



HEALTHIER, LONGER,
BETTER LIVES

GROUP TPD SUSTAINABILITY: AIA AUSTRALIA RESEARCH FINDINGS

April 2024



EXECUTIVE SUMMARY

Total and permanent disablement (TPD) insurance in superannuation plays a fundamental role in protecting Australians against the financial risk of becoming disabled and no longer able to work, and replaces their lost retirement savings. There are a number of challenges that threaten group TPD's long-term sustainability. It is important for the industry to address these challenges to ensure cover remains fit-for-purpose, affordable and accessible for all working Australians, at cover levels that meet their protection needs.

AIA has conducted extensive research with members of superannuation funds, including those who have previously been TPD claimants. This paper presents the key insights and recommendations with an aim to help transform TPD insurance, ensuring it is not only sustainable but more aligned with the varying needs of members.

AIA's research shows that there is no 'one size fits all' approach for disability insurance in superannuation. Trustees need to balance their duties to the fund as a whole with the need for flexibility and choice for individuals to tailor cover to suit their individual needs.

Research findings at a glance:



*Sample size = n120



Key insights from the research highlighted the following:

- Better education about default insurance is key to ensuring members are aware of their cover when they suffer a disability.
- Claimants would benefit from earlier financial support (closer to the date of disability) and access to rehabilitation and wellbeing support services to aid recovery and return to the workforce.
- Based on the survey data, together with an in-depth review of the post-claim experience for TPD claimants within a large superannuation fund, at least 20% of TPD claimants have either returned, or have the ability to return, to work.
- The naming convention of TPD has a negative impact on some subjective health conditions such as mental illness. The use of terms like 'total' and 'permanent' create a perception that recovery is unlikely or impossible, affecting the mindset of claimants and potentially leading to poorer outcomes for some individuals
- There is prevailing sentiment that pursuing a return to wellness or work should not come at the expense of receiving a claim payment. The tension between the desire for vocational reintegration and the need for sustained financial support highlights a delicate balance that any disability design must address.
- Average default TPD cover levels are unlikely to be sufficient to cover the level of financial support required for the remainder of a claimant's working life. This is due to the trade-off with affordability constraints within superannuation (i.e. account balance erosion). Therefore, the ability to tailor cover above default levels through voluntary cover inside or outside of super will assist in achieving the financial protection required for individual needs.

There is a need for life insurers and superannuation funds to provide financial, as well as wellbeing, support earlier than currently occurs in the process. Consideration must be given to a product design that enables claimants to access financial support in the current pre-claim phase (that is, before their condition is total and permanent) when medical costs are at their highest (especially given half the surveyed claimants were not in receipt of other benefits).

The delays in lodging and receiving a TPD claim means that insurance is failing to reduce the immediate financial impact on claimants. The payment is made many years later when the financial damage has already occurred. Therefore, a less strict upfront disability threshold will improve member outcomes by allowing claims to be lodged earlier, providing earlier access to financial support than what currently occurs with TPD.

A product solution that effectively provides a financial bridge while claimants undergo diagnosis, treatment and either recovery or transition to a new life post-disablement is required.

This would have the key objectives of:

- providing earlier financial and wellbeing support to aid recovery or return to work where appropriate,
- improved support for claimants and medical practitioners through the treatment and rehabilitation process,
- a claims process aligned with the needs of the claimant to improve overall experience, and
- access to advice as to longer term options and financial planning if they remain out of the workforce.

This paper recommends several transformative strategies, including:

- 1 **Payment of initial benefits without the assessment of permanency**, especially in claims with subjective health conditions where permanency cannot be determined.
- 2 **Changes to the claims process** to focus on wellbeing support rather than just TPD assessment.
- 3 **Increasing collaboration with support providers** to improve awareness to assist with early intervention.
- 4 **Providing more guidance and advice to claimants** about how to use their benefit.
- 5 **Implementing a regular payment structure** to aid early intervention and immediate financial support with ability to pay lump sum where permanency can be established.



