CENTREPOINT ALLIANCE

INSURANCE ROADSHOW

October 2023

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Insuring the Uninsurable Client

MLC Life Insurance

Marshall Ross – Partner Education Manager

Session Synopsis

While every client needs to consider personal risk mitigation as part of their financial plan, not every client may be able to access an easily underwritten retail insurance product due to health or occupation.

Similarly, as life and risk needs evolve over time it may be hard to make appropriate changes to existing cover.

In this session we look at strategic solutions for clients who cannot be underwritten and tips of appropriately positioning these with the client.

Learning Outcomes

1) Understand the types of insurance solutions available and underwriting involved.
2) Acquire knowledge of product features and structures that can be used to gain coverage clients need but cannot be underwritten for
3) Be able to provide practical strategies to help clients mitigate risk outside of a regular retail insurance application.

Session Agenda

LIFE INSURANCE

1. Value of Advice
2. Risk Mitigation
3. Insurance Challenges
4. Risk Management Solutions
5. In Force Client Management
6. Next Steps

Value of Risk Advice

Advice beyond the Product

Poll 1

"

What do you think is the value of Risk Advice?

A) Getting a fully featured Product

B) Getting the cheapest possible premium

C) Delivering certainty & confidence that risk is managed effectively

D) There's no value in Risk Advice

Value of Risk Advice

What do clients want?

Is it an Insurance Product?

Is it a specific Insurer?

Or is it security that risk is managed?

It’s by helping clients with the end outcome of managing their risk that we add value in providing security and certainty

Identifying Risks

Where are Clients exposed?

- Protecting Assets/Servicing Debt
- Cost of caring for family
- Business debt or equity value
- Ability to earn income & fund lifestyle

Understanding points of vulnerability is the key stage in both educating the client and then formulating the appropriate risk mitigation solution – regardless of insurance product.


Needs change over time
Client Not Seeking Insurance Solution
Perfect Product Doesn't Exist
Cost vs Budget
Underwriting
Comfort with Alternatives
Why Can't we Insure all Risk?

Ethical & Modern Risk Advice

Standard 6 of the Code of Ethics: Broad Impacts of Advice

Standard 5 of the Code of Ethics:

Best interest & confidence client understands advice

Approaching the problem with the end solution in mind

Demonstrating value through mitigating risk in a manner that meets client expectation

Risk Mitigation

How we can help Clients

Risk Mitigation

Creating Educated & Informed Clients

Identify the Risks

Discuss Consequences

What's the Financial Impact?

Calculate the right Mitigation Mix

Put Solutions Into place

Insurance Challenges

Getting Clients Underwritten

Poll 2

"

What % of your clients do you estimate have no health conditions for underwriting?

A) 0-10%

B) 10-20%

C) 20-30%

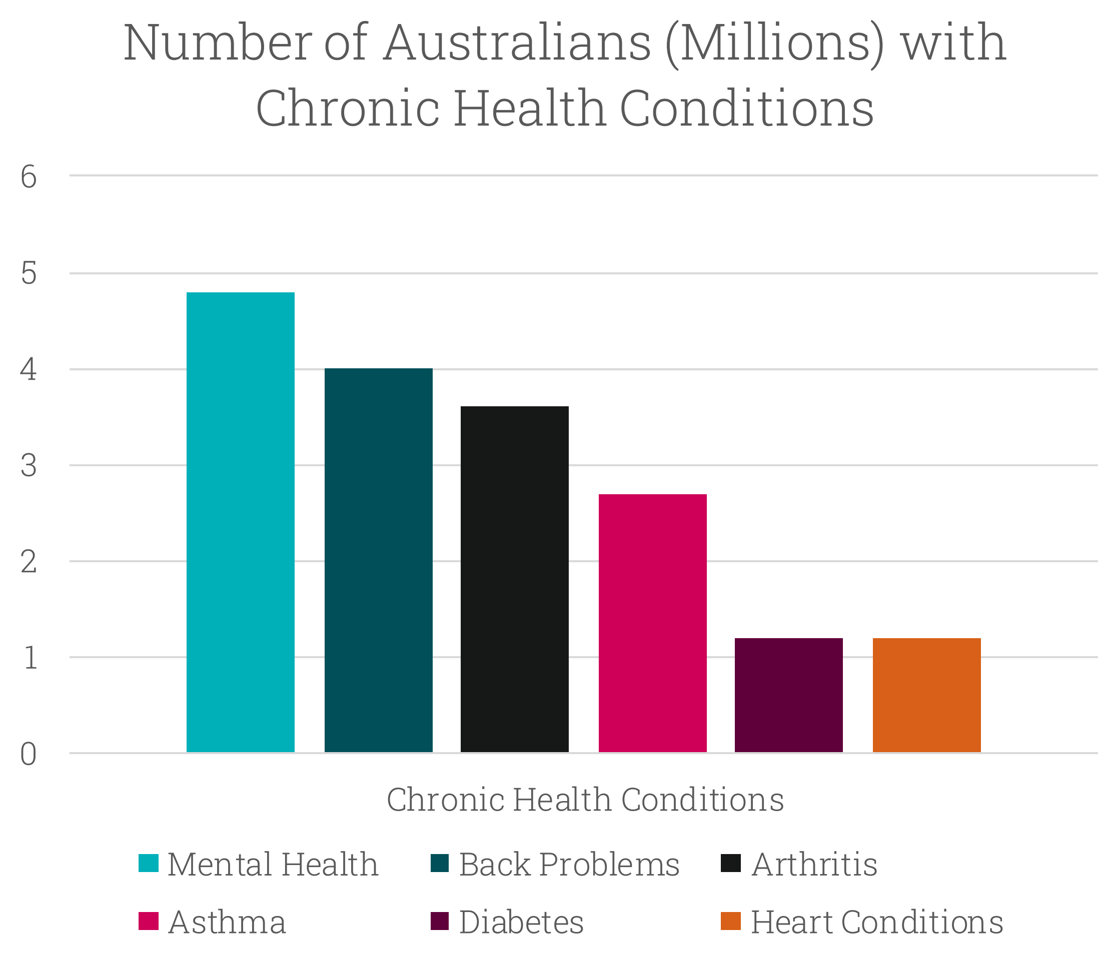
D) 30%+

Getting past the Gatekeeper

Why we can't always access personalised Insurance

The nature of the gatekeeper protecting the pool means that we can't always access personalized insurance, or we can only do so with specific conditions applied to the contract & this creates challenges with getting clients insured

47% of Australians will have a chronic health condition at some point in their life.



Statistics – Australian Bureau of Statistics 2018

Positioning Non-Standard Terms

Why do we want what we can't have?

Scarcity Effect: psychologically creates demand vs what we have in abundance

The ego: Feelings of rejection or denial negatively affecting self-esteem

Comparison: Feeling like we aren't getting the same outcome

Reframing the Conversation

Focusing on what is available and the large benefits this represents

Separating underwriting assessment from comment on health outcomes or self-worth/value

Comparing instead to scenarios of not being able to access cover at all

Causes of Claim			
Life	TPD	Trauma	Income Protection
Cancer (32%)	Mental & Behavioral (24%)	Cancer (61%)	Accident & Injury (50%)
Cardiovascular (27%)	Accident & Injury (23%)	Cardiovascular (25%)	Bones, Joints, Tissue (10%)
Respiratory (13%)	Bones, Joints & Tissue (14%)	Nervous System (4%)	Mental & Behavioral (10%)

Source – TAL Reality Checker & MLC Life Insurance 2021

The Underwriting Decline

How do we still get our mitigation mix right?

Our risk advice should always include a mix of retail insurance, self-insurance & potentially group insurance

An effective pre-assessment & underwriting outcome will help dictate what mix we need to mitigate risk for clients

Risk Management Solutions

Managing client risk exposure

Insuring the Uninsurable Client

What Toolkit Options are Available?

Default Insurance

- Automatic acceptance
- Limited Underwriting
- Life/TPD/IP
- Superannuation Only

Self Insurance

- Assets
- Risk reduction
- Buffer to loss
- Managing health

Group Insurance

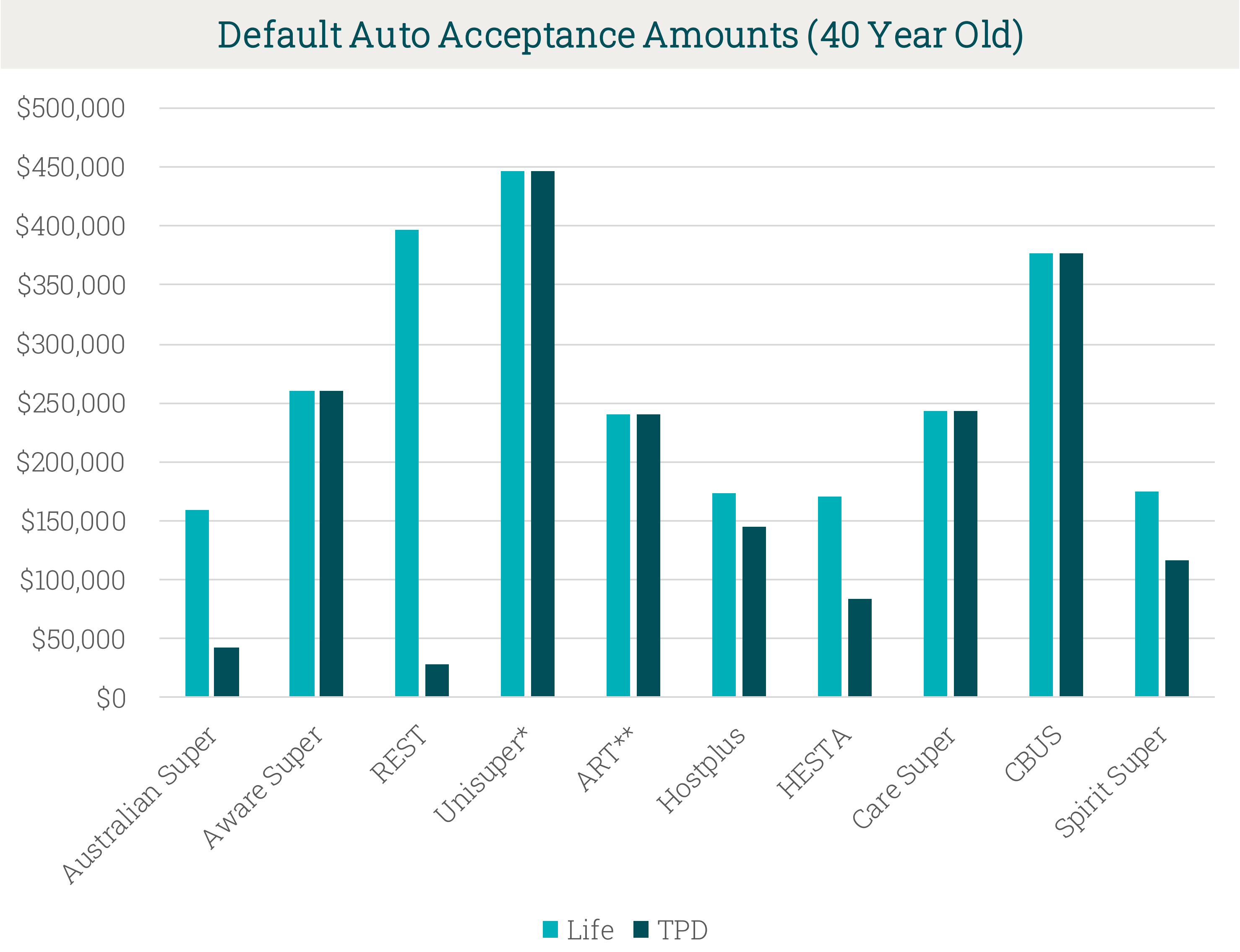
Life & TPD

Unitised vs Age Based vs Fixed Amount

TPD Definitions

Offers for more cover with limited underwriting

Time limits to opt-in post joining



Source – All Relevant Fund PDS's as at 1/04/2023
Unisuper – Includes 'Additional Default Cover' Without Underwriting 2 Additional Units
ART – TPD includes total payment of $60k initial and $36k instalments under TPD Assist
Example – 40 Year Old White Collar Worker 'Any' Occupation
Disclaimer – Variance may apply. See individual fund for individual calculations in each scenario

Group Insurance

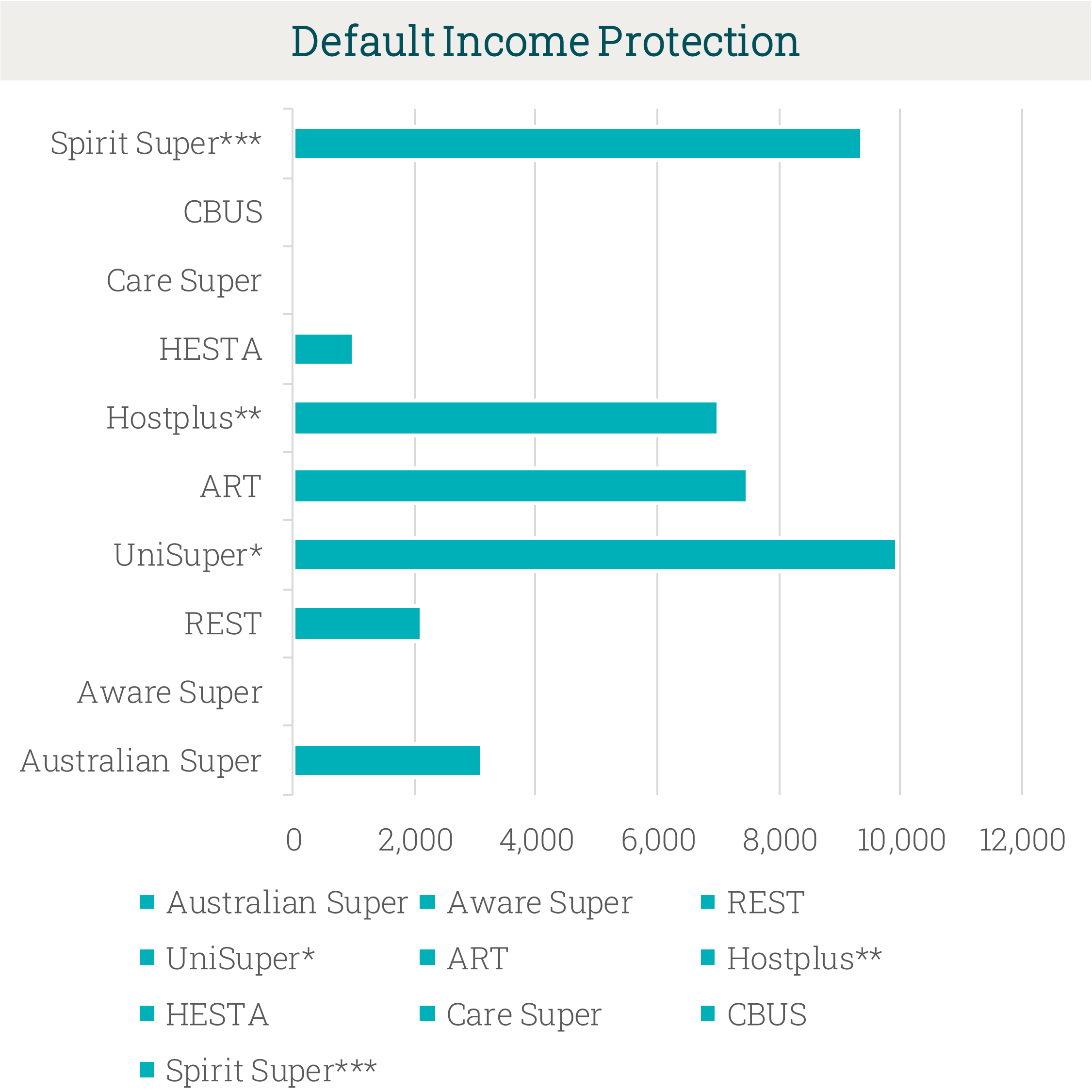
Income Protection Insurance

Not always available compared to Life/TPD

Can often cover beyond 70% of income

Indexation and claims indexation are rarely available via default

Important to consider SIS limitations and conditions of release



Source – All Relevant Fund PDS's as at 1/04/2023
Unisuper – Based off max 23 unit cap, but cannot exceed 85% of pre-disability earnings
Hostplus – Only Available for members of an employer that is part of ClubSuper, Tapers after 26 weeks – average taken for this scenario
Spirit Super – 75% of Pre-Disability earnings capped at $16k/month for default cover
Example – 40 Year Old White Collar Worker 90 Day Wait 2 Year Benefit Period - $150k PA Salary
Disclaimer – Variance may apply. See individual fund for individual calculations in each scenario

Group Insurance

What to look for

Pre-existing condition clauses and time periods can vary

Eligibility for amounts of default coverage can vary based on employer member and occupation class

While you will see the same insurers pop up as underwriters, the product itself will vary

Over time benefits and definitions will change, and review important given this could expose a client

Insurance offerings in this space are incredibly complex and difficult to understand for a member – making professional advice immensely valuable.

