Monthly Information Newsletter – Tax & Super

August 2020

Has your super fund got you covered for insurance? With COVID-19, maybe not

From 1 July 2019, the government adopted new rules that aim to prevent the unnecessary erosion of people's retirement savings through inappropriate insurance arrangements.

As part of the rules, super providers, excluding SMSFs and small APRA funds, are unable to provide insurance by default when an account has been inactive for more than 16 months.

Generally, a member holds an inactive super account if the account has not received any contributions or rollovers for 16 months or longer.

From 1 April 2020, additional rules were introduced to stop super providers automatically providing insurance cover on an opt out basis to members where:

- a new member is aged less than 25 years old
- the member holds an account with a balance below $6,000

However, the dangerous occupation exemption recognises that certain occupations carry a higher degree of risk, such as (but not limited to) emergency service workers.

This exemption allows trustees to continue to provide insurance on an opt out basis where:

- the member is employed in a dangerous occupation
- it is reasonable to expect that the contributions paid into the product will be for the member's employment in that occupation, and
- the fund trustee has notified APRA in writing that the exception will apply to the product and the election is in force.

Prior to those changes coming into effect, most super funds (other than SMSFs and small APRA funds) automatically provided life and TPD insurance cover to members upon joining the fund. Some of those funds also automatically offered income protection insurance as default insurance and required a member to opt out of it if the member didn't deem it necessary for them.

Under the new rules, if a member with an inactive low balance super account (below $6,000) in a large APRA regulated super fund wants to keep their insurance, they will need to tell their super fund (that is, ask for the insurance to be provided) or contribute to that super account. If no action is taken, their insurance will be cancelled automatically, and the member's super account will be transferred to the ATO to protect their account from fee erosion.

Also, insurance cover will not be provided by a large APRA regulated super fund for a new member aged under 25 unless they:

- write to their fund to request insurance through their super
- work in a dangerous job and the trustee determines that the dangerous occupation applies. The new member can, however, choose to cancel this cover if they do not want it.

COVID-19 impact on insurance cover

As part of its economic response package to the COVID-19 pandemic, the government implemented a new temporary measure to allow individuals affected by COVID-19 to access up to $10,000 of their superannuation in 2019-20 and a further $10,000 in 2020-21 (further extending the deadline to apply for this last option out to the end of this calendar year).

Given the recent changes to insurance arrangements for members of large APRA-regulated funds (as outlined earlier), the new early release measures could see some of those members losing their income protection and life and total permanent disability insurance cover if they fully withdraw or end up with a super balance that drops below $6,000.

Many people are also at risk of having their insurance automatically cancelled if their large APRA-regulated fund account(s) is considered inactive because they are unable to contribute for a continuous period of 16 months as a result of financial stress due to the coronavirus pandemic.

While the latest changes to insurance arrangements do not apply to SMSFs, withdrawing super early may also affect SMSF members who have a secondary APRA-regulated fund that provides them with insurance cover. They are, therefore, also at risk of losing their insurance cover in those funds if their APRA-regulated fund account(s) has a balance below $6,000 or is considered inactive due to no contributions for a continuous period of 16 months.

It is, unfortunately, expected that the new law changes would likely leave hundreds of thousands of people facing the COVID-19 crisis without life, disability or income protection at a time they may need insurance more than ever.

Given insurance cover inside superannuation is a secure way of protecting fund members against the financial strain that serious illness, injury or death can cause, it is critical for people who intend accessing their super early to consider the impact on their insurance and be aware of the implications before withdrawing.

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