Super SA Triple S Insurance Review as at 30 June 2013

May 2014

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1. Executive summary

1.1 This actuarial investigation of the insurance arrangements of the Triple S Scheme is required by Section 17 of the Southern State Superannuation Act 2009. This is the fifth actuarial investigation, the previous investigation having been carried out by Dermot Balson and Catherine Nance in a report dated December 2010.

1.2 We were provided with electronic data by Super SA, and we are satisfied that any errors or omissions are not material. We adjusted the data to include allowance for claims which had been incurred prior to 30 June 2013, but which had not been finalised.

Overall conclusions

Industry Experience

1.3 The industry is experiencing significant increase to TPD and IP claims.

1.4 However, we believe that the current benefits and premiums remain appropriate subject to issues noted below.

Death and TPD

1.5 Improvements in Super SA claims management are delaying claims.

1.6 The cost of standard cover remains approximately $1 per unit per week, but is high for younger members (i.e. they are paying more than the cost of claims).

1.7 If standard cover premiums remain at $0.75 per unit per week in order to share part of the asset surplus with members, the expected premium subsidy is $3.3 million per annum.

1.8 The reserves are sufficient to cover the premium subsidy, however, providing a subsidy for voluntary units may not be the best use of reserves.

1.9 Fixed cover at fixed premium is not industry standard and should be discontinued. The current fixed cover premiums exceed claims but will potentially run at a loss in the future.

Income protection

1.10 The cost of cover (0.21% after expenses) now marginally exceeds the premium (at 0.20% of salary).

1.11 The industry standard approach would be to charge age based rates rather than one rate for all ages, although any change in premium rates would need to consider intergenerational issues.

Reserves

1.12 Free reserves increased marginally despite strong returns, due to increased prudential reserves required to cover worsening experience across industry.

1.13 Fixed cover cohort presents a risk of running at a loss, so a new reserve has been introduced.

1.14 The insurance reserves remain substantial, at over $132.2 million at 30 June 2013, and we believe the Board is entitled to take the view that they remain adequate to support the current premium subsidy for at least the next three years.

Death and TPD

1.15 Death and TPD actual claim cost (including IBNR) reduced marginally from 0.11% of sum insured for 2007-2010 to 0.10% for 2010-2013. The amount of TPD claims for 2013 were particularly low due to claims being made by older members with lower sum insured.

Claims as % of sum insured

2007-10 total	2011	2012	2013	2010-13 total
0.11%	0.07%	0.11%	0.11%	0.10%

1.16 The number of TPD claims incurred in 2011 was 20% lower than 2010 and 2012 and this has contributed to the decrease in the claim cost. Indicative industry claim rates are closer to the Super SA experience for 2007-10 at 0.11%. Observations of TPD claim experience are that:

a. TPD claims are increasing across the industry

b. There is an increasing presence of legal firms in claims

c. The previous claim experience may reflect apathy of members and may not be the case in the future

d. Improvements in Super SA claims management is increasing delay patterns of claims.

1.17 The cost of standard cover remains at approximately $1 per unit per week, but is high for younger member (i.e. they are paying more than the cost of claims).

1.18 If standard cover premiums remain at $0.75 per unit per week, the expected premium subsidy is $3.3 million per annum, of which $0.6 million is in respect of additional voluntary cover over 2 units. Given “free reserves” of $34 million, a subsidised premium is sustainable, however providing a subsidy for voluntary units may not be the best use of reserves.

1.19 Fixed cover for a fixed premium is not industry standard and should be discontinued. Currently, fixed cover premiums exceed claims, but while premiums remain fixed, expected claims will increase as fixed cover members’ age. Therefore, the excess premium should be considered as a contribution to reserves and so a reserve has been introduced in 2013 for this group.

Income Protection

1.20 The level of Income Protection claims has been increasing for 2010 to 2013, with the claim rate as a percentage of members significantly higher in 2012 and 2013 than preceding years.