Additional Considerations

What other options exist?

Employer Plans	Accidental Cover	Alternative Product Types	Limited Retail Offerings
Automatic employer offers up to limits funded by business	Retail but non/limited underwriting Life/Accidental IP (2-3 Providers)	ADL TPD, Living Expense Cover, Severity Based Products	Life/Trauma when unable to get Disability Cover etc.

Self Insurance

How can clients create a risk buffer?

Insurance Alternatives

Alternative options may exist in a clients life to fund risk management as long as the consequences of this are clearly discussed and proceeded under informed consent.

Improve Risk Tolerance

Clients can work to manage their risk exposure through improving the financial buffers that exist along with improving health outcomes.

Building a bespoke self-insurance strategy is of immense value and a fundamentally valid element of risk advice that can help provide protection to clients who cannot access traditional insurance solutions

Self Insurance Strategy Examples

A risk plan without the risk product

- Cost of Medical Care → Top quality Private Health & Extras
- Temporary Income Loss → Sick Leave + Buffer Fund contributions + Spouse return to work
- Death/Permanent Disability → Additional Mortgage contributions, additional asset growth and contributions
- Reducing health risk → Regular medical check ups, make use of health insurance extras, active plan to improve health

Wellbeing Offerings

Targeted at Improved Health

Better health leads to better risk management for our clients, both through less likelihood of health events and better access to mitigation products.

Clients Want Wellbeing

Research says that many clients want to partner with their insurer when it comes to overall wellbeing & health.

Opportunity for Broader Conversation

Opens chance to broaden the risk management conversation, add value with no cost, and create long term outcomes. Remember the link between financial and physical health.

Linking Wellbeing to Client Need

Where can we help?

Personalised Underwriting Gives Insights

Through the underwriting process we get an understanding of a client's health and opportunities for improvement.

Understanding wellbeing offers in areas such as mental health, physical fitness & diet, physiotherapy etc. allows us to link wellbeing support to client need.

Long term this gives a client both improved health, but also improved underwriting outcomes & affordability

Genetic Testing Results

FSC Genetic Test Moratorium in Life Insurance

- Diagnosis of a condition (even via genetic test) must be disclosed.
- Insurers will not ask applicants to take a genetic test or disclose genetic tests done as part of medical research studies
- Favorable tests chosen to be disclosed will be considered along with evidence based preventative treatment.
- Insurers can only ask for or use genetic test results if total industry cover exceeds the below amounts:

Genetic Testing Moratorium Levels			
Life	TPD	Trauma	Income Protection
$500k	$500k	$200k	$4000/month

FSC – Standard 11 Genetic Testing on Life Insurance June 2019

Ongoing Risk Management

In Force Policy Options

Need changes over time but so does health, how can we manage increases?

- Guaranteed Future Insurability
- Underwriting Impact on Increase Portions
- Different Insurer may now be appropriate
- Top up cover via group superannuation

Is indexation a hedge against future uninsurability?

- Often indexation is beyond actual need or wage growth
- Is it worth considering accepting as a hedge against health change?
- Important to regularly review, and reduce every few years for cost if appropriate
- Removal/repeated declines loses the privilege

Ongoing Risk Management

Review Options

Health, self-insurance ability and budget will change over time

Group Insurance & Self-Insurance strategies also have exposure to more volatility

Retail Insurance = certainty. Without this review even more important

Fees & Risk Mitigation Advice

Charging for Value external to Product

Poll 3

"

Do you currently charge a fee for risk only advice?

A) Yes, with commission rebated.

B) Yes, as a supplementary smaller fee to compliment commission

C) Yes, with a partial dial down of commission

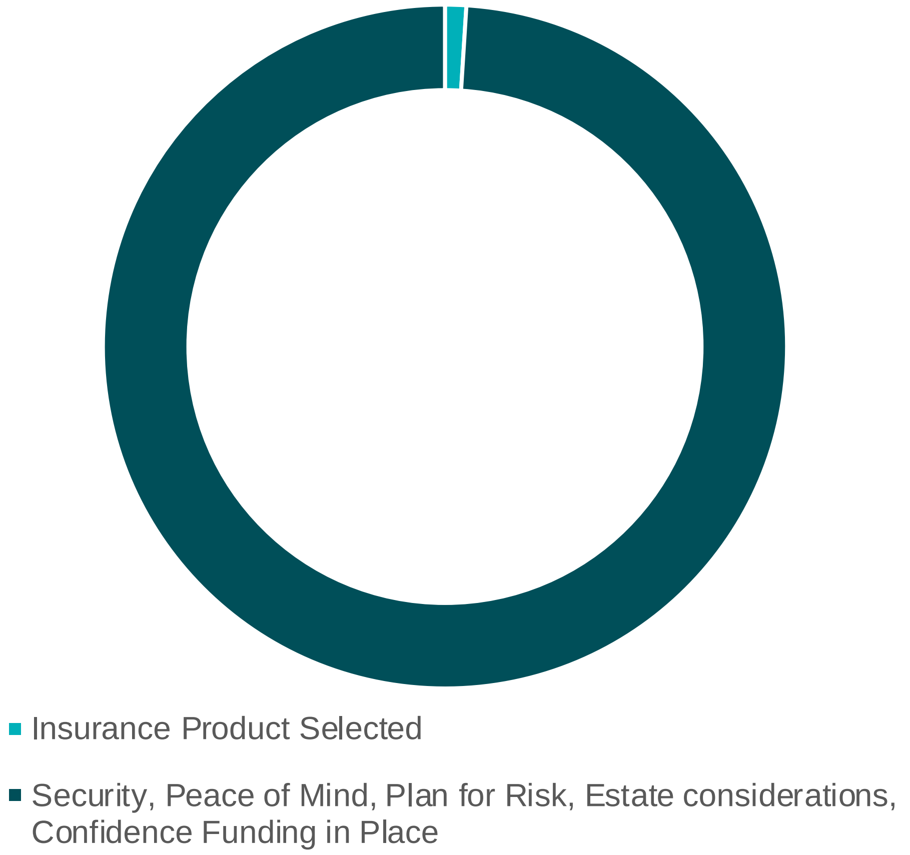
D) No, Commission only

Perception of Value

Advice Value vs Premium

Framing the value proposition conversation early through a non-insurance product lense makes it easier to demonstrate value regardless of the end product outcome.

Where Clients Get Value from Risk Advice



Risk Advice & Fees

How can we charge?

The value of risk advice for clients is mitigating risk not an insurance product

+

A client not eligible for a retail insurance offering will not be paying the usual premium

=

Framing Risk Advice Fee vs an Average Premium Indicates the Value

*78% of consumers said they would not pay more than $500 for advice (additional to insurance premium)**

*Average premium for a new application is $2,505***

*Average initial holistic advice fee is $3,315****

*Zurich – Risk Advice Disconnect 2021 **MLCL 2023 *** Padua Advice Fe Data Report 2022

Putting it Into Practice

Key Take Aways

Managing Risk Holistically

Key Take Outs

Consider what is really important to clients

Understand the risk mitigation strategies available beyond a retail insurance application

Articulate how these help solve the problem

Charge appropriately for value provided

From both an ethical and commercial perspective, an inability to conventionally obtain insurance due to underwriting should not mean an end to the Risk Advice conversation

Additional Materials

Resources & Educational Sessions

Head to the MLCL Adviser Portal for On-Demand CPD Sessions

Reach out to your MLCL BDM for Materials & Vivo Wellbeing Information

Technical & strategy questions:
rdptraining@mlclifeinsurance.com.au

Monthly Live Q&A Sessions on LinkedIn Live

Register for November MLCL Education Webinar Why Wellbeing is What Clients Want

Thank you

Marshall Ross
Strategy & Risk Advice Manager
Marshall.ross@mlcinsurance.com.au

/in/marshall-ross

Intrepid Insights

How group insurance insights are proving increasingly valuable for retail insurance and advice

Adam Crabbe | Risk Strategy Specialist

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Agenda

Reveal latest consumer and industry insights on superannuation and insurance

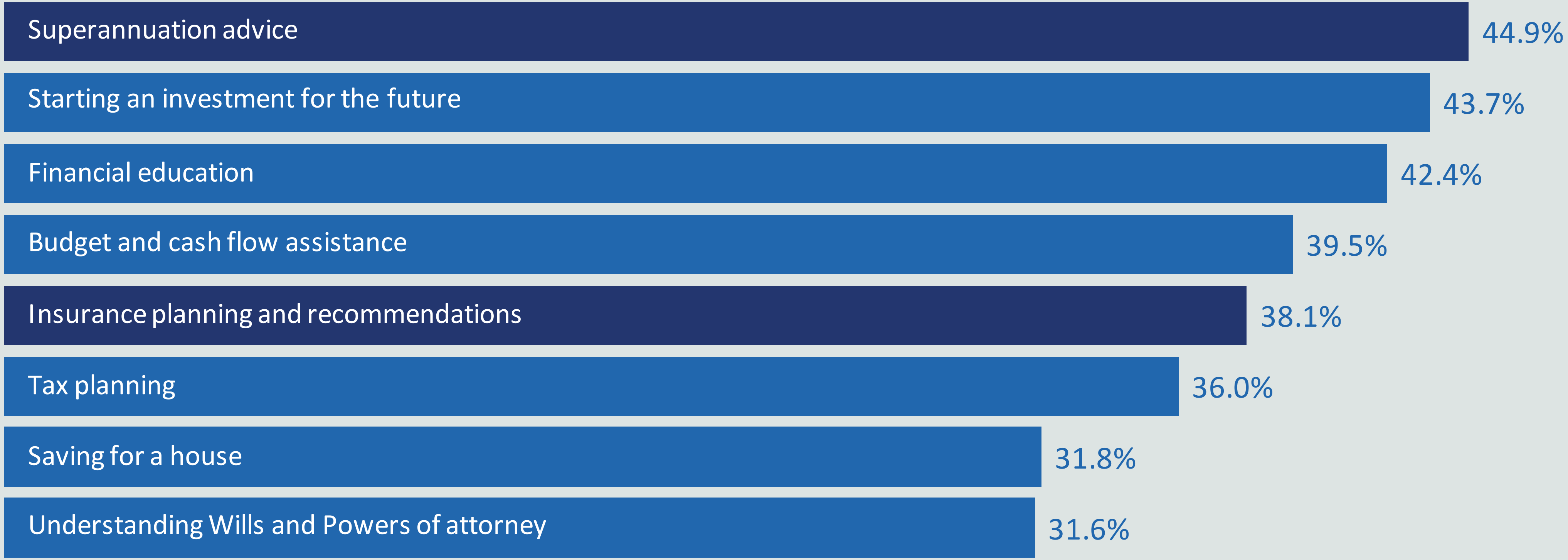
Explore actual group super insurance features and benefits across death, TPD and IP policies

Work through a client example to help articulate appropriateness within a shifting landscape

Questions

Which are most important for a financial adviser to provide?

Superannuation advice and insurance planning are in consumers top 5



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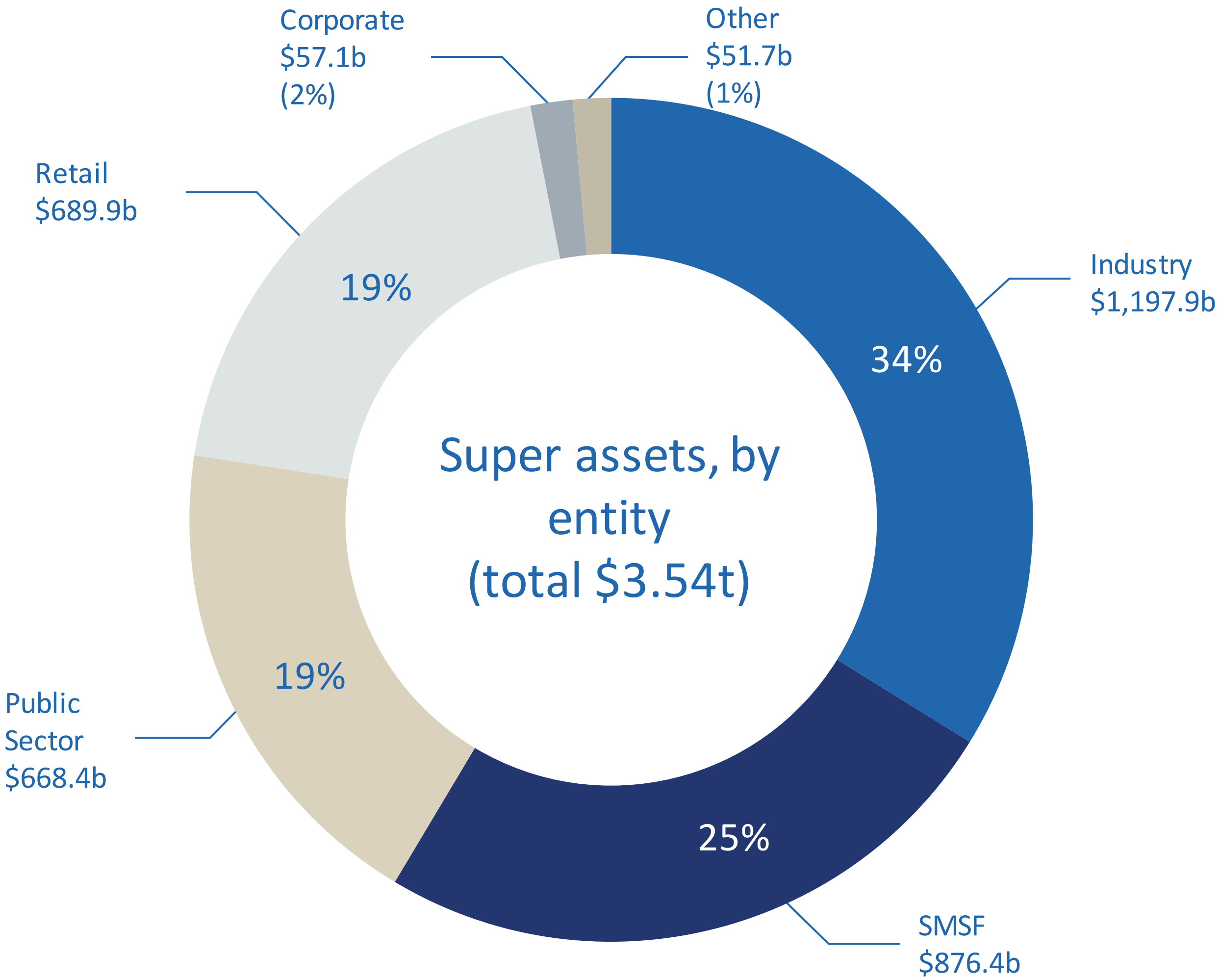
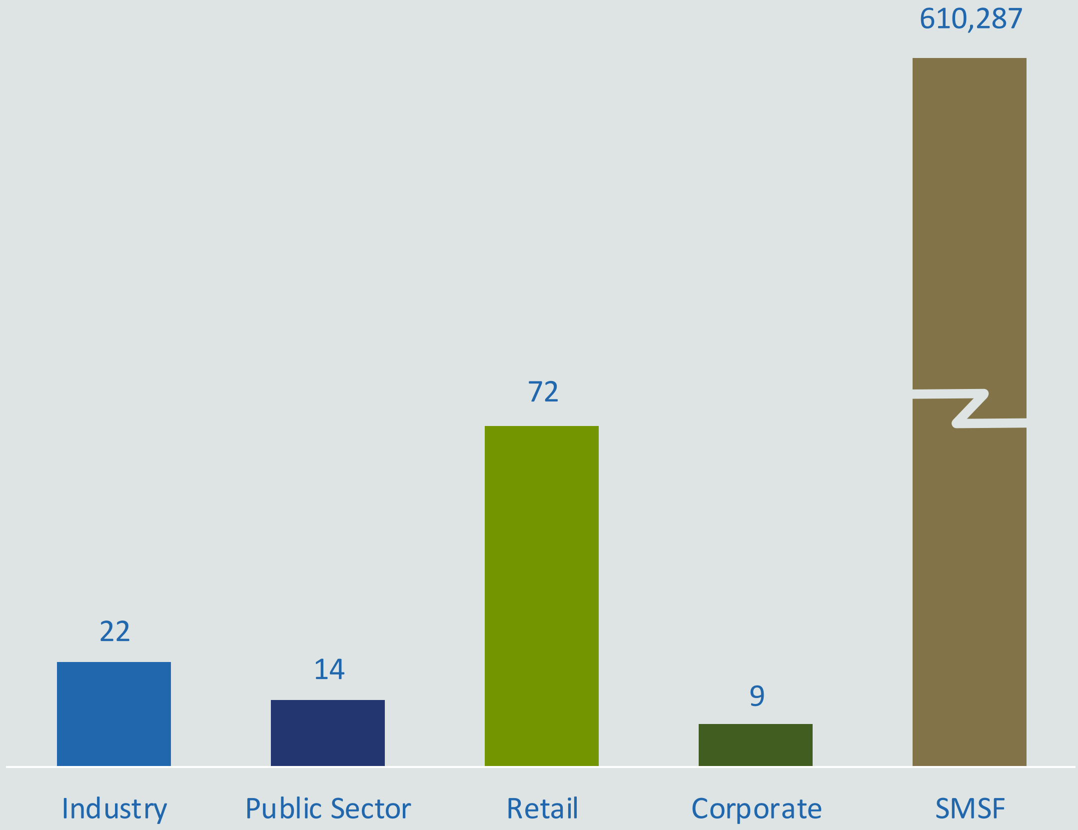
Source: Zurich, respondents aged 25-50, n=1,039 |

