual' levels of insurance cover with an individual's 'perceived' level of cover as well as the level of insurance cover required for their personal circumstances (based on industry formulae).

Releasing the study at **AIST's annual Superannuation Insurance Symposium** in Melbourne today, **IFF chairman, Damien Hill**, said the study showed that many working Australians had become immune to the under-insurance problem and that they were confused and disengaged about insurance.

"What this research is telling us is that while one in two super fund members have significantly less death cover than they need and three in four have significantly less TPD cover, many members significantly overestimate what they actually have, " said Mr Hill, who is also the CEO of one of the country's largest industry super funds, REST. "This means a lot of people will get a real shock if they ever have to make a claim".

The survey showed more than 50% of respondents were under-insured for death cover by \$100,000 with the average level of death cover being \$189,000. Significantly, 28% require death cover of \$500,000 or more, although only 9% have this level of protection. For TPD, 74% are underinsured by \$100,000 or more, while for IP cover, 45% are underinsured by \$1000 or more a month.

However the survey also showed that in some instances there was a reasonable level of over-insurance among super fund members, notably among those aged under 32 with no dependents.

It also showed that nearly 50% of people have difficulty in understanding insurance terms and gathering unbiased information and that a third of super fund members are unaware that their fund offers insurance cover. Men, higher income earners and families with dependent children are more likely to get their insurance cover right than women and low-income earners.

Mr Hill said the survey results highlighted the need for the super industry to better address the insurance gap.

"The fact that families are having children later in life and we have rising levels of household debt means the issue of insurance inadequacy is a growing one that the super industry will need to tackle," Mr Hill said.

"We know that many people put insurance in the too-hard basket but, in many cases, the gap between the personal insurance that people have and what they need isn't as frightening as it seems," said Mr Hill.

Mr Hill said one of the key challenges for the super industry was to design more innovative products that better related to life stages such as providing trigger points that might make members revisit their insurance cover more often.

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AIST CEO Fiona Reynolds said there were similar community awareness challenges with superannuation and personal insurance, particularly among women and low income earners.

"As with super, women and low income earners are doing worse" said Reynolds, adding that for many Australians, the insurance they have through their superannuation is their only form of insurance.

"With most household responsibilities including raising children falling to women, it's particularly important that women and their families have adequate coverage".

Ms Reynolds said Minister's Nick Sherry's release on Friday of a working group paper to look at ways to improve access to low cost financial advice from within a super fund was certainly a step in the right direction towards improving the insurance inadequacy problem.

"This survey is showing us that more people turn to their super fund for education and insurance advice than financial advisors so we any regulatory change that enables super fund trustees to more efficiently and effectively provide personal advice on insurance would be of great benefit to members".

Key findings:

Actual cover vs Cover required (based on IFF/AIST formulae)

- Average death cover: \$189,000 **Vs** Average cover required: \$431,000
- Average level of TPD: \$162,000 **Vs** Average cover required: \$437,000
- Average level of IP \$2,700 a month **Vs** average level required: \$3750

Under-insurance

- 51% are underinsured by \$100K for death cover
- 74% are underinsured by \$100K for TPD cover
- 45% are underinsured by \$1000 per month or more for IP

Over-insurance

- 16% over-insured by \$100,000 or more – although as many as 37% are over-insured to some degree with younger people most likely to fall into the over-insured category.
- 4% over-insured by \$100,000 or more for TPD
- 12% are over-insured for IP cover by at least \$1000 per month

Perceptions

- More over-estimate than under-estimate their cover
- 23% over estimate death cover by \$100,000; 47% under-estimate by \$100,000 or more. Young people tend to dramatically overstate their needs.
- For TPD cover, perceptions of the amount of cover required are often extraordinarily high – averaging over \$2 Million. Again young people are the biggest over-staters. 71% have TPD cover, with males, younger people and higher incomes earners more likely to do so.
- For IP estimates tend to be more accurate, with more or less equal proportion over and under estimating the amount of cover they require. 31% of respondents have IP cover.

Key insights

- Personal insurance options offered by super funds do not have a major impact on fund choice, with perhaps families with dependent children being a notable exception.
- About a third not aware their super fund includes insurance cover
- 'Concerned' families have highest level of cover – 'mature' people have lowest.

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- Only 13% aware of the tax benefits of buying insurance through super. Job change is the main prompt for an insurance review.
- 40% (males) 52% (females) find buying personal insurance overwhelming
- Around half have trouble understanding insurance terms, working out the required level of cover and gathering unbiased information
- Males, higher income earners and 'concerned' families are more likely to get it right than females and lower income earners.

List of participating funds: 9 Industry funds involved in the survey: REST, Sunsuper, Australian Super, TWUSUPER; HOSTPLUS, Tasplan, HESTA. Cbus, Westcheme.

*TPD: Total Permanent & Disability Cover

*IP: Income Protection

AIST is the peak industry body for the \$450 billion not-for-profit super sector which includes industry, corporate and public sector funds covering the super interests of nearly 2/3 of the Australian workforce.
web: www.aist.asn.au

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