AIA proposes a modern disability insurance solution that offers a safety net of default insurance, with flexible policy terms and personalised options. This solution focuses on a regular income stream model, balancing insurance costs with the needs of the membership.

Utilising the detailed information gained from the member and industry research undertaken, as well as in-depth claim analysis, AIA has developed a decision framework to assist Trustees in the tailoring of this modern disability insurance solution to better fit the unique characteristics of their specific membership demographics. AIA acknowledges different segments of the market may require a different approach to disability design. This paper focuses on solutions in the insurance in superannuation environment.

Given the findings in this paper, AIA will work closely with Trustees and take a proactive and market-leading approach to recommending changes to TPD design (where deemed appropriate) to ensure that default disability insurance in superannuation continues to meet the diverse needs of all Australians.

INTRODUCTION

Insurance within superannuation provides a vital safety net to millions of Australians, granting automatic access to death and disability cover to individuals who might otherwise be left vulnerable without any form of insurance. It protects them and their loved ones from the financial burden that may arise due to unforeseen illness, injuries or even the unfortunate event of death.

Providing default death and TPD cover in MySuper products is a legislative requirement in Australia,¹ with superannuation Trustees required to provide appropriate and affordable levels of cover that don't unnecessarily erode retirement balances. In some circumstances, Trustees also provide income protection benefits to protect members in the event of temporary incapacity, paying a monthly income if they are unable to work due to sickness or injury.

When designing insurance benefits, Trustees need to consider the specific needs and characteristics of their membership, carefully balancing sustainability, suitability and affordability of insurance cover that aligns with the unique demographic of their membership, ensuring members' best financial interests are considered.

APRA conducted a survey at the end of 2022² to assess how the insurance industry is responding to the issue of sustainability of group life insurance in superannuation. The survey was a follow-up to APRA's letter dated 9 March 2021,³ which emphasised the need for life insurers and RSE licensees to ensure that group insurance offerings and benefits are sustainably designed and priced. The findings from this survey highlighted ongoing issues with premium volatility and underscored the need for life insurers and RSE licensees to prioritise premium stability and consider members' best financial interests.

TPD Challenges

The purpose of TPD insurance is to protect individuals and their families against the financial risk of becoming totally and permanently disabled and no longer being able to work. Within the superannuation environment, its purpose is to replace future retirement savings lost due to disablement, according to ASIC Report 633⁴. However, there are a number of challenges that threaten group TPD's long-term sustainability:

- **Difficulty and delays in assessing permanency** for some health conditions such as mental illness and chronic pain, which rely on a level of subjectivity.
- **The rising incidence of mental health conditions.**⁵
- **The misaligned incentives of single lump sum payments**, with claimants potentially feeling financially incentivised to prove permanency of disablement to receive a benefit instead of focusing on their recovery.
- **Late-logged claims**, which pose significant difficulty for retrospective claim assessments, particularly in determining the permanency of an individual's condition.
- **The product name** assumes a serious and permanent condition where recovery is unlikely and full recovery is impossible, whereas research has shown that a proportion of TPD claimants ultimately return to wellness and work.

It is important for the industry to address these challenges to ensure group TPD insurance remains fit for purpose, affordable and accessible for all Australians, at cover levels that meet their financial needs.

This paper presents recommendations with the objective of improving sustainability. In our view, long-term sustainability achieves the following:

- Balancing the cost of insurance, and associated account erosion, with the provision of a safety net to the tens of thousands of Australian families impacted by injury or illness each year.
- Providing timely financial and wellbeing support to assist members earlier in their claims journey to help fund medical costs and provide early access to rehabilitation and wellbeing services.
- Giving members confidence that their insurance cover provides them with flexibility and certainty when they experience an injury or illness
- Meeting member expectations of value, fairness, transparency and respect.

AIA Customer Research

To better understand the needs of superannuation members, and to optimise and shape our thinking, we conducted extensive customer research to help inform a sustainable disability design framework based on member experience.