Superannuation industry



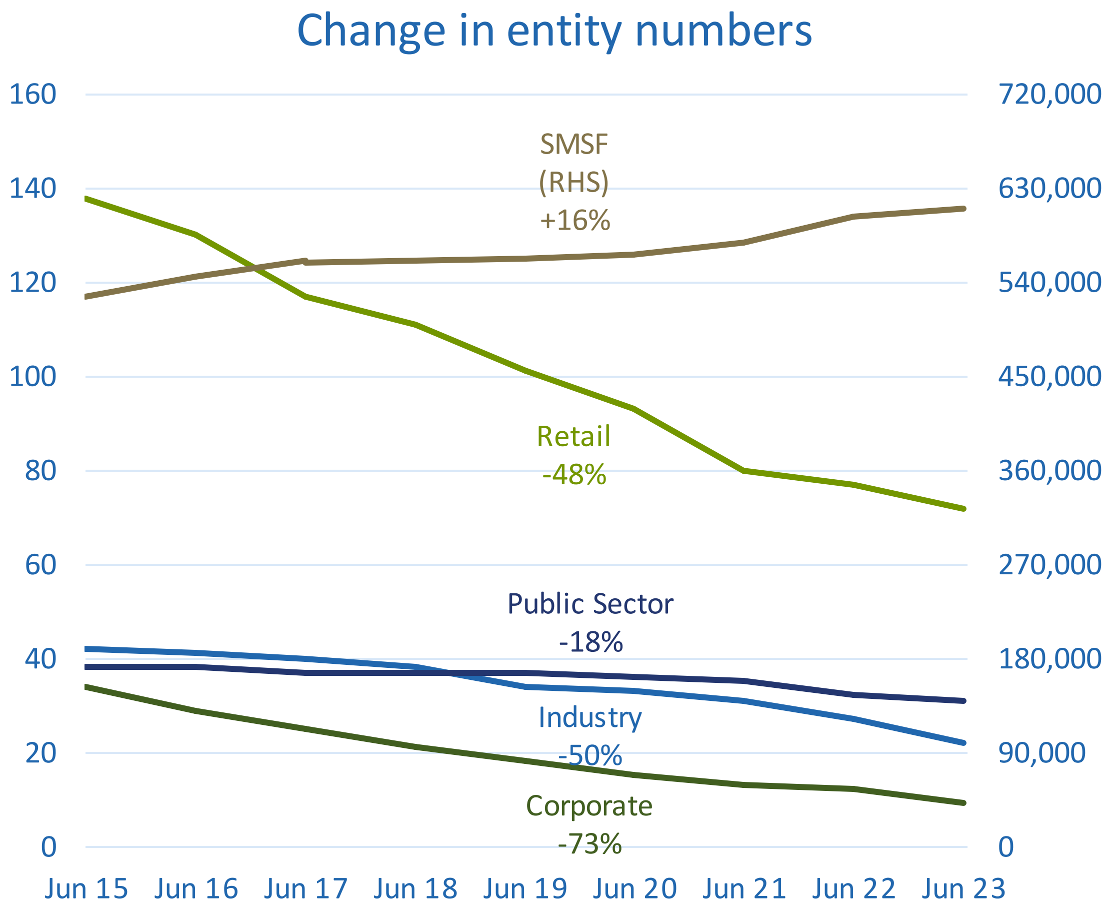
Number of entities

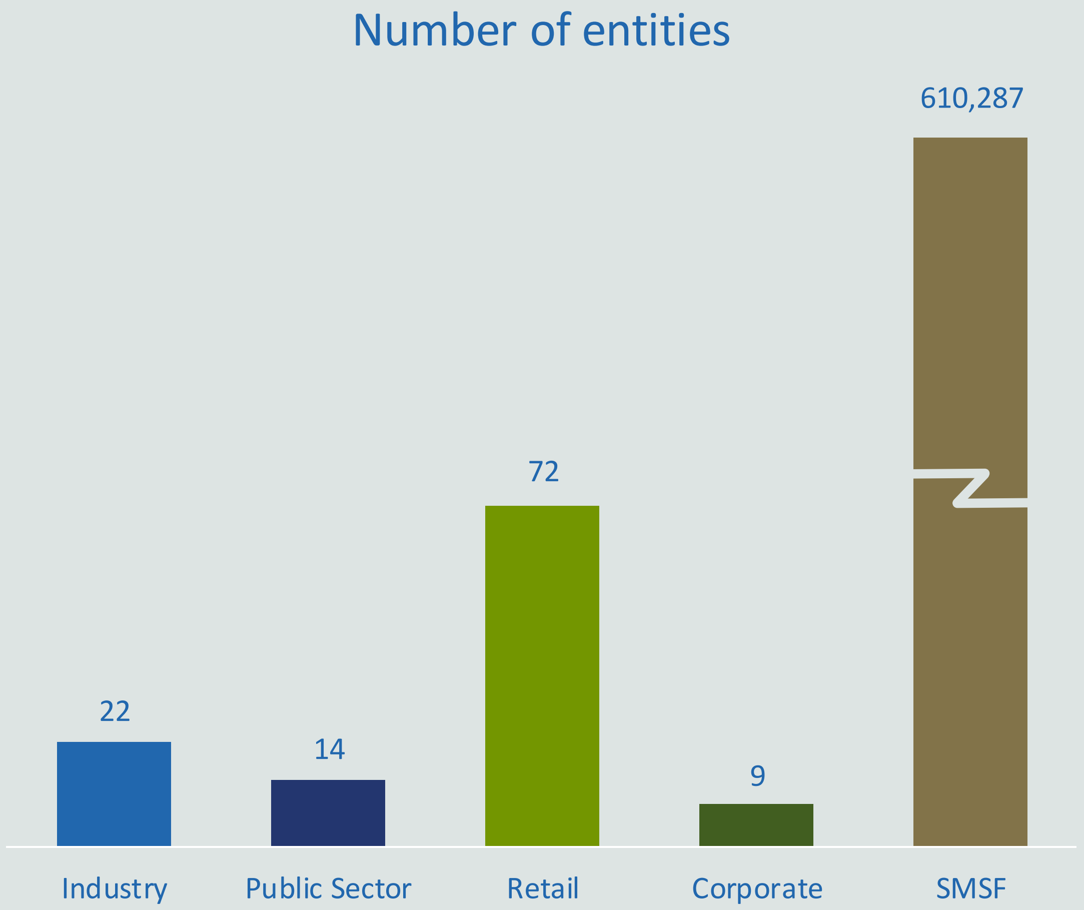


Source:
APRA, Superannuation Statistics, super assets as at June 2023
APRA, Annual Superannuation Bulletin as at June 2022

Superannuation industry

M&A activity has led to a more concentrated sector





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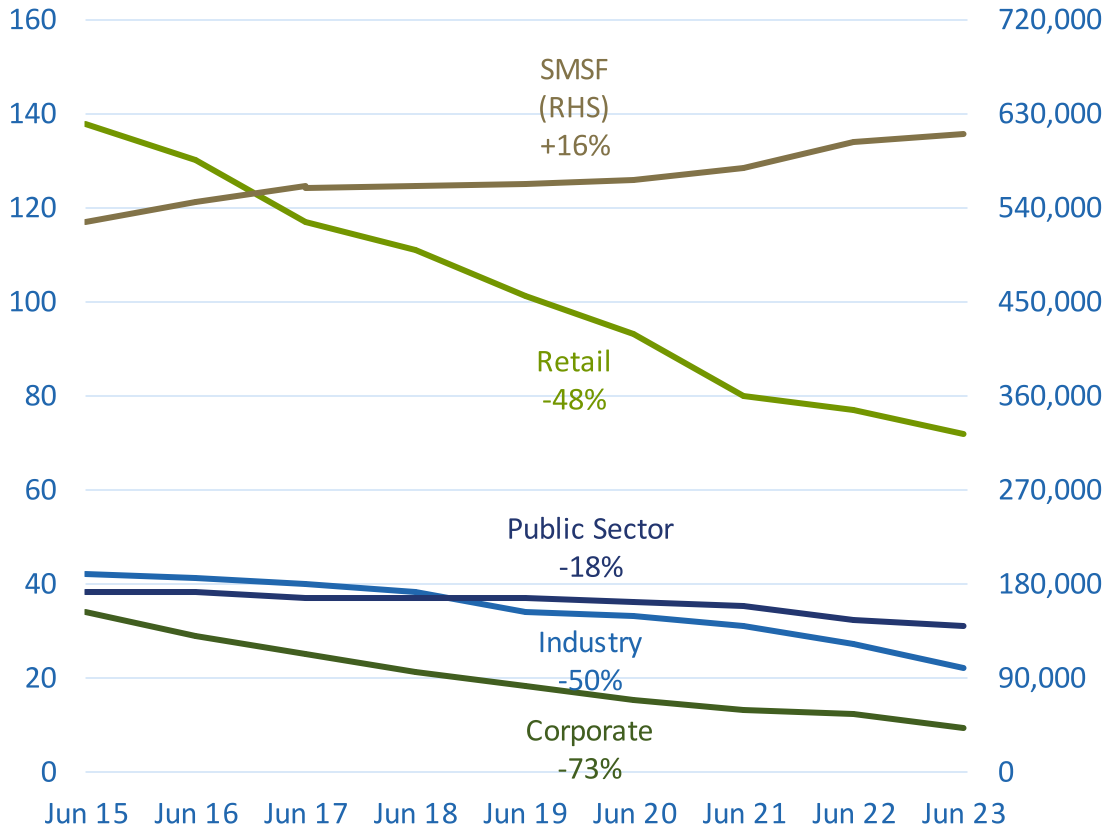
Source:
APRA, Annual Superannuation Bulletin as at June 2023

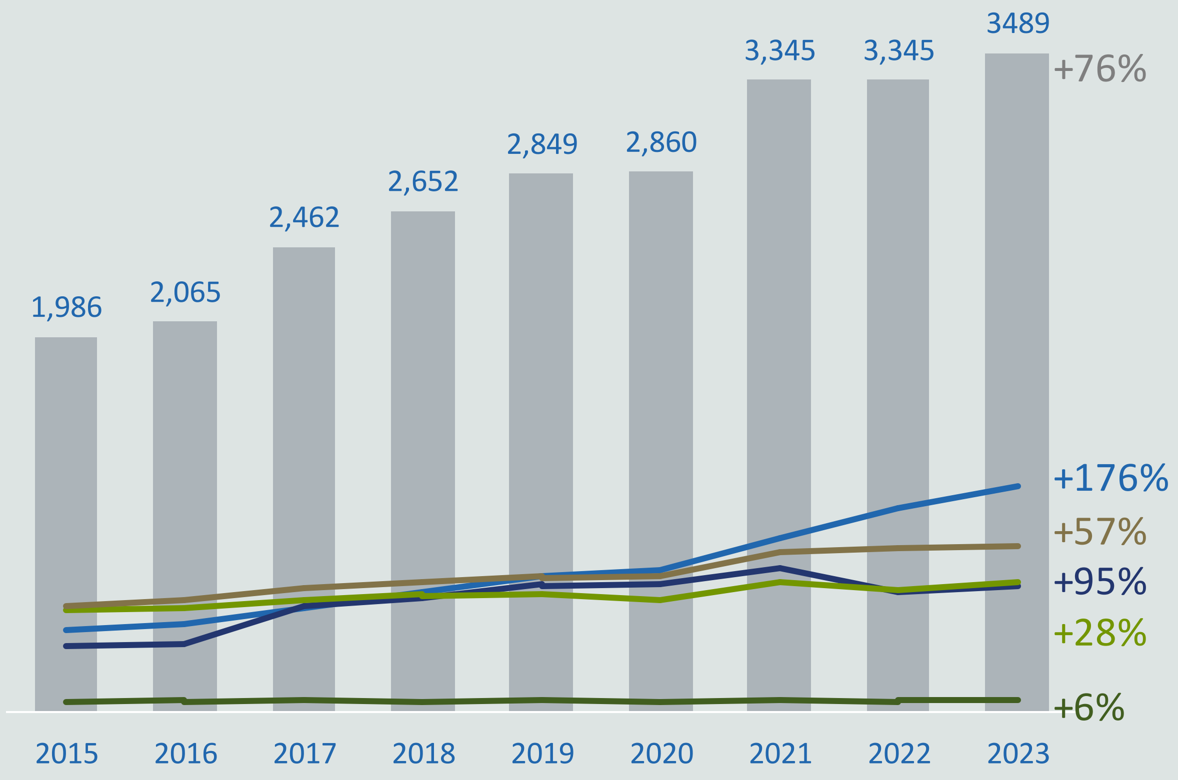
Superannuation industry

Industry fund total asset growth has been strong

Change in entity numbers



Industry funds, total assets ($b)



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Group super - mergers

Selected industry funds 2017 to 2022

ZURICH OnePath

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Group sector outlook

Industry fund consolidation likely to continue through 2023

“

One of the best ways for trustees to **improve outcomes for their members is through a merger** that delivers the benefits of increased scale, or by transferring them to a better performing fund.

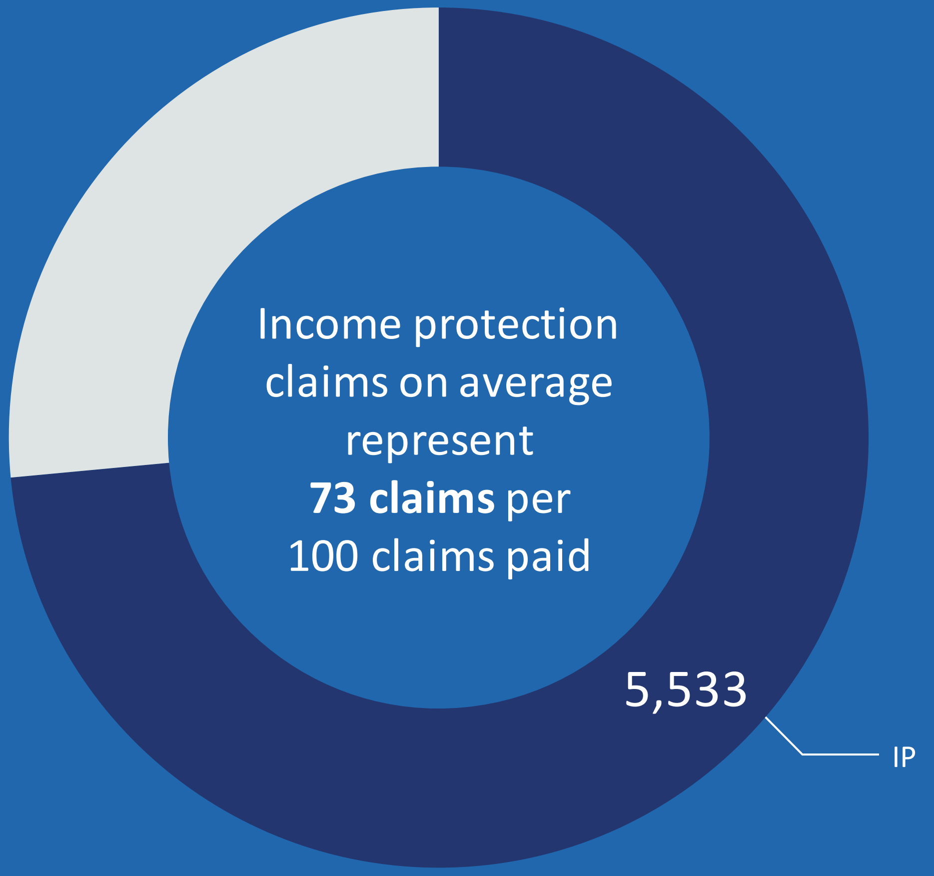
With **industry consolidation likely to increase in coming years** as poor performers and those with sustainability issues exit, and strong performers seek a competitive edge, it’s important all trustees are prepared to initiate a timely transfer of members where indicators point to this achieving better outcomes for members.”