Claims as % of members

	2010	2011	2012	2013
Claims	184	260	377	385
Claim rate	0.35%	0.33%	0.47%	0.46%

1.21 The cost of Income Protection claims has been increasing and this is consistent with experience across the industry.

1.22 The claim cost as a percentage of salary insured was 0.16% of salaries for 2010-2013, but was significantly higher in 2012 (0.19%) and 2013 (0.20%). The claim cost experience is lower than the claim rate experience (shown above) mainly due to low average duration of claims (including adjustment for IBNER).

Claims as % of salary insured (cost of claims)

	2010	2011	2012	2013
Claims cost as % of salary	0.11%	0.13%	0.19%	0.20%
Average duration (yrs)	0.66	0.57	0.57	0.58

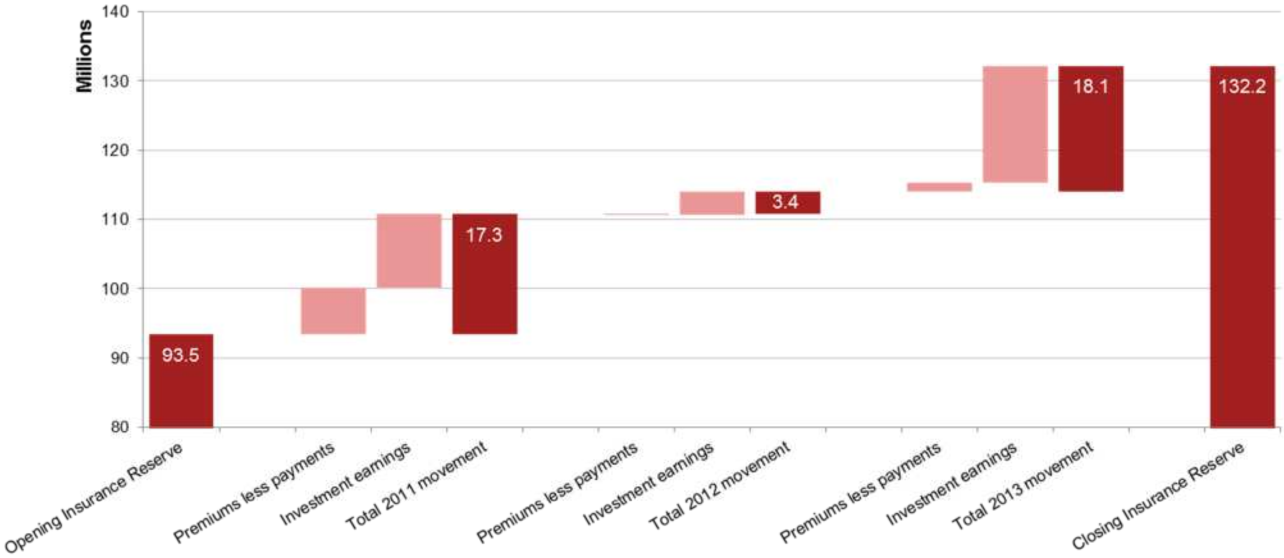
1.23 The cost of Income Protection benefits for 2013 was 0.20% of salaries. Allowing for expenses this cost increases to 0.21%, higher than the premium rate of 0.20% of salaries.

1.24 The industry standard approach would be to charge age based rates rather than one rate for all ages, however any changes in premium rates would need to consider intergenerational issues.

Reserves

1.25 The insurance reserves increased by 41% from 2010 to 2013 to $132 million (12% per annum). This was mainly due to good investment returns which averaged 9.5% per annum for 2011 to 2013 (11% in 2011, 3.1% in 2012 and 14.7% in 2013).

1.26 There were additional gains in 2011 and 2013 ($6.7 million and $1.1 million respectively) as premiums exceeded payments and expense outflows.



1.27 The level of recommended Prudential Reserves ($46 million) and self-insurance reserves ($52 million) leave "free reserves" of $34 million, increased from $33 million in 2010. The favourable investment returns have been offset by the requirement to hold higher prudential reserves to cover worsening experience across the industry and the introduction of a fixed cover reserve.