To ensure comprehensive findings, our research methodology consisted of three stages, involving active participation of members of some of our superannuation partners, and individuals with insurance cover in other superannuation funds. We undertook qualitative research, conducting focus groups with policyholders and in-depth interviews with individuals who had made a TPD claim in the past five years, and supplemented this with an online claimant survey which covered a larger cohort of past TPD claimants. The research incorporated opinions and insights from more than 120 members, and provided valuable insights into member experiences, challenges and expectations.

EXPLORE



UNDERSTAND



DEEP-DIVE

DETAIL

Focus groups with TPD policy holders to understand current perceptions of TPD and how to optimise the product experience.

Online survey with TPD claimants to understand the varying needs of the different cohorts of members.

Going deep into the experience of TPD claimants to understand their needs and experience, and how the product could be improved.

Provided insights into product design based on claimant characteristics.

APPROACH

4 x 90min Focus Groups

Online survey for range of TPD claimants

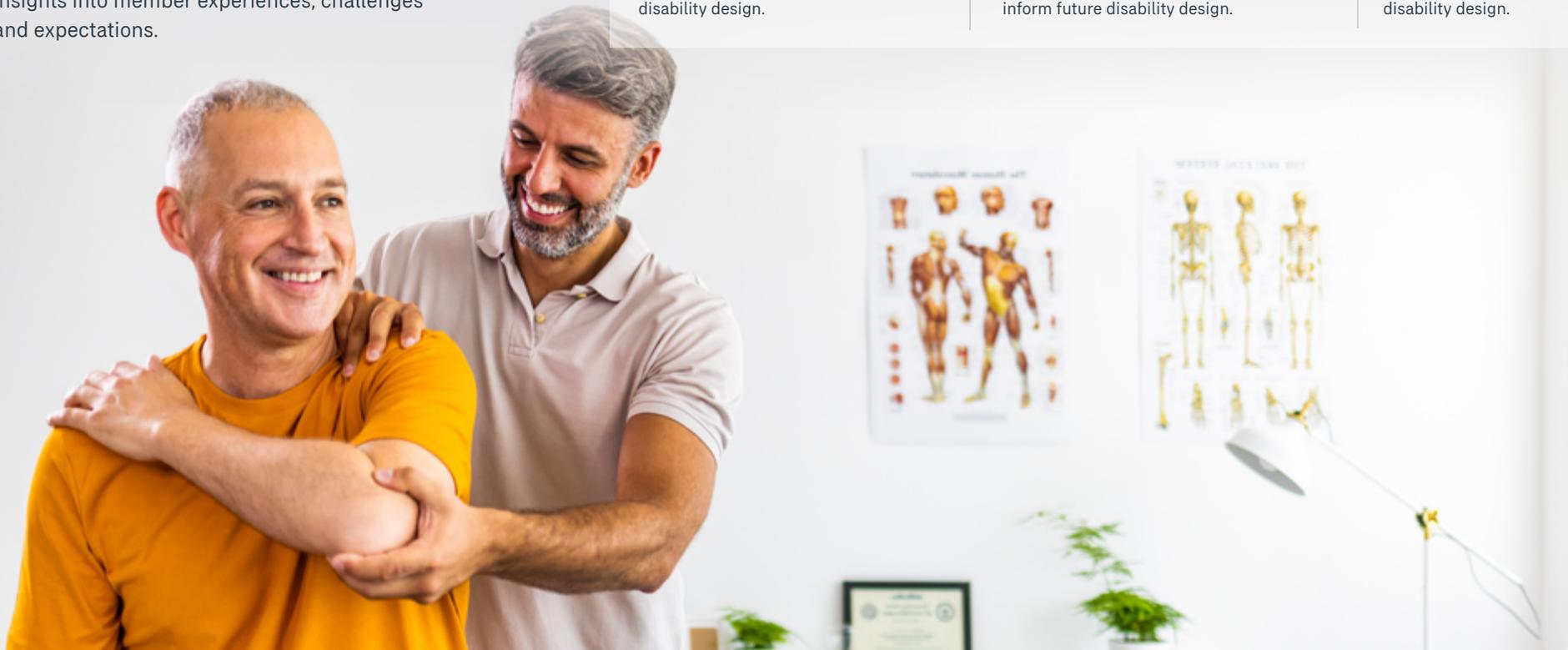
16 x 60min in-depth claimant interviews

OUTCOME

Deep exploration of TPD expectations and needs and what this means for the product experience to inform future disability design.