APRA Deputy Chair Margaret Cole

Extract from APRA media release, 10 November 2022

Intrepid Insights:

Income protection



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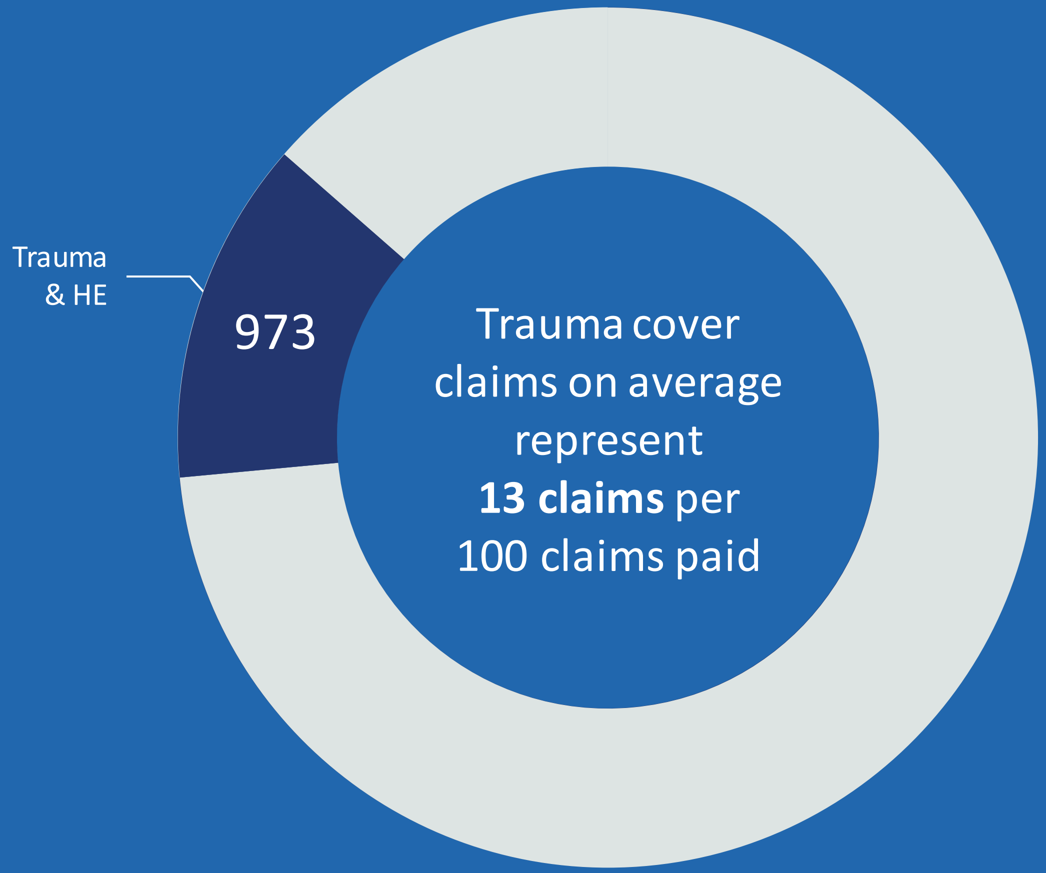
IP = Income protection
Based on actual Zurich and OnePath retail claims paid in 2022 (total retail customers supported was 7,526)

Intrepid Insights:

Income protection



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HE = Health Events

Based on actual Zurich and OnePath retail claims paid in 2022 (total retail customers supported was 7,526)

Claims experience

What are the top 3 causes of all claims?

?

?

?

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Claims experience

What are the top 3 causes of all claims?

Injury & Accident

Cancer

Psychiatric disorders/
Mental Illness

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Are consumers prepared?

1 in 5 can survive just one week or less without their income

1 in 3 advised they have access to $5,000 or less in savings/liquid assets

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Source: Zurich, respondents aged 25-50, n=1,039

ZURICH OnePath

Certain IP claims are paid in advance

"If medical evidence supports the life insured's inability to work for **three months or less**, most often for injury claims, Zurich & OnePath may pay monthly benefits **in advance.**

Eligibility depends on the life insured's occupation, the relevant sickness or injury and the waiting period.

For example, if the life insured is a plumber and they break a leg, and where we know how long recovery is likely to take. In this situation, we may pay the **full claim up-front.**"*

Generally, benefits are **unable to be paid in advance inside the superannuation** environment.

*Extract from Zurich Wealth Protection PDS (27 September 2021, page 36) and OnePath OneCare PDS (1 August 2022, page 74)

Temporary incapacity

Cashing restriction

A non-commutable income stream cashed from the regulated superannuation fund for:

A) The **purpose of continuing** (in whole or part) the gain or reward which the member was receiving before the temporary incapacity; and

B) A **period not exceeding** the period of incapacity from employment of the kind engaged in immediately before the temporary incapacity.

SUPERANNUATION INDUSTRY (SUPERVISION) REGULATIONS 1994,
SCHEDULE 1, ITEM 109, *TEMPORARY INCAPACITY CASHING RESTRICTION*

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Partial disability access

What level of total disability is required for many group income protection arrangements?

?

Sources:
[1]Cbus Industry Super, Income Protection Guide (Industry Super), 26 August 2023, page 10
[2]AustralianSuper, Insurance in your super, 27 May 2023, page 36
[3]Care Super, Insurance Guide, 1 April 2023, page 28

Partial disability access

What level of total disability is required for many group income protection arrangements?

To receive IP payments, you must be **totally disabled** for the **first 14 days in a row** of your waiting period, and totally or partially disabled for the rest of your waiting period.[1]

You must be **totally disabled** for the **first 14 days** of your waiting period to qualify for a full or partial benefit payment.[2]

You must have satisfied the definition of **total disability** for **at least 14 days** and still have a reduced income at the end of the waiting period.[3]

Sources:
[1] Cbus Industry Super, Income Protection Guide (Industry Super), 26 August 2023, page 10
[2] AustralianSuper, Insurance in your super, 27 May 2023, page 36
[3] Care Super, Insurance Guide, 1 April 2023, page 28

Partial disability access

How long are partial disability benefits payable?

If you're eligible for partial disability benefits, these are only payable for the balance (if any) of a **period of up to two years** since the end of the waiting period irrespective of your Benefit Payment Period.[1]

Some funds **do not** provide partial disability benefits

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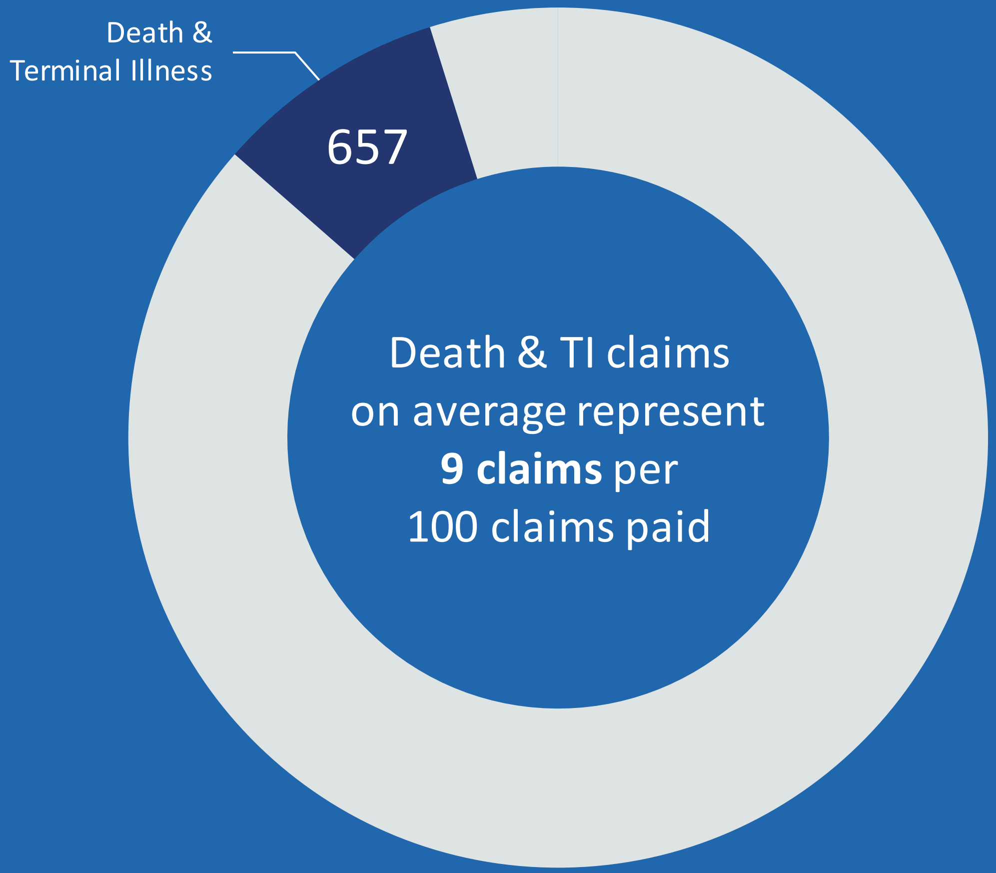
Intrepid Insights:

Life cover



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TI = Terminal illness
Based on actual Zurich and OnePath retail claims paid in 2022 (total retail customers supported was 7,526)

Life & terminal illness

What exclusions do clients expect?

From 50 randomly selected group super funds:

Have no exclusions

No exclusion for suicide, but other exclusions were noted (typically war/acts of war)

Exclude suicide throughout the contract term

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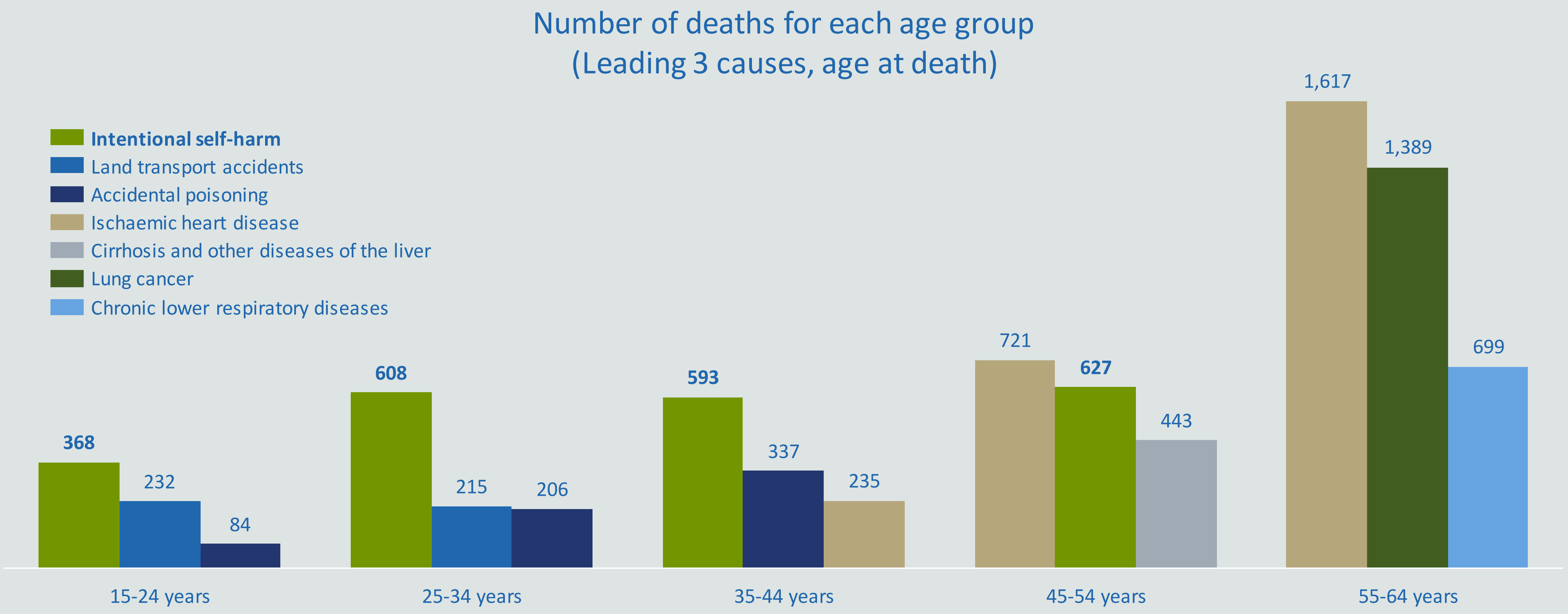
Deaths in Australia

Suicide is one of the leading causes of death



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Source:
Australian Bureau of Statistics, Causes of Death, Australia, 2022, Table 1.3

Life & terminal illness

What exclusions do clients expect?

From 50 randomly selected group super funds:

5

Have no exclusions

7

No exclusion for suicide, but other exclusions were noted (typically war/acts of war)

2

Exclude suicide throughout the contract term

Exclude pandemic illness

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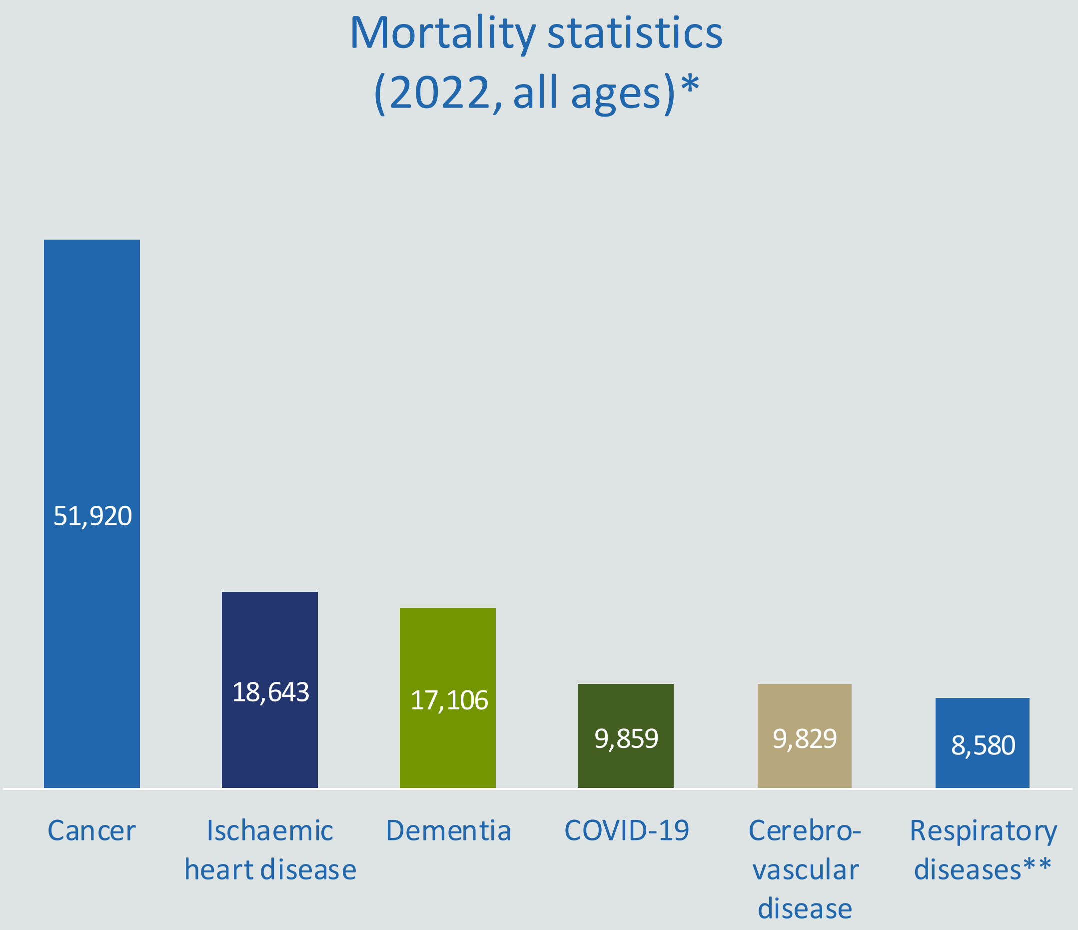
COVID-19

The Delta wave (Jul-Dec 2021) was the only period where the median age at death was <80



11.6% of COVID-19 deaths affected people **under age 70** (4.5% were under age 60)"[1]