$ million	Death and TPD	Income Protection	Total at 30/06/13	Total at 30/6/10
Insurance reserve[1]	**108.3**	**23.9**	**132.2**	**93.4**
Prudential Reserves				
IBNR & IBNER[2]	(17.3)	(8.4)	(25.7)	(8.7)
Fluctuation reserve	(5.0)	(5.0)	(10.0)	(10.0)
Fixed Cover Reserve[3]	(10.0)	0.0	(10.0)	-
Total Prudential Reserves	**(32.3)**	**(13.4)**	**(45.7)**	**(18.7)**
Self-insurance Reserves				
Asset resilience reserve	(4.8)	(2.0)	(6.8)	(1.3)
Contingency reserve	(26.0)	(19.5)	(45.5)	(40.0)
Total Self Insurance Reserves	**(30.8)**	**(21.5)**	**(52.3)**	**(41.3)**
Expected 'free reserves'	**45.2**	**(11.0)**	**34.2**	**33.4**
Ongoing Subsidy				
Standard default cover	(2.2)	-	(2.2)	
Voluntary cover	(1.1)	-	(1.1)	
Total subsidy	**(3.3)**	**-**	**(3.3)**	**(3.1)**

[1] Insurance reserve of $132.2m notionally allocated to Death and TPD and Income Protection based on Triple S accounts.

[2] Includes allowance for underestimation of IBNR & IBNR at 50%.

[3] Estimated based on current member cohort.

1.28 The insurance reserves remain substantial, at over $132 million at 30 June 2013. With free reserves of $34 million, we believe they remain adequate to support the current premium subsidy for at least the next three years.

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2. Introduction

Purpose and scope of report

2.1 This report has been prepared at the request of the Department of Treasury and Finance of South Australia, acting on behalf of Super SA as required by Section 17 of the *Southern State Superannuation Act 2009* (see Appendix A).

2.2 The valuation date for this report is 30 June 2013.

2.3 The previous triennial report was prepared as at 30 June 2010 by Dermot Balson and Catherine Nance of PwC.

Changes prior to last investigation

2.4 There have been no significant changes to the benefits since the last investigation, however there were a number of changes that occurred prior to 2010 and these may impact the experience from 2010 to 2013. These are summarised below.

a. Changes at August 2009
   i. Death and TPD cover expanded to include terminal illness
   ii. Most members are now covered by Income Protection Insurance by default
   iii. Maximum Income protection period extended to 24 months.

b. Changes at January 2009
   i. Number of units of insurance provided without medical evidence was doubled to 2 units
   ii. Death and TPD Insurance for all members aged between 59 and 63 increased
   iii. Maximum limits on Death and TPD insurance increased (to $1.5 million or $750,000 for casual employees).

c. Changes occurring at February 2007
   i. TPD cover was extended from age 60 to age 65
   ii. Members of the Lump Sum and Pension Schemes who salary sacrifice into Triple S could apply for Death and TPD insurance, subject to evidence of good health
   iii. Income Protection insurance was extended to age 60 from age 55
   iv. Income Protection benefit increased from 2/3 to 75% of salary
   v. Income Protection period increased from 12 months (plus 6 month extenuating extension) to 18 months (plus 6 months extenuating extension)
   vi. Waiting period changed to 30 days, replacing requirement to exhaust sick leave
   vii. Non-contributory members could apply for Income Protection insurance, subject to evidence of good health
   viii. Casual members and members with income protection elsewhere could opt out of Income Protection insurance.

d. Changes occurring at October 2005
   i. Value of Standard and Fixed units increased from $50,000 to $75,000
   ii. Death cover was extended from age 60 to age 65
   iii. Cost to members of a Standard unit of insurance reduced from $1 to $0.75 per week (premium subsidised from reserves)
   iv. Cost of a Fixed unit of insurance was reduced.