Broad feedback from TPD claimants on how to optimise TPD claim experience and understand return to work status to inform future disability design.

Specific feedback on how to optimise TPD claim experience and understand return to work status to inform future disability design.



RESEARCH FINDINGS



Our focus group research also identified that the 'Total and Permanent Disability' naming convention meant that the cover was not well understood which contributed to confusion about the eligibility and consequent delays in reporting of claims.

Awareness of Insurance in Super

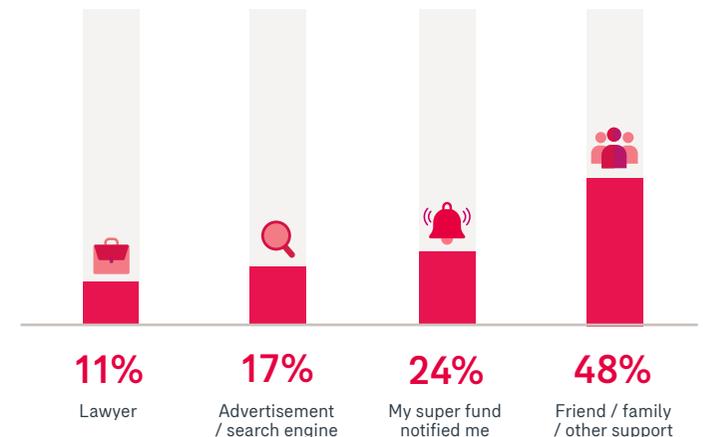
While there has been significant improvement in the awareness of group insurance in recent years – from 28% in 2016 to 73% in 2022⁶ – the specifics of disability insurance within superannuation are not well understood, with only two in five TPD claimants surveyed aware of their TPD cover prior to disability.

The research identified that TPD claimants were predominantly informed about the existence of their insurance cover by family and friends.

It is crucial that members are aware of the insurance that they hold, so that they can access benefits and support services sooner, and insurers can seek to aid in recovery and assist in meeting immediate financial needs.

There is value in targeted educational initiatives to raise awareness about insurance services potentially available to an individual. As an example, the Cancer Council provides terminally ill cancer patients with information about the existence of terminal illness cover in group insurance. Insurers and Trustees could engage with other charitable and disability organisations to assist with information about default insurance in superannuation.

How did you come to know you were covered for TPD?



The Claimant Journey and Importance of Early Notification

AIA has identified three distinct phases in the TPD claim process, each with their priorities and needs. These phases were confirmed by claimants through our research, which can provide a basis to align support needs over time.

The journey to claiming TPD often does not happen immediately, and there can be a substantial period of time post-incident



Pre-Claim 3-6 months

Health and medical concerns take precedence over almost everything else

- Immediate medical concerns outweigh all other considerations, clear focus on getting better.
- Medical bills are paid for out-of-pocket, often drawing down on savings, mortgage or taking personal loan/credit card.
- Not thinking too much about work, retain hope of going back to previous role. Likely to remain in contact with previous employer about returning or keeping role open.
- Most have claimed some other form of insurance, such as Income Protection or Workers Comp, at this stage.



TPD Claim 6 months - 5 years

On-going management of condition, looking for financial support

- The shock of the initial incident has subsided, and a new routine established. There may still be extensive ongoing medical appointments, but these are much more understood and accepted.
- Treatment is considered a 'full-time job'.
- Medical bills still exist but not at the same initial levels post- incident. Likely to be much more predictable.
- After medical advice, broad acceptance that a return to work is not likely now or in the future and exploration of other options available to them, leading to TPD.