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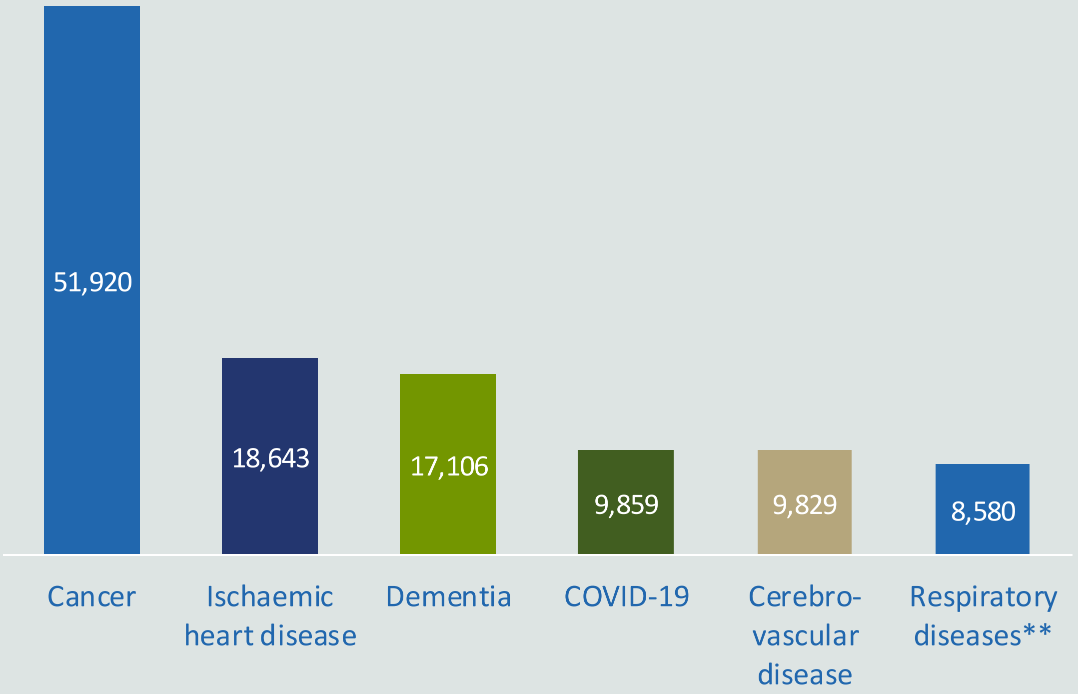
Source:
*Australian Bureau of Statistics, Number of doctor certified deaths by cause and registered in 2022. COVID-19 includes both doctor certified and coroner-referred
**Respiratory diseases includes Chronic lower respiratory diseases, Influenza and Pneumonia
[1]All Australian COVID-19 deaths (both doctor and coroner certified) that occurred and were registered by 31 August 2023

Cancer, by comparison

Mortality, by age

Mortality statistics
(2022, all ages)*



"**32.2%** of cancer deaths affected people **under age 70** (13.3% were under age 60)[1]"

Source:
*Australian Bureau of Statistics, Number of doctor certified deaths by cause and registered in 2022. COVID-19 includes both doctor certified and coroner-referred
**Respiratory diseases includes Chronic lower respiratory diseases, Influenza and Pneumonia
[2]Australian Institute of Health and Welfare, Cancer Data in Australia 2022, Cancer mortality in 2021, All cancers combined, Table S2e.1

Dementia in Australia

Dementia is the **third leading cause of death** of Australians, and the **leading cause of death** for women.

There are **over 400,000 Australians** living with dementia, a number expected to **double by 2058**.

There are **over 28,650 people** with younger-onset dementia, a number expected to rise to **42,400 by 2058**

Over **1.5 million** people in Australia are involved in the care of someone living with dementia.

2 in 3 people with dementia are thought to be living in the community.

More than two-thirds (68.1%) of aged care residents have **moderate to severe cognitive impairment**.

Sources:
Dementia Australia | Independent Health and Aged Care Pricing Authority (IHACPA)
Leading cause of death for women excluding cancer collectively
Younger onset includes ages 30, 40 and 50

Dementia in Australia

	Score: 25-30	Score: 21-24	Score: 10-20	Score: 0-09
Stage	**May be Normal/Early**	**Early/Mild**	**Moderate**	**Severe**
Activities of Daily Living (ADL)	~	Problems with driving, finances, shopping	Requires assistance with dressing, grooming, toileting	Problems with eating, walking
Communication	~	Repeating, off-topic, loses track	Sentence fragmented, empty speech*	Disturbance (i.e., slurring, stuttering)
Memory	Problems naming or misplacing objects	Problems with item recall	Inability to word spell in reverse	All areas showing deficits

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Sources:
Dementia Australia | Independent Health and Aged Care Pricing Authority (IHACPA)
*Empty speech refers to using fewer specific content (or no) words

Dementia claim

Female aged 49*

Diagnosis of **Frontotemporal Dementia** (FD) – Behavioural Variant was established after relevant investigations and assessments.

FD accounts for up to 12% of dementia in the 45–65 years age group. It causes significant morbidity as well as a **six to eightfold increase in mortality risk**.[1]

Two medical specialists (treating Geriatrician and Neuropsychiatrist) outlined:

"

The progression/deterioration in (the insured's) condition with a MMSE (Mini-Mental State Examination) **score of 0/30** due to severe distractibility, and without the care of her partner, should would have died from neglect and falls.

Her condition is **not expected to improve or remit**.

The prognosis of **life expectancy is likely less than 24 months**."

Group super funds with terminal illness durations of 12 months or less"[2]

Source
[1]Royal Australian College of General Practitioners (RACGP)
[2]50 randomly selected group super funds.
Terminal illness durations differ to accessing the accumulated super fund balance.
*Extract from retail terminal illness claim (customer name redacted)

Terminal illness and superannuation

Access to super and life insurance benefits may differ

A **terminal medical condition** exists in relation to a person at a particular time if the following circumstances exist:

a) Two registered medical practitioners have certified, jointly or separately, that the person suffers from an illness, or has incurred an injury, that is likely to result in the death of the person within a period (the certification period) that ends **not more than 24 months** after the date of the certification,

b) At least **one** of the registered medical practitioners is a **specialist** practicing in an area related to the illness or injury suffered by the person, and

c) either:

   i. if there is one certification period—the certification period has not ended; or

   ii. otherwise—neither of the certification periods has ended

Superannuation Industry (Supervision) Regulations 1994, Section 6.01A, Meaning of Terminal Medical Condition

Terminal illness and superannuation

Considerations for advised clients

Contributions

Will the insurance be cancelled if the fund hasn't received a contribution or rollover within a certain period, and can **differ to PYS**[1]

Other benefits

What will happen to other benefits that the member may be **receiving**?

"Your (IP) benefit payments will stop on the date are you determined to be suffering a total and permanent disablement or to have a terminal illness, unless you have a five-year or to age 65 benefit period."[2]

Confirmation

Contact the super fund **prior to** accessing **any accumulated value** under terminal medical condition.

"If you have a terminal medical condition, there could be significant consequences to accessing your super early, including forfeiting your eligibility for insured benefits through your UniSuper membership. Please call us and we can take you through your options."[3]

Source:
[1]Timeframes can differ to that prescribed under legislation (i.e., less than 16 months)
[2]QSuper, Accumulation Account Insurance Guide, page 36, 1 July 2023
[3]Unisuper, Insurance in your super guide, page 38, 1 July 2023
PYS = Protect Your Super

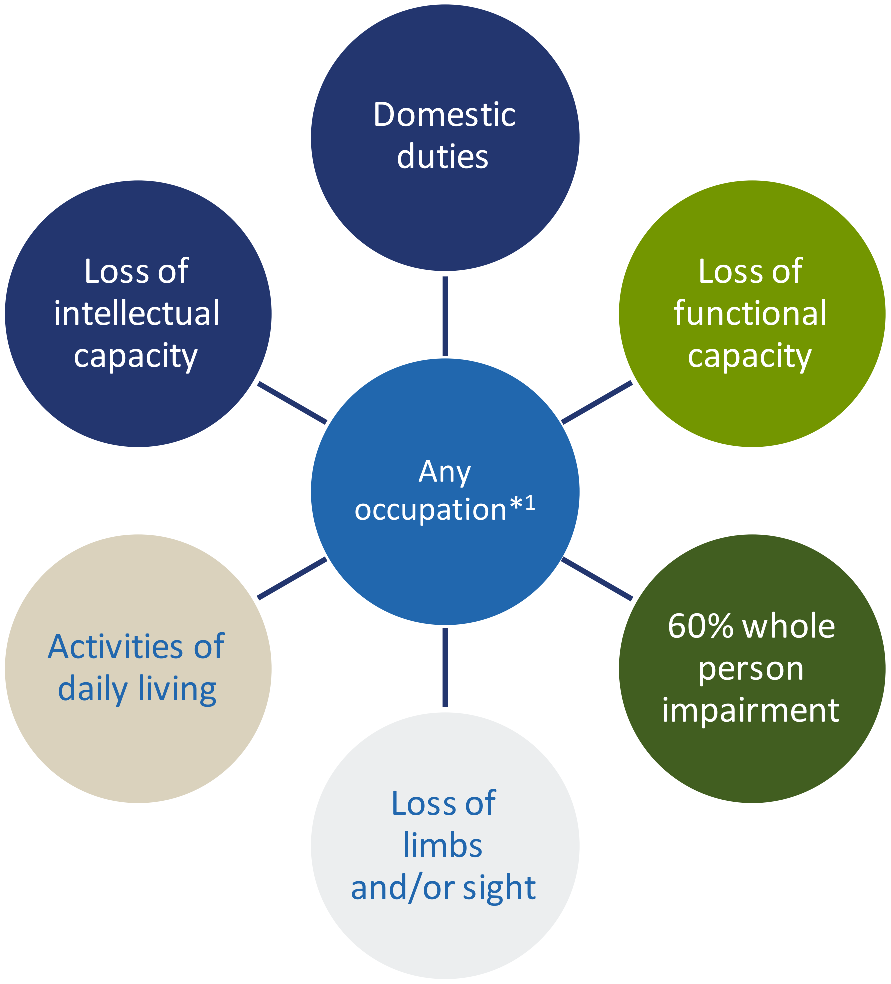
Intrepid Insights:

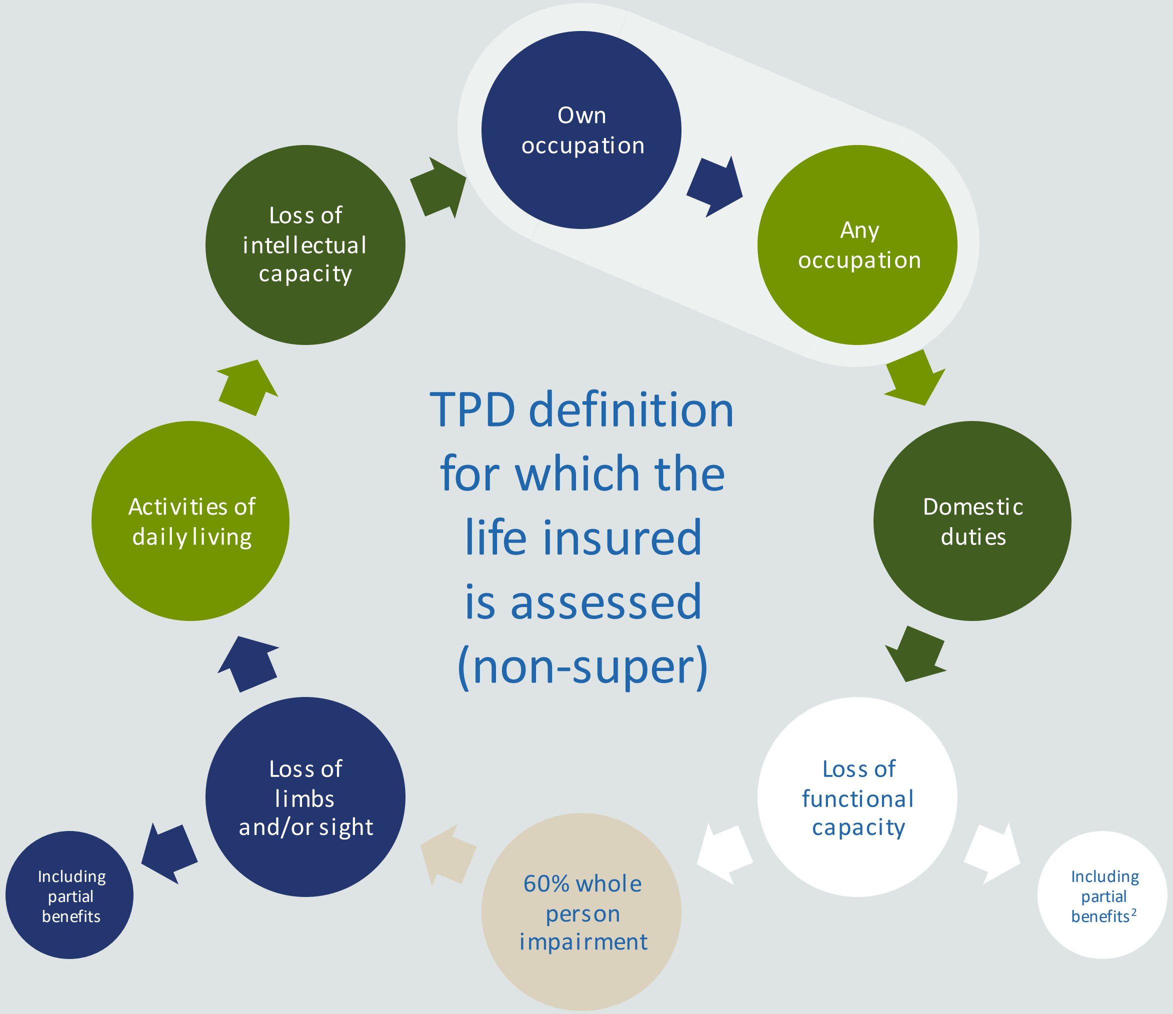
Total & Permanent Disability

Based on actual Zurich and OnePath retail claims paid in 2022 (total retail customers supported was 7,526)

TPD definitions

Coverage is occupationally restricted within super





*From July 2014, TPD super benefits must be consistent with the permanent incapacity condition of release
TPD definitions may require the life insured surviving a certain number of days (e.g., 14 days) after meeting a definition.
[1] Definitions of TPD vary between super funds and some listed may not be available.
[2] Functional capacity partial benefits only available via Zurich's Platinum TPD.

TPD insurance

ASIC: Progress made but gaps remain

“We found that the **declined rate** for TPD claims assessed **under the ADL** test was very high: 60%, or three in five claims, were declined. This was **five times higher** than the average declined rate for all other TPD claims”[1]

“There is a trend to **broaden the eligibility** criteria to assess consumers under an ‘any’ or ‘own’ occupation definition, **rather than an ADL** or ‘activities of daily working’ (ADW) definition, which should help lead to fewer consumers being funnelled into restrictive definitions”[2]

Source:
[1] ASIC’s Report 633 Holes in the safety net: A review of TPD insurance claims, Summary of findings, page 7
[2] ASIC’s Report 696 TPD insurance claims: Progress made but gaps remain, Summary of key findings, page 5
ADL = Activities of daily living

TPD insurance

Is it reasonable noting nuances in advice documentation?

Increasingly, insurers are adding 'rehabilitation' or 'retraining' to (the any occupation) definition, making it harder to meet"[1]

Group super funds using retraining or reskilling in their standard (any) occupation definition"[2]

Source:
[1]ASIC's Report 633 Holes in the safety net: A review of TPD insurance claims, Key TPD policy definitions, page 21
[2]50 randomly selected group super funds

Client scenario

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Claim example

Your client, John (aged 47), has suffered a **serious injury**. John's holds the following personal insurances (all super-owned):

- **Life insurance** and linked **Total and Permanent Disability** cover ($1,000,000) with **Double TPD**,
- **Income protection** with Option 1 ($10,312 MB via group) and Option 2 ($9,625 MB via retail), 30 day waiting period, to age 65).

The following is a timeline of John's post-diagnosis outcome:

Year 01

After diagnosis, John is:

- After the waiting period, **totally disabled** for **three months** then,
- **Partially disabled** for **two months** (working 50% capacity) under-going treatment and recovering.