Insurance arrangements provided by Triple S

Death and Total and Permanent Disablement (TPD)

2.5 Triple S provides Death and Total and Permanent Disablement (TPD) insurance (with TPD including terminal illness) paid as a lump sum. All members, including those who work part time or who are employed on a casual basis, are entitled to insurance cover. Casual employees may choose not to have insurance.

2.6 There are two alternatives:

a. Standard Cover – for a fixed weekly premium of $1 per unit per week (which is subsidised from reserves to $0.75 per unit per week), the insurance is a specific dollar amount of insurance which varies with current age, up to age 65. The default insurance is two "units" of Standard cover (6 units for Police and Ambulance), and members may apply for additional units, subject to evidence of good health.

b. Fixed Cover – the fixed cover offers insurance up to age 65, in units of $75,000 each. The premium is also fixed, and is based on the age at which the cover is taken out. Again, members may apply for additional units, subject to evidence of good health.

2.7 The maximum insurance cover a member can hold is $1,500,000 or $750,000 if the employee is employed on a casual basis.

2.8 Lump Sum Scheme, Pension Scheme and Police Pension Scheme members, who are also members of Triple S, do not automatically receive two units of Standard cover. However, these members can apply to purchase insurance through Triple S in addition to the insurance provided through their current super scheme.

2.9 Spouse members have the option of applying for voluntary Death insurance cover, subject to evidence of good health. The maximum insurance cover a spouse member can hold is $1,500,000.

2.10 The insurance and premiums for Standard and Fixed cover are included as Appendix C.

2.11 Death and TPD Insurance does not cover medical conditions that existed at the time of joining Triple S, for a period of six months.

2.12 Approval of a TPD benefit requires permanent incapacity for all kinds of work of at least 60% or more of total incapacity.

Income protection insurance

2.13 Triple S provides Income Protection insurance, payable as a fortnightly income for a limited period following temporary disablement.

2.14 The benefit is 75% of salary for a period of up to 24 months, up to age 60, with a waiting period of 30 days. The premium for this benefit is 0.2% of the member's salary.

2.15 Income Protection insurance is provided automatically to most members of Triple S. Casual members are not automatically provided with Income Protection insurance but can elect to be covered (subject to evidence of good health), and members with income protection elsewhere may opt out of Income Protection insurance (excluding Police and Ambulance).

Statement of compliance

2.16 Our advice to you constitutes Prescribed Actuarial Advice as defined in the Code of Professional Conduct (the Code) issued by the Institute of Actuaries of Australia and our advice complies with the Code in this respect.

2.17 The report has been prepared in accordance with Professional Standard 400, issued by the Institute of Actuaries of Australia.

3. Data

Data provided

3.1 The data was provided by Super SA as an Access database containing details of all members of Triple S who were covered for insurance between 1 July 2006 and 30 June 2013.

3.2 We carried out data validation checks and were satisfied that overall the data appears to be reasonable when compared with the previous triennial valuation as at 30 June 2010.

3.3 Overall, we believe the data is reasonable. However, we do not assume any responsibility for the accuracy or completeness for the data provided to us.

Approach

3.4 This investigation covered the four year period to 30 June 2013 ("investigation period") because the insurance benefits were relatively consistent over this period. The previous investigation covered the period up to 30 June 2010, so the investigations overlap by one year. We considered this useful as a way of checking on the consistency of the two investigations. To further assist in this, Super SA provided us with the original data provided for the 2010 investigation.

3.5 We extracted relevant data from the database into a spreadsheet and analysed the claims experience separately for Death and TPD insurance and Income Protection, for each of the four years of the investigation, and for the whole period.

3.6 We grouped the data into five yearly age groups, as in the previous investigation, because there is insufficient data to produce meaningful results for individual ages.