Post-Claim 3+ years

New reality has taken root, thoughts turn to the long-term future

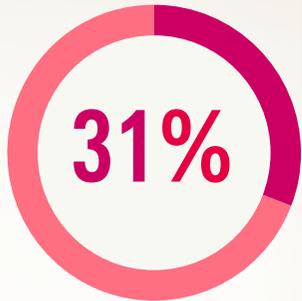
- Routine has been established, and return to work often dismissed due to a feeling they will be unreliable due to their condition.
- Depending on personal financial situation concerns about financial security start to resurface as claim has been drawn down.
- Consideration of claiming disability pension, or potentially selling assets.
- Exploration of partner or other close connection becoming their registered carer so they can access additional benefits.

Financial support is needed much earlier to offset basic living expenses and medical bills.

Nearly half of the TPD claimants surveyed were not in receipt of income support payments prior to the payment of the TPD claim. In terms of what payments are being used for, the research indicated the majority of claimants were using the funds for basic living expenses, medical costs and debt repayments. This likely means that many TPD claimants had to rely on savings or other measures for an extended period, prior to receiving their lump sum payout.

Did you use your TPD claim payment for any of the following?

You may select more than one.



Basic living expenses



Medical treatment and/or rehabilitation costs



Mortgage / Rent / Debt payments



Home modifications or equipment (e.g. Wheelchair) necessary due to your condition



Assistance with retraining or re-education to seek work



Other

When TPD benefits are paid the research also highlighted the need to connect claimants to financial advice to support them after receiving a payment. Some claimants consulted a financial adviser on the best way to use their payment. For those who did not, there was a sense of regret that they could have done more to maximise the money.

This has highlighted the need for advice to guide claimants on how best to utilise their funds in the most beneficial way.

The need for financial advice remains an unfilled gap for most TPD claimants.

There is an average delay of more than two years between disability and claim lodgement for TPD, leaving claimants with little support earlier in their claims journey while they focus on their recovery. Our research shows that new product design should seek to better align the timing of financial support with the time at which it is needed the most in the claims journey.

An improved disability product alongside targeted education campaigns which highlights the support services available by their superannuation fund and insurer, could provide members with access to benefits and support services sooner, allowing for early intervention in situations where permanency cannot be immediately determined.

Earlier notification of disability claims will significantly reduce the financial impact on claimants closer to the date of disability, as well as allowing insurers to provide additional support services to assist claimants with their recovery through their claim journey.



“I put it all on my mortgage, but now I’m not working I wish I’d done something with it to turn it into an income”.

Assessing Permanency

A long-standing issue with TPD is that the definition requires an assessment of whether someone is unlikely to work ever again. Medical practitioners are required to certify a patient's capacity for work and provide an opinion as to whether an individual is 'totally and permanently disabled', which is inconsistent with the main objective of medical treatment and supporting patients with their recovery goals. The assessment process is more complex and longer for claims where there is a subjective component making it difficult to assess permanency.

Regardless of whether TPD is ultimately assessed and the benefit paid, research has shown that a reasonable proportion of TPD claimants return to work after receiving a claim payment.

In 2014, Australian Retirement Trust (formerly Sunsuper) and AIA jointly funded member research to understand the working status of TPD claimants. The results showed 22% of claimants surveyed return to some form of work while a further 14% were looking for work.

Separately, in 2023, another major superannuation fund insured with AIA found that over the last 10 years, one in five claimants who successfully claimed TPD insurance subsequently returned to some form of income-producing work.

The following key characteristics were observed from this group:

- The majority of claimants who returned to work initially received a TPD benefit due to mental and behavioural disorders, and
- Claimants who returned to work were paid a lower lump sum than claimants who did not return to work.

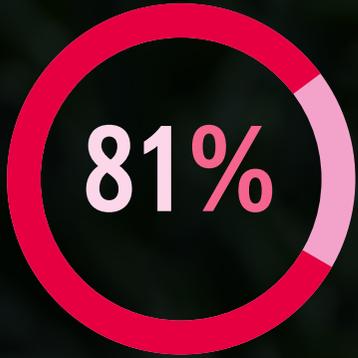
While there is evidence that some members have returned to work, this could be attributed to various factors, such as the nature of their claimed condition or financial pressures that required them to return to work earlier than they may have otherwise.