ZONE

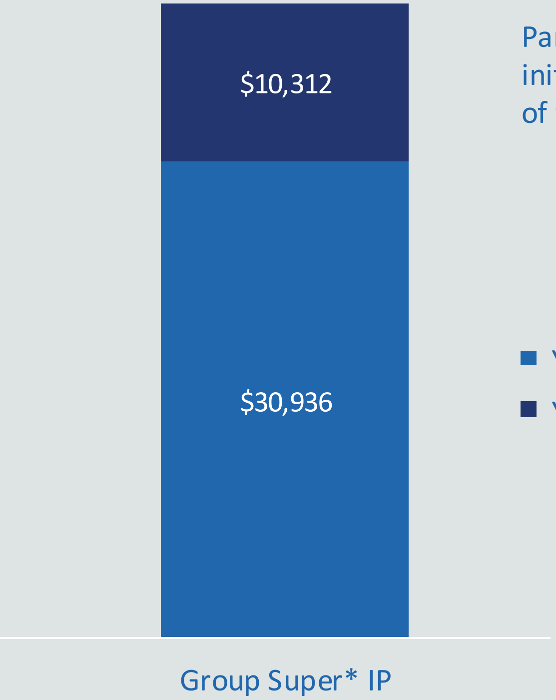
MB = Monthly benefit

John's annual income prior to claim was $165,000. He is not entitled to any other income or support during claim periods

Claim outcomes – year 1

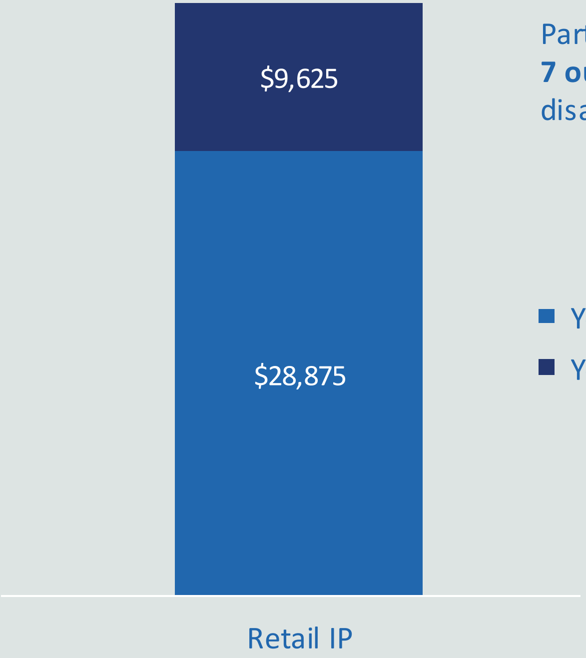
Note: many pre-APRA IP offered day 1 partials

John is **initially totally disabled,** then becomes **partially disabled**



Partial disability benefit requires an initial period of **14 consecutive days** of total disability.

- Year 1, Total disability benefit (3 months)
- Year 1, Partial disability benefit (2 months)



Partial disability benefit requires at least **7 out of 12 consecutive days** of total disability during the waiting period.

- Year 1, Total disability benefit (3 months)
- Year 1, Partial disability benefit (2 months)

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Benefits exclude taxation

*Group Super is an actual industry fund with 75% IRR, effective July 2023, Retail product based on Zurich Wealth Protection with 70% IRR, effective August 2023

John's annual income prior to claim was $165,000. He is not entitled to any other income or support during claim periods

Claim example

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Year 01

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- After the waiting period, **totally disabled** for **three months** then,
- **Partially disabled** for **two months** (working 50% capacity) under-going treatment and recovering.

Year 02

Seven months later, the injury impairment returns. He first becomes:

- **Partially disabled** for **six** months (working 50% capacity) then,
- **Totally disabled** for **four** months undergoing extensive treatment.

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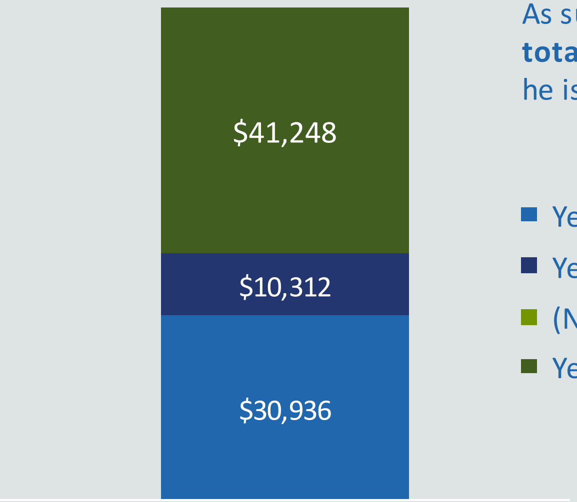
Claim outcomes – year 2

Recurrence duration can differ

7 months after his benefit ended, John becomes **partially disabled**, then worsens becoming **totally disabled**

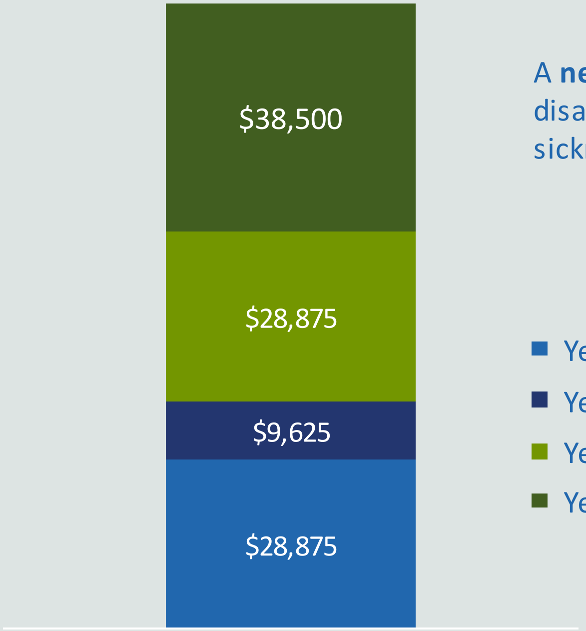


Group Super* IP

After 6 months of ceasing to be either partially or totally disabled, **normal waiting periods** apply.

As such, as John has had **no period of total disability** during the waiting period, he is **not eligible** for a partial benefit.

- Year 1, Total disability benefit (3 months)
- Year 1, Partial disability benefit (2 months)
- (No year 2 partial benefit)
- Year 2, Total disability benefit (4 months)



Retail IP

A **new waiting period** will only apply if a disability **recurs** from the same or related sickness or injury **after 12 months**.

- Year 1, Total disability benefit (3 months)
- Year 1, Partial disability benefit (2 months)
- Year 2, Partial disability benefit (6 months)
- Year 2, Total disability benefit (4 months)

ZONE

Benefits exclude taxation

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John's annual income prior to claim was $165,000. He is not entitled to any other income or support during claim periods

Claim example

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Year 02

Seven months later, the injury impairment returns. He first becomes:

- **Partially disabled** for **six** months (working 50% capacity) then,
- **Totally disabled** for **four** months undergoing extensive treatment.

Years 05 › to age 65

Five years after initial diagnosis, John is diagnosed with a chronic mental illness. Specialists advise he:

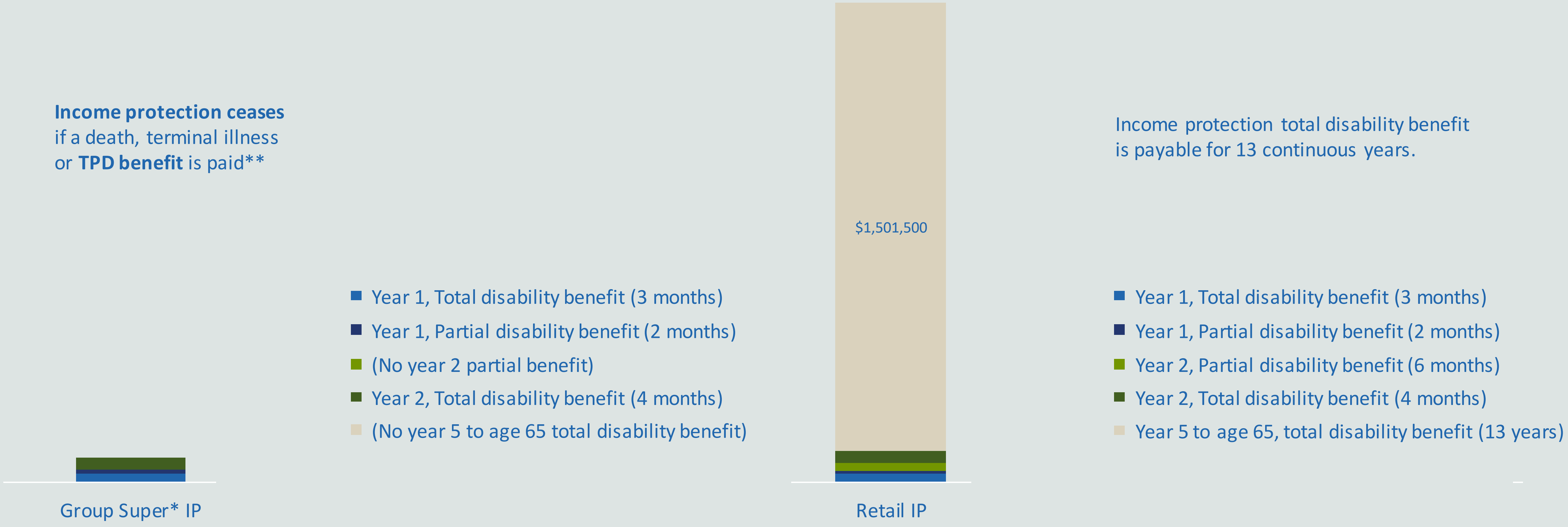
- Is unlikely to ever **return to work** based on his education, training and experience.

John's annual income prior to claim was $165,000. He is not entitled to any other income or support during claim periods

Potential claim outcomes – years 5 to age 65

Some group policies may be unable to pay both IP and TPD benefits concurrently

John, now aged 52, is deemed to be
totally and permanently disabled



Total disability IP benefits have been indexed by an assumed 2% annually (Benefit indexation). Benefits exclude taxation
*Group Super is an actual industry fund with 75% IRR, effective July 2023, Retail product based on Zurich Wealth Protection with 70% IRR, effective August 2023
John's annual income prior to claim was $165,000. He is not entitled to any other income or support during claim periods
**Some group funds allow for both IP and TPD benefits to be paid concurrently.

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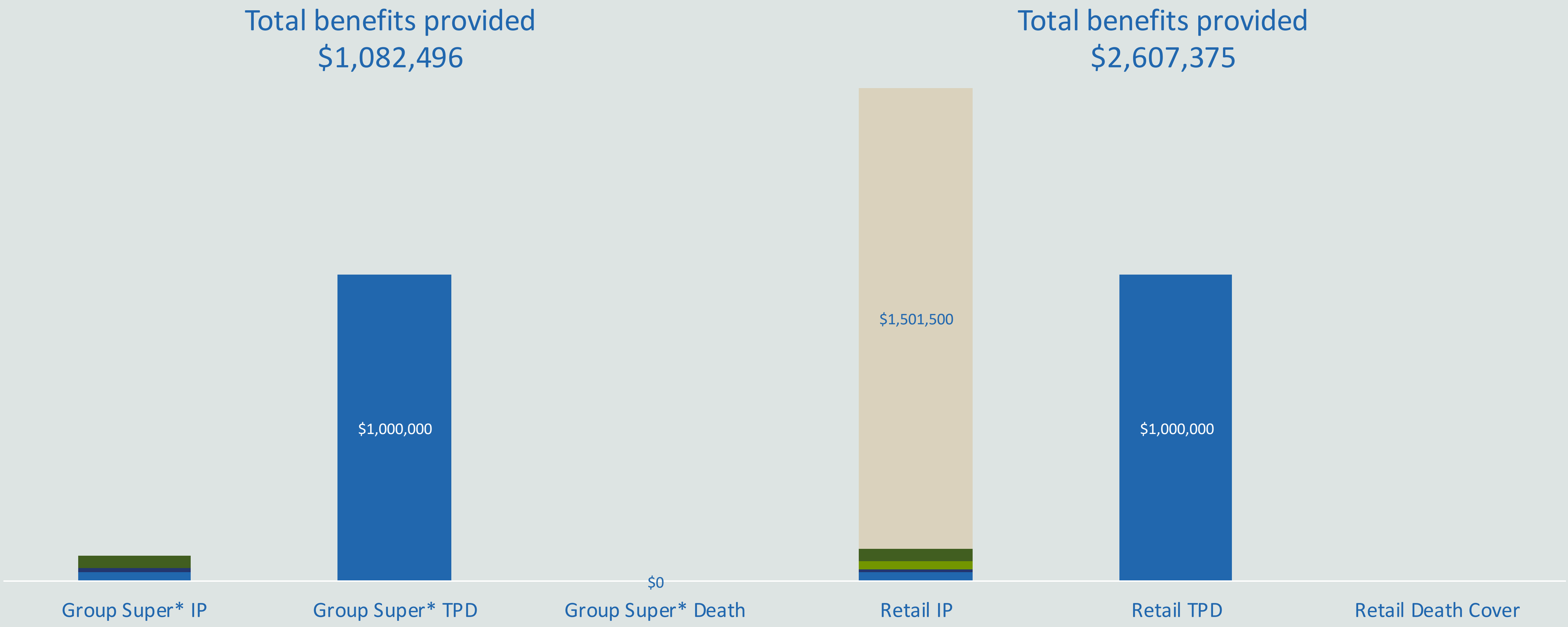
Potential claim outcomes – years 5 to age 65

Product design can result in varying outcomes



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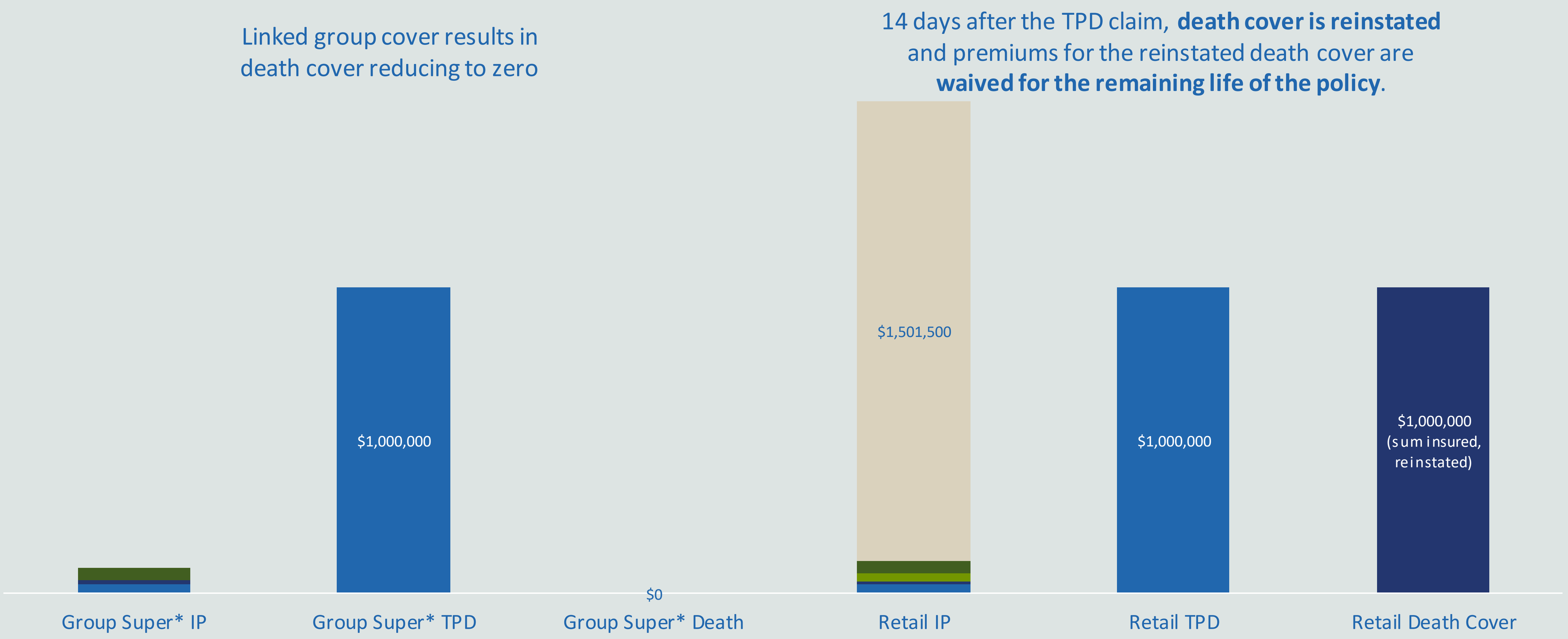
Double TPD is an optional benefit via Zurich Wealth Protection.
*Group Super is an actual industry fund with 75% IRR, effective July 2023, Retail product based on Zurich Wealth Protection with 70% IRR, effective August 2023
John's annual income prior to claim was $165,000. He is not entitled to any other income or support during claim periods |

Potential claim outcomes – years 5 to age 65

Double TPD reinstates the death cover sum insured, with no further premiums payable



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Outcomes

Revealed latest consumer and industry insights on superannuation and insurance

Explored actual group super insurance features and benefits across death, TPD and IP policies

Worked through client examples to help articulate policy appropriateness within a shifting product landscape

Questions

ZURICH OnePath

Thank you

ZONE

Next level adviser education

MORNING TEA

CENTREPOINT ALLIANCE

Life, inspired by you.

INCOME PROTECTION – WHAT DO THE “NEW” IDII DEFINITIONS MEAN TO YOUR CLIENTS AT CLAIM TIME?

Dr. Jeffrey Scott

ACKNOWLEDGMENT OF COUNTRY

July 2023

AGENDA

1. Ethical Considerations
2. APRA IDII Overview
3. Waiting Period
4. Pre-disability Income
5. Replacement Ratio
6. Benefit Offsets

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Ethical Considerations

FINANCIAL PLANNERS AND ADVISERS CODE OF ETHICS 2019 – COMMENCED 1 JANUARY 2020

Standards of

Ethical behaviour

Standard 1

You must act in accordance with all applicable laws, including this Code, and not try to avoid or circumvent their intent.

Standard 2

You must act with integrity and in the best interests of each of your clients.

Standard 3

You must not advise, refer or act in any other manner where you have a conflict of interest or duty.

Standards of

Client care

Standard 4

You may act for a client only with the client's free, prior and informed consent. If required in the case of an existing client, the consent should be obtained as soon as practicable after this Code commences.

Standard 5

All advice and financial product recommendations that you give to a client must be in the best interests of the client and appropriate to the client's individual circumstances.

You must be satisfied that the client understands your advice, and the benefits, costs and risks of the financial products that you recommend, and you must have reasonable grounds to be satisfied.

Standard 6

You must take into account the broad effects arising from the client acting on your advice and actively consider the clients broader, long-term interests and likely circumstances.

Standards of

Quality process

Standard 7

The client must give free, prior and informed consent to all benefits you and your principal will receive in connection with acting for the client, including any fees for services that may be charged. If required in the case of an existing client, the consent should be obtained as soon as practicable after this Code commences.

Except where expressly permitted by the Corporations Act 2001, you may not receive any benefits, in connection with acting for a client, that derive from a third party other than your principal.

You must satisfy yourself that any fees and charges that the client must pay to you or your principal, and any benefits that you or your principal receive, in connection with acting for the client are fair and reasonable, and represent value for money for the client.

Standard 8

You must ensure that your records of clients, including former clients, are kept in a form that is complete and accurate.

Standard 9

All advice you give, and all products you recommend, to a client must be offered in good faith and with competence and be neither misleading nor deceptive.

Standards of

Professional commitment

Standard 10

You must develop, maintain and apply a high level of relevant knowledge and skills.

Standard 11

You must cooperate with ASIC and monitoring bodies in any investigation of a breach or potential breach of this Code.

Standard 12

Individually and in cooperation with peers, you must uphold and promote the ethical standards of the profession, and hold each other accountable for the protection of the public interest.

Our values

A relevant provider must always act to realise and promote the values of:

- **Trustworthiness**
- **Competence**
- **Honesty**
- **Fairness**
- **Diligence**

A relevant provider is defined in the Corporations Act 2001 (s 910A) as an individual authorised to provide personal advice to retail clients, ... in relation to relevant financial products.

FINANCIAL PLANNERS AND ADVISERS CODE OF ETHICS 2019

Standard 5	• All advice and financial product recommendations that you give to a client must be in the best interests of the client and appropriate to the client's individual circumstances. • You must be satisfied that the client understands your advice, and the benefits, costs and risks of the financial products that you recommend, and you must have reasonable grounds to be satisfied.
Standard 6	• You must take into account the broad effects arising from the client acting on your advice and actively consider the client's broader, long-term interests and likely circumstances.
Standard 9	• All advice you give, and all products you recommend, to a client must be offered in good faith and with competence and be neither misleading nor deceptive.


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APRA IDII Overview

FROM 1 APRIL 2020 – RETAIL INCOME PROTECTION

1. Insurance companies were required to stop issuing any new agreed value or endorsed agreed value policies.

From 1 January 2021 – Retail Income Protection

1. Premium pricing must factor in industry experience studies that are no less than 18 months old, coupled with internal company experience that is no greater than 12 months old.

FROM 1 OCTOBER 2021 – RETAIL INCOME PROTECTION

1. Income at risk will be based upon the life insured's income over the preceding 12 months for individuals with predominantly stable income.
2. Income at risk will be based upon the life insured's income averaged over an appropriate period of time for individuals employed in occupations with substantially variable income.
3. Insurance benefits will not exceed 90 per cent of the life insured's income for the first 6 months of benefit payments.
4. Insurance benefits will not exceed 70 per cent of the life insured's income for benefit payments that are longer than six months.
5. Superannuation benefits can be paid in addition to the income replacement benefit, provided they are paid directly to a superannuation fund.
6. Retraining or rehabilitation benefits may be paid in addition to the income replacement benefit, provided these payments are made directly to a third party provider, or a reimbursement to the life insured for costs incurred.
7. Have effective controls in place to manage the risks associated with long benefit periods, such as stricter disability definitions or lower benefit levels


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Waiting Period

WAITING PERIOD

Considerations and points of difference.

- When does the waiting period **start**?
- Can you **return to work** during the waiting period without re-starting the waiting period?
- Is there a minimum requirement for a period of **Total Disability**?

MetLife

TOTAL DISABILITY – ON OR BEFORE 30 SEPTEMBER 2021

Three Tier Definition:

1. Hours
2. Duties
3. Income

TOTAL DISABILITY – ON OR AFTER 1 OCTOBER 2021

~~Three Tier Definition:~~

1. ~~Hours~~
2. ~~Duties~~
3. ~~Income~~

One Tier Definition:

1. Duties

Waiting Period

You must be Totally Disabled for the entire Waiting Period. The Total Disability Benefit starts to accrue the day after the Waiting Period ends

To qualify for the Totally Unable to Work Benefit, the Life Insured must be Totally Unable to Work for at least 14 consecutive days during the Waiting Period;

The Waiting Period is the minimum number of consecutive days that the Life Insured must be Partially Disabled or Totally Disabled, before entitlement to any benefit

How does the insured satisfy the waiting period?

- If Total Disability is required the insured must meet the **strict requirements of Total Disability** prior to being eligible for Partial
- Partial disability "from day 1" allows insured to keep working and **meet either** Partial or Total disability requirements
- Partial from day 1 is particularly beneficial to **white collar occupations and self employed**

Waiting Period

Any days worked during the waiting period, where you worked the daily equivalent of more than 80% of your regular work hours or earned the daily equivalent of more than 80% of your pre-disability income, will be added to the end of the waiting period

If you return to work in your full capacity for more than 10 consecutive work days, then your Waiting Period will restart.

The Waiting period will restart if Insured returns to work for more than 5 consecutive days

The insured may return to work during the Waiting Period without penalty

Can you return to work without re-starting the Waiting Period?

- Policies offer different options
- For **short term waiting periods** (30 or 90 day) return to work may not be an issue
- For **long term waiting periods** (180 days +) return to work may trigger re-start of waiting period

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Pre-Disability Income

PRE-DISABILITY INCOME

APRA Commentary

Earnings in the **12 months prior to the time of claim event is suitable** in calculating income at risk where the insured's pattern of expected income is likely to be stable.

Where income is subject to **variability,** APRA considers it appropriate for the income at risk to be based on the average earnings over periods **longer** than the 12-month period prior to the time of claim event.

PRE-DISABILITY INCOME

Why is this definition important?

- Policies are **Indemnity** not Agreed value
- Need to determine **income "prior" to claim** in order to determine how much of the insured monthly benefit is payable
- Used to calculate **Total Disability Benefits**, **Partial Disability** and **Offsets**

PRE-DISABILITY INCOME

Considerations and points of difference

- Does the definition allow for a 24 month "look back" period if the insured's income is variable for **self employed**
- Is the definition flexible to cater for **maternity / paternity** leave?
- What is the **sliding scale** used to determine income
- Does the **maximum replacement ratio** reduce from 70% after a time on claim or a certain age?

Pre-Disability Income – On Leave

Pre-Disability Income will be:

If the Life Insured had become Totally Disabled or Partially Disabled while on leave, the higher of the following:

a) the average Monthly Income for the 12-month period immediately prior to going on leave; and

b) the average Monthly Income for any consecutive 12-month period in the two years immediately prior to the start of the Waiting Period.

What is the look back period?

- **Stable** income is typically measured in the prior 12 months
- **Variable** income is measured in the prior 24-36 months
- Policies should consider **maternity/ paternity** leave as Variable income

Pre-Disability Income – Variable Income

Option 1 - Pre-Disability Income will be the greater of:

a) The insured person's average earnings in the 12 months immediately prior to disability and
b) The insured person's average earnings in the 24 months immediately prior to disability, if the insured person's earnings in the 12 months immediately prior to disability have reduced by more than 10%

Option 2 - Pre-Disability Income will be:

a) Their average Monthly Earnings for the 12 months immediately prior to the date on which the Life Insured becomes Totally Disabled or Partially Disabled.
b) However, where the Life Insured's income has varied by 20% or more in the 36 months prior to disability, then Pre-Disability Income is the Life Insured's average Monthly Earnings in the 36 months immediately prior to the date on which the Life Insured became Totally Disabled or Partially Disabled.

What is the look back period?

- **Stable** income is typically measured in the prior 12 months
- **Variable** income is measured in the prior 24-36 months
- Policies should consider **maternity/ paternity** leave as Variable income

Pre-Disability Income

70% of the first $200,000 of Earnings;
50% of the next $240,000 Earnings;
20% of your remaining Earning

70% of the first $240,000 of Earnings;
50% of the next $240,000 Earnings;
20% of your remaining Earning

70% of the first $300,000 of Earnings;
60% of the balance

What sliding scale is used to calculate Pre-Disability Income?

- All insurers cap the maximum monthly benefit at **$30,000**
- For incomes between **$240,000 - $300,000** there is an opportunity to insure for higher amounts
- Highest average monthly benefit is $8,700 for professionals (Iress data 2023)

PRE-DISABILITY INCOME

How is Pre-Disability Income used to calculate Total Disability?

- Income at underwriting $24,000
- Monthly benefit $1,400
- Pre-disability Income $24,000
- Income while on claim $0

The Income Support Benefit is calculated as follows:

$$\frac{(A-B)}{A} \times \textit{monthly benefit amount} - \textit{other disability payments}$$

A = *pre-disability earnings*

B = *monthly earnings* for the month in which you are *disabled* and an Income Support Benefit is being claimed.

- A ($2,000) – B ($0)/A ($2,000) x Monthly benefit ($1,400)
- 100% x $1,400
- Net benefit $1,400

we pay if the Life Insured is Totally Disabled. The formula used to calculate the Total Disability Monthly Benefit payable:

is the lesser of:

- the Monthly Cover Amount shown on the Policy Schedule or any other Important Documents; and
- the Maximum Income Replacement Amount,

- less any Post-Disability Income that the Life Insured receives and any applicable Offsets.

- Lesser of Monthly cover amount ($1,400) and
- Maximum income replacement ratio $1,400
- Net benefit $1,400

PRE-DISABILITY INCOME

How is Pre-Disability Income used to calculate Partial Disability?

- Income at underwriting $24,000
- Monthly benefit $1,400
- Pre-disability Income $48,000
- Income while on claim $2,000

- the higher of the following:
  - the Total Disability Monthly Benefit less either:
    - 70% of the Life Insured's Post-Disability Income; or
    - where the Life Insured is capable of working in their Usual Occupation in a greater capacity than they are, less 70% of the income they could reasonably be expected to earn based on that capacity if that is greater than their Post-Disability Income; and
  - the Maximum Income Replacement Amount less either:
    - 100% of the Life Insured's Post-Disability Income; or
    - where the Life Insured is capable of working in their Usual Occupation in a greater capacity than they are, less the income they could reasonably be expected to earn based on that capacity if that is greater than their Post-Disability Income,
- less any applicable Offsets.

Higher of:

Total Disability benefit – 70% of post disability income
= $1,400 - (70% x $2,000) = $0

and

Maximum Replacement Ratio – 100% of post disability income
= (70% x $48,000) - 100% x $2,000 = $2,800 - $2,000 = $800

Total = $800 partial benefit + $2,000 income
= $2,800

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Replacement Ratio

REPLACEMENT RATIO

APRA Commentary

APRA's proposed solution suggests

- **Initial six months** of higher replacement ratios up to **90%** of PDI; and
- **Beyond six months** lowering the replacement ratio to **70%** of PDI

Superannuation Contributions are excluded from the replacement ratio.

Replacement Ratio

Why is this definition important?

- Determines **how much** can be insured (Monthly Benefit)
- Determines what % of pre-disability income is used to **calculate the indemnity benefit**
- All retail insurers offer **70% replacement ratio**
- Some insurers offer alternative policies with **lower replacement ratio (50-60%)**
- Some insurers offer a **20% booster** benefit for the first 6 months
- Some insurers may use a lower replacement ratio **after a period on claim**

Replacement Ratio

Replacement ratio of 60% for duration of claim

Replacement ratio reduces to 60% after 24 months on claim

Replacement ratio reduces by 10% after 24 months of claim

Replacement ratio reduced by 1/3 after 24 months of claim

Examples of lower replacement ratios after a period on claim

- **Be aware** that these may apply
- These may be built into the **standard** policy or offered as an **alternative policy**

REPLACEMENT RATIO

Booster Option will be paid while you are receiving a monthly benefit for up to a maximum period of six months. You will receive an additional 20% of the monthly benefit payable

We'll boost the monthly benefit payable by 20% for the first six months on claim if the life insured suffers any one of the below health events; severe burns, invasive cancer, leukaemia, lymphoma, and blood related cancers. Or if the life insured is hospitalised for at least 10 consecutive days

Booster benefit

- Benefits are boosted from 70% to **90% for the first 6 months** on claim
- 3 insurers do not offer this option
- Some polices offer the booster on **specific conditions** and hospitalisation
- Some polices offer the booster on **all benefits**

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Benefit Offsets

BENEFIT OFFSETS

APRA Commentary

Under APRA's review, insurers are **only** allowed to pay a benefit to replace **lost income due to disability,** with any income received from personal exertion to be offset against the benefit payment. This also includes **deemed income** not received by the Life Insured.

BENEFIT OFFSETS

Why is this definition important?

- Determines if and by how much the **monthly benefit can be reduced**
- Monthly benefit could be reduced to zero and still be on claim
- Specifies what **sources of monies** can be offset
- Specifies if these monies are **received or entitled**
- Determines the scope of how these other monies will be used to offset

BENEFIT OFFSETS

Group discussion – example 1

Any payments received from your employer over the period of sickness or injury including sick pay. This does not include payments received due to annual or long service leave

Any Income, profits or other remuneration that the Life Insured continues to **receive or is entitled to receive** from his or her current or former **business** or businesses or any entities related to that business or businesses,

Any **Social Security payments** or other government grants you receive or become entitled to in respect of your injury or sickness,

Any payments you receive or become entitled to in respect of injury or sickness under any Australian state, territory or the Commonwealth, or as damages under common law (whether or not modified by statute), for loss of income, loss of earning capacity or any other economic loss (including any benefits or payments for work injury damages), whether paid as a lump sum or not. Examples include but not limited to, workers compensation and motor vehicle claim

Any payments you receive in respect of your injury or sickness from another **Individual or Group income** replacement insurance policy, salary continuance or mortgage repayment cover.

BENEFIT OFFSETS

Group discussion – example 2

If the Life Insured accrues financial entitlements or receives payments or benefits from other sources, those entitlements and payments will reduce the Monthly Benefit payable. These other sources may include, but are not limited to:

Sick leave, maternity/parental leave, annual leave, or long service leave and **includes sick leave entitlements** including entitlements not received or taken by the Life Insured.

Any entitlements accrued or payments received by the Life Insured from other **disability, group**, sickness or accident insurance cover, including cover provided through a mortgage replacement policy or a superannuation fund, that **was not disclosed** to us at the time you applied for cover, this excludes lump sum benefits provided under TPD cover, Trauma cover and Terminal Illness cover;

Any entitlements accrued or payments received by the Life Insured from workers' compensation schemes, common law damages payments and accident compensation schemes, in respect of any part that is attributable to the same period as income replacement; and

Any entitlements accrued or payments received by the Life Insured from other sources agreed as part of your application for cover and noted on your Policy Schedule or any other Important Documents.