The 2023 AIA online survey data revealed that one in five TPD claimants had returned, or had the ability to return, to work. We believe this number may be understated given some claimants may not want to impact their benefits by suggesting they did not meet the definition of their TPD cover.

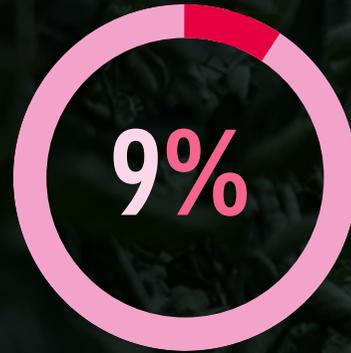
Given these findings, it is clear that TPD in its current form of a lump sum payout on the basis of an assessment of permanent disability may not be fit-for-purpose for all claimants.

Claimants should be supported and encouraged to return to wellness and work if this is appropriate for them, and insurers and Trustees have a role to play in assisting with this.

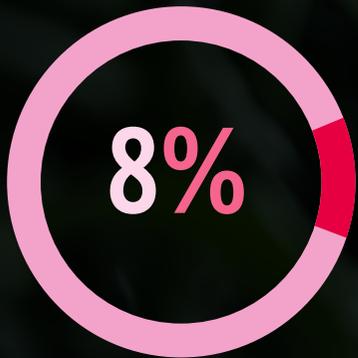
Which of the following best describes your current situation?



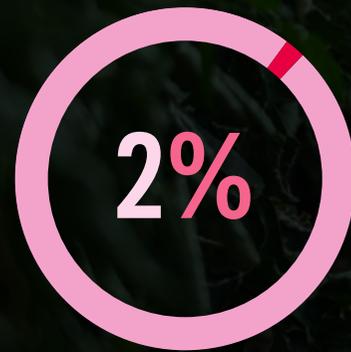
Left the workforce and not planning on working again



Not working but hope to be ready to return to work in the next 12 months



Working part time or casual



Not working but seeking work



1/5

TPD claimants have returned, or have the ability to return to work

Benefit Design Preferences

Given the challenges of TPD that have been noted in this paper, including delays in lodgement, the difficulty of establishing permanency, and the rising incidence of more subjective health conditions e.g. (mental illness and chronic pain), AIA sought feedback from non-claimants and past claimants on a range of alternative disability designs differentiated by payment frequency and duration. The key insight generated from the focus groups was that non-claimants were largely split into two groups with distinct preferences:

- **Those who are more in control of their finances gravitate towards a larger lump sum:**
 - A larger lump sum up front payment provides the autonomy to plan and make the most effective use of the payment for their situation. For example:
 - Pay off or renegotiate a mortgage
 - Pay for family needs so their disability affects family/dependants as little as possible
 - Earn a passive income through creating financial assets.
- **Those who are less financially confident prefer the discipline offered from smaller payouts:**
 - Regular smaller payments are reassuring as they mirror receiving an income
 - Managing smaller payments is less confronting than managing a lump sum.



The reactions to the different designs were varied and it is worth noting that the focus groups were non-claimants, imagining themselves in the hypothetical situation of needing to claim. It may be that they would have different views in the reality of a stressful financial situation. Therefore, past claimants were also asked to reflect on the payment they received, and to consider whether they would have preferred to have received the claim payment differently. Almost half of the respondents were in favour of a benefit design involving split/regular payments.

Based on the above results, those who are less financially confident and prefer the discipline offered for smaller payments would have more financial security to cover ongoing rehabilitative medical treatment.

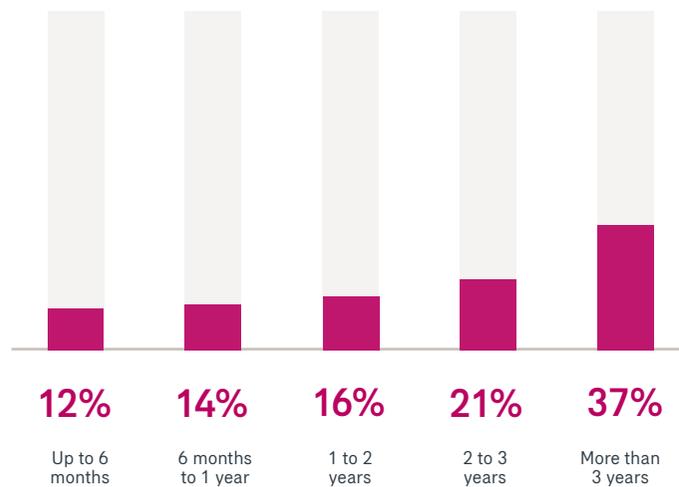
The key takeaway from this is that different claimants will benefit from varying designs, highlighting the need to evolve TPD into a disability product that can provide immediate financial and rehabilitation/wellbeing support, but with the ability to pay a lump sum benefit where permanency can be determined.

When it comes to TPD benefit design.... one size does not fit all.

Importance of Choice and Personalisation of Cover

In group cover through superannuation the average TPD amount claimed for the period 2022-2023 was \$141,000.⁷ In the research conducted, it was found that the average TPD amount claimed by individuals was \$130,000, with more than 75% of claimants receiving a benefit less than \$150,000.

Length of time claim payment lasted



The survey data further revealed that for 25% of claimants, this amount was depleted within a year, and within three years for almost two-thirds of claimants overall. These findings are not surprising considering the claim amount is equivalent to 1.75 years of the average Australian salary.

Based on NAB's Australian Wellbeing Survey Q2 2023,⁸ the average Australian's savings amount to approximately \$27,500. This is expected to decrease further in the next 12 months due to higher mortgage repayments and inflation. For someone who experiences a disability, these savings would likely be depleted to support weekly living expenses by the time the TPD waiting period (three to six months) was over. It was also commonly observed through the in-depth interviews with claimants that medical expenses were paid out of pocket in the initial three to six month 'pre-claim' period, often drawing down on savings, loans and credit cards. **This highlights a critical period where TPD fails to lessen the financial impact on a claimant during the early stages of disability.**

Default insurance in superannuation should only provide a level of cover where it does not inappropriately erode retirement balances to ensure it plays a key role in providing a safety net for Australians.

Given this, cover levels proposed under any default disability design will likely be insufficient to replace loss of income for the remainder of a member's lifetime.

However, the research shows that a disability design that provides regular payments may be better suited to assist with the immediate financial impact, support claimants where appropriate with their return to work and wellness and/or help them in transitioning to a new long-term way of life.

It is important for Trustees and insurers to actively engage with their members to educate them on the value of insurance and continue to provide the ability to enable choice and personalisation of insurance cover inside and outside of super at cover levels to better meet their individual needs.

Access to financial advice can assist members to tailor their cover to individual circumstances. This will help in bridging the underinsurance gap, providing full protection against financial loss with the support of default insurance in super as a safety net.



AIA recognises there is no one size fits all approach in terms of benefit design. Trustees will need to determine the most appropriate design based on the unique characteristics of their membership and provide pathways that enable choice and personalisation of cover to better meet individuals needs above and beyond any default design.

RECOMMENDATIONS

Through this research, AIA has identified the following recommendations for consideration:

- 1 Removing assessment of permanency as a requirement to be paid an initial benefit** – this is particularly important where permanency cannot be determined immediately, such as for some subjective conditions like mental illness or chronic pain claims, allowing earlier access to support services in the pre-claim phase.
- 2 Changes to claims assessment process** – simplify the process to reduce burden on the member with a focus on support rather than pure TPD assessment.
- 3 Collaboration with disability organisations** – increase collaboration with disability support providers and other charitable organisations to improve awareness of insurance in super and the support services available to help members lodge claims earlier.
- 4 Access to financial advice** – to guide claimants on how best to utilise their benefit and plan for their future.
- 5 Implement regular payment structure** – to aid earlier lodgement of claims to improve member outcomes by allowing for immediate financial support with the ability of paying a lump sum benefit where permanency can be determined for certain conditions via objective measures.