Benefits will **not be offset by any social security** benefits paid by the Australian government via Centrelink, including the disability support pension.

BENEFIT OFFSETS

Group discussion – example 3

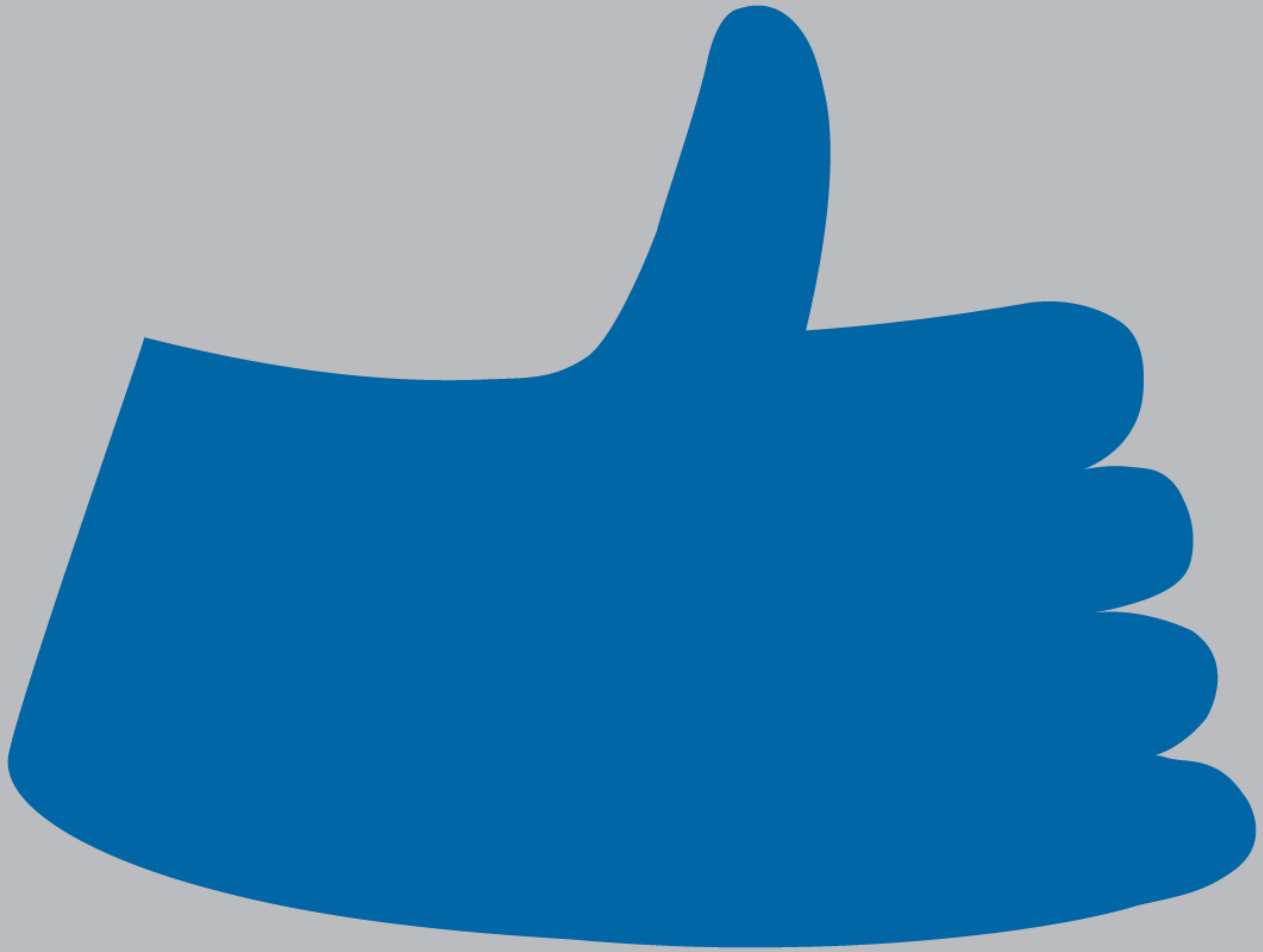
Any payments you receive or are entitled to receive in respect of your injury or illness under state, territory or federal legislation, or as damages under common law, for a loss of income, loss of earning capacity or any other economic loss (including any benefits or payments for work injury damages), including but not limited to worker's compensation and motor accident claims payments

Any payments you receive or are entitled to receive in respect of your injury or illness from any other **individual or group** disability income insurance policy or, consumer credit or mortgage insurance, **not disclosed at** the commencement of the cover or when you applied to increase your cover

Any leave payments from your employer that you have **received or are entitled to** receive in respect of leave taken including but not limited to sick leave (we do not offset leave of which you are entitled but you have not taken)

Any **social security payments** or other government grants you **receive or are entitled** to receive in respect of your injury or illness, to the extent permitted by law.

Thank you



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Life, inspired by you.

INCOME PROTECTION – WHAT DO THE "NEW" IDII DEFINITIONS MEAN TO YOUR CLIENTS AT CLAIM TIME?

Dr Jeffrey Scott

Risky Business

Policy ownership strategies

July 2023

Scott Hoger
National Manager Education & Partnerships

TAL

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Learning Outcomes

At the conclusion of this workshop, attendees should:

- Have a working knowledge of insurance policy ownership mechanics
- Be able to explain the tax and regulatory position of the client for the payment of a premium and receipt of a claim
- Understand the advantages and disadvantages of the various beneficiary nomination types

Agenda

1. Policy ownership mechanics
2. Beneficiary nomination types
3. Advice best practice

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1 Policy ownership mechanics

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Policy ownership mechanics

'Ensure the right amount of money is paid to the right person, at the right time, in the right format'

Policy ownership types

Policy tax position

Policy regulatory position

Policy ownership mechanics

- The policy owner can be a natural person, corporation or trustee
- Policy ownership can be assigned subject to formalities
- A change of policy ownership may give rise to a tax liability in the hands of the assignee
- There is a contractual obligation to pay claims to:
  - Original owner
  - Assignee in the case of a valid assignment
  - Nominated beneficiary in the case of a valid nomination

Common ownership types

1. Ordinary (e.g., self-owned, company, trust)
2. Superannuation (e.g., retail, industry, SMSF trustee)
3. Other – e.g., cross-owned, joint ownership

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Tax Premiums

Policy ownership drives tax outcomes on both the payment of premium and the receipt of claims proceeds

Payment of premium – Ordinary

- With the exception of income protection (IP), the premiums paid for personal insurance protection are capital in nature and are not deductible
- IP premiums are deductible to the extent they are protecting benefits that are revenue in nature (e.g., the monthly benefit)
- IP ancillary benefits that are capital in nature are not deductible (e.g., critical illness/crisis benefits)

Payment of premium – Superannuation

- Life insurance, any occupation TPD and IP are deductible to the trustee of the superannuation fund
- Personal contributions to superannuation below the concessional cap are deductible subject to notice formalities

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Tax
Claims – ordinary

Consider the net position of the client taking into account the potential for tax on any claim proceeds

Life insurance

- Exemption from CGT s 118-300 ITAA 1997: -
- ✓ Original owner, or
- ✓ Acquired the rights for no consideration, or
- ✓ Trustee of regulated superannuation fund

TPD/Trauma insurance

- Exemption from CGT s 118-37 ITAA 1997: -
- Recipient must be ill/injured party or a defined relative as defined in s 995-1(1) ITAA 1997

Income protection

- Claims proceeds are paid in full to policy owner and constitute assessable income
- The policy owner is required to declare the claims proceeds to the ATO and will pay tax at marginal tax rates
- The ATO is currently considering whether insurers should withhold PAYG

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Tax Claims – superannuation (life insurance)

- The claims proceeds are paid to the policy owner (trustee) free of tax
- Superannuation death benefits can only be paid to SIS dependants (e.g., spouse, child, interdependent)
- For a lump sum benefit to be tax free, the SIS dependant must also be a Tax dependant
- Lump sum benefits paid to non-tax dependants will be taxed on a formula basis
- Consideration needs to be given to determine if this the most desired outcome
- Remember the golden rule – can we achieve a better outcome?
- TAL has a Death Benefit calculator – speak to your local TAL representative for access
- Superannuation death benefits can be paid in pension form SIS and tax dependents

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Death benefit pension advantages

0%

Death benefit pensions are tax free if the deceased or pension recipient was/ is aged over 60

15%

Where the deceased & recipient are both agreed under 60, the taxable component will be taxed at marginal tax rates with a 15% rebate

0%

The asset supporting the pension (which the adviser may have some control over) is in a zero-tax environment – 0% on earnings and 0% on capital gains!

Though accessible having the money in pension phase may reduce indiscriminate spending

Consider how a death pension can ensure the right amount of money gets paid to the right person, at the right time in the right format.

Tax Claims – superannuation (TPD)

- The claims proceeds are paid to the policy owner (trustee) free of tax
- Trustee then distributes the claim proceeds as a permanent incapacity benefit
- Taxable portion is calculated using a formula
- Tax rate for the taxable portion depends upon the age of the recipient
- No tax is payable for recipients over the age of 60.
- Recipients born after 1 July 1963 and before 1 July 1964 tax rate is 17%
- Other recipients are taxed at 22%
- Benefit can instead be distributed as a pension. Normal tax rules apply
- TAL has a calculator for calculating the tax on lump sum benefits

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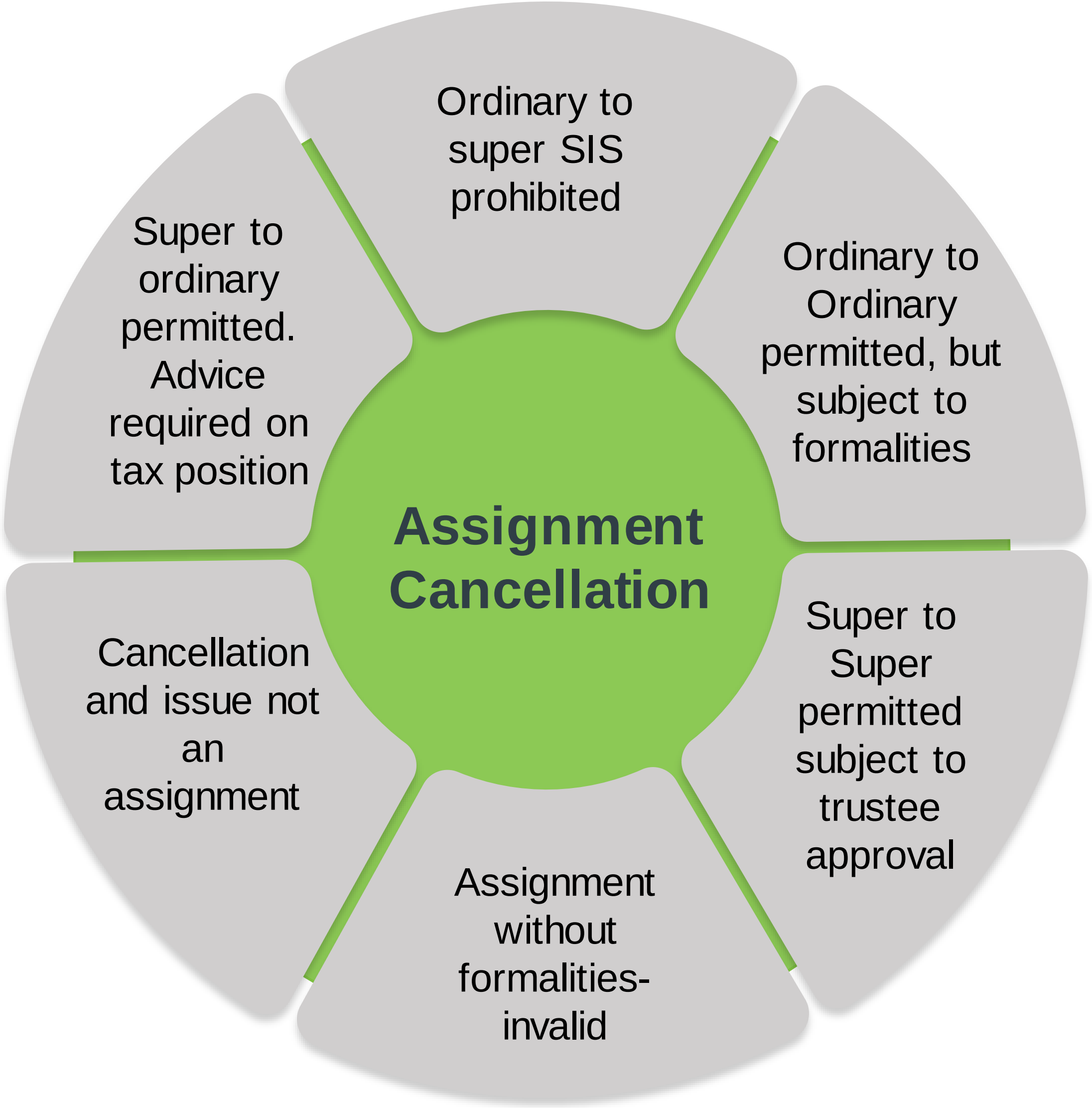
Assignment Cancellation possibilities



- Life Insurance Act 1995 prescribes formalities regarding signing and witnessing the assignment
- Tax position should be considered at point of Assignment and point of claim
- Cancellation and re-issue of a new policy without underwriting may be more tax efficient, as the original owner of the new policy is automatically exempt from CGT
- The cancellation and re-issue of a policy may not always be possible in some circumstances

2 Beneficiary nominations

Nominations outside super

Beneficiary nominations are allowed under Section 48A of the Insurance Contracts Act 1984

- Applies to contracts effected on the life of a person
- Nomination passes the benefits under the policy to the person nominated
- Consequences:
  - Contract benefits payable to the nominated party
  - Claim proceeds do not form part of the estate of the life insured
  - Rights of the policy owner are not restricted
  - Contract can be varied
  - Nomination is indefinite, but can be revoked at any time
  - Contract can be surrendered
- Some companies restrict nominations.
- If the nominated beneficiary predeceases the life insured, the claim proceeds are paid to the policy owner
- Most companies limit to the number of nominated beneficiaries to 5
- Beneficiaries can receive unequal portions

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Tax position non-super beneficiaries

- Claim proceeds received by a nominated beneficiary are exempt from capital gains tax, if the nominated beneficiary did not give any consideration for the right to receive payment
- If consideration has been given, the tax liability = claim proceeds taxed at the recipient's marginal tax rate
- Generally, no consideration is inferred for nomination of spouses and family members
- These nominations are based on "natural love and affection"
- This 'consideration' check is often not considered – a good question to ask here is 'why has the beneficiary been nominated on this policy'?

A **nominated beneficiary** is not the original owner of the policy

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Nomination super beneficiaries

- Death Benefits are only tax exempt if paid to death benefit dependants as defined in the Income Tax Assessment Act 1997.
- Economically independent children over 18 are not death benefit dependants for tax purposes.
- Benefits paid to persons who are not death benefit dependants are taxed on a formula basis.

SIS Rules limit lump sum death benefit nominations to:

- Legal personal representative of the deceased member (Executor or Administrator)
- Dependant

SIS dependents include:

- Spouses including de factos and same sex couples
- Children of any age
- Persons living together in an interdependency relationship
- Economic dependants of the deceased member not listed above. e.g. parents in certain circumstances

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Group discussion

Michael owes Kristina money. Kristina is concerned that if Michael were to die, that she may never be repaid.

Kristina's adviser suggests that a life insurance policy be taken out on Michael's life for the amount of the debt.

How should the policy be structured?

- **Policy ownership**
- **Tax considerations**
- **Once the debt is repaid, what can be done if Michael wants to retain the policy?**

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3 Advice

Best practice

Ownership best practice

Identify the owner and beneficiary of each policy

Identify the recipients of any claim proceeds

Map the flow of premium payments

Map the flow of claims proceeds

Are these outcomes the desired outcomes?

Is confirming legal/tax advice necessary?

Review mapping regularly

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Beneficiary nomination best practice

Ensure that the reasoning and basis for any nomination is documented

Ensure that the nomination is current and up to date in accordance with the client's domestic circumstances Ascertain any changes in domestic circumstances

Ensure that appropriate advice is taken to identify any nominated beneficiary receiving consideration

Nominations outside super

- Complies with the terms of the Insurance Contracts Act 1984
- Any other requirement of the life insurance company

Nominations inside super

- Complies with the terms of the Superannuation Fund Trust Deed
- Complies with all relevant SIS Provisions

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Key take outs

- Policy ownership can drive positive client outcomes in tax, cash flow and estate planning
- Careful consideration must be given when transferring policy ownership
- It is important to abide by the golden rule of risk advice, “get the right amount of money, into the right hands, in the right format, at the right time”

Any Questions?

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