To address this, utilising the comprehensive information captured from the member and industry research undertaken, as well as in-depth member, underwriting and claimant analysis, AIA has built a decision framework to assist Trustees in developing a modern, sustainable and member focussed disability insurance solution, a summary of the framework is shared overleaf.

Disability Insurance Framework

The solution provides a 'safety net' level of default insurance, with appropriate product and policy terms and an ability for the member to tailor the cover to their personal needs. Utilising the framework, Trustees can balance the cost of the insurance against the size and frequency of benefit payments by ages to the needs of their membership.



UNDERSTAND THE MEMBERSHIP



EXPLORE OPTIONS WITH TRUSTEES



DEVELOP A DISABILITY SOLUTION

STRUCTURE

- Fund size (membership, account balance)
- Age demographics
- Gender split
- Member income analysis
- Occupation profiles
- Disability incidence rates
- Workplace injury incidence rate
- Cause of claim analysis

- Improved member understanding of insurance
- Link to voluntary cover
- Optimising claims process
- Targeted rehabilitation support
- Insurer and fund support for claimant throughout and beyond claim
- Interaction and impact with other sources of income
- Taxation implications
- Legislative requirements

- Ability for members to tailor cover to suit personal needs
- Optimal death and disability insurance coverage by age, balancing needs and affordability
- Preferred claim payment structure notably:
 - Level of payment by age
 - Claims assessment required
 - Frequency of payments
 - Waiting period
 - Benefit period
- Rehabilitation assistance
- Sustainable pricing

METHOD

Analysis of the complex member requirements to identify expectations based upon AIA research

Balance the needs, cost and benefits for members within the group insurance framework

Optimise the requirements of the member's disability insurance

OUTCOME

In-depth understanding of the insurance needs of the membership

Selection of product design options for Trustee consideration and review

A comprehensive disability solution encompassing underwriting, product design, member engagement, pricing as well as claims and rehabilitation practices



Based on the findings of this paper, AIA's view is the product design that can best deliver the stated objectives is a regular income stream solution. Affordability thresholds and alignment with the claims journey means the default level would comprise regular payments for a period of around two years. This would likely be supplemented with a lump sum payment, subject to meeting permanency requirements, to provide a sustainable bundle of insurance for default super members.

It can be further explored if regular payments remain level over a period or start to reduce, taking into account the potentially higher costs of medical treatment earlier on.

Some of the key benefits / advantages include:

- Earlier notification of claims, providing early financial support to claimants during the early stages of disability, therefore reducing the financial burden
- Earlier access and awareness of rehabilitation and wellbeing programs to support claimants back to wellness to aid with their recovery and possibly back into the workforce
- Does not require assessment of permanency for certain conditions. This is particularly important for subjective claims, such as mental illness and chronic pain conditions, which can take years to determine.

To support this approach there is a need for legislative changes allowing Trustees to adopt an alternative product design to TPD to meet member needs which may require a revision of the *Superannuation Industry (Supervision) Act 1993 (cth)* (SIS Act) to allow disability benefits to be in the form of TPD or IP cover or both to reflect the way disability benefits may be paid in the future.

REFERENCES

- 1 Section 68AA of the *Superannuation Industry (Supervision) Act 1993* (cth) outlines Trustee obligations for members in a MySuper product.
- 2 [APRA Sustainability of life insurance in superannuation - December 2023](#)
- 3 [APRA Sustainability of life insurance in superannuation - March 2021](#)
- 4 [REP 633 Holes in the safety net: a review of TPD insurance claims](#)
- 5 KPMG and FSC '[The impact of Psychosocial factors on Mental Health and their implications in Life Insurance](#)' Research Paper October 2019
- 6 AIA Life Today Study 2022.
- 7 [ASFA Developments in insurance provided through superannuation - February 2024](#)
- 8 [NAB Australian Wellbeing Survey Q2-2023](#)