3.7 We have examined the experience both by number of claims, and by amounts of insurance.

Death and TPD

3.8 A summary of the data in respect of Death and TPD insurance is set out below, separated by cover type.

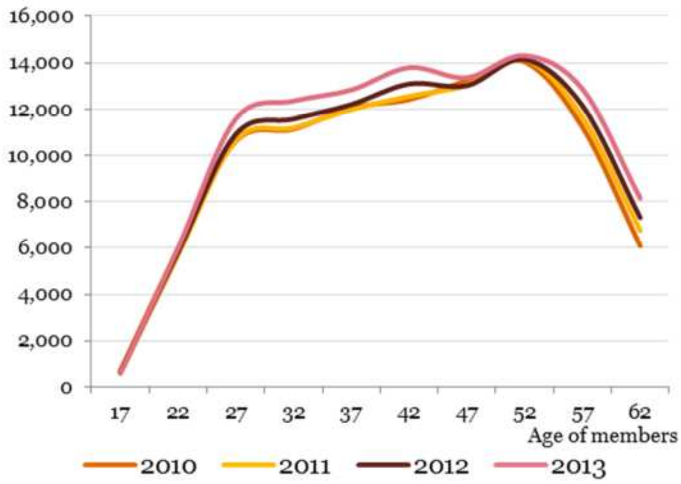
	1 Unit	2 Units	6 Units[1]	Voluntary	Total Standard	Fixed cover	Total Cover
Number of members	1,103	75,520	2,915	20,462	**100,000**	5,831	**105,831**
Total cover ($m)	41	7,409	1,082	2,836	**11,369**	2,501	**13,869**
Average cover ($)	36,919	98,109	371,279	138,615	**113,685**	428,856	**131,050**
Total units	1,103	151,040	17,490	86,888	**256,521**	39,125	**295,646**

[1] Police and Ambulance only

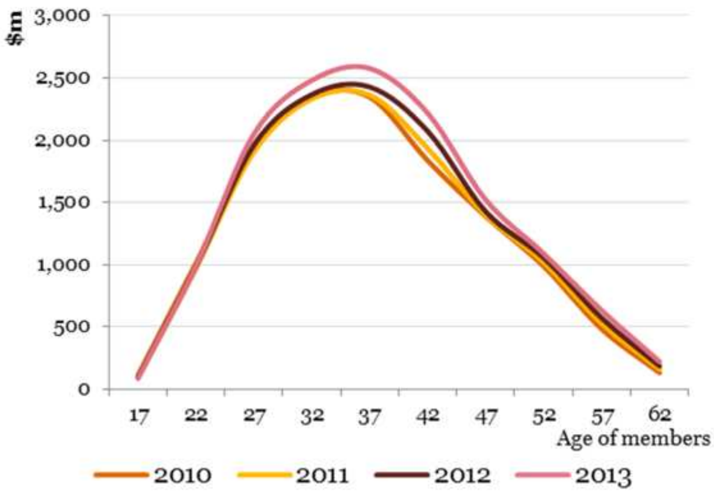
3.9 The number of insured members increased 5% to 106,000 as at 30 June 2013, from 101,000 as at 30 June 2010.

3.10 Total sum insured increased 7% to $13.9 billion as at 30 June 2013, from $13.0 billion as at 30 June 2010.

3.11 The number of insured members has increased steadily over the period, but the overall age distribution has remained relatively unchanged, as shown below.



3.12 Similarly, the sum insured by age has remained relatively stable since the increase in the default number of units in 2009, as shown below.



Breakdown of cover types

3.13 Fixed cover members:

a. represent 6% of total members, but 18% of the total sum insured

b. accounted for 25 claims (5% of total number and 16% of total claim amount) during the investigation period.

3.14 Voluntary cover members:

a. represent 19% of total members, with 20% of sum insured

b. accounted for 69 claims (13% of total number and 19% of total claim amount) during the investigation period.

3.15 The Triple S Insurance Scheme consists mainly of active members in the Triple S fund (approx. 99%). Other groups include:

a. Flexible rollover product: 471 members

b. Spouses: 104 members

c. Salary sacrifice: 127 members

d. SA Select: 133 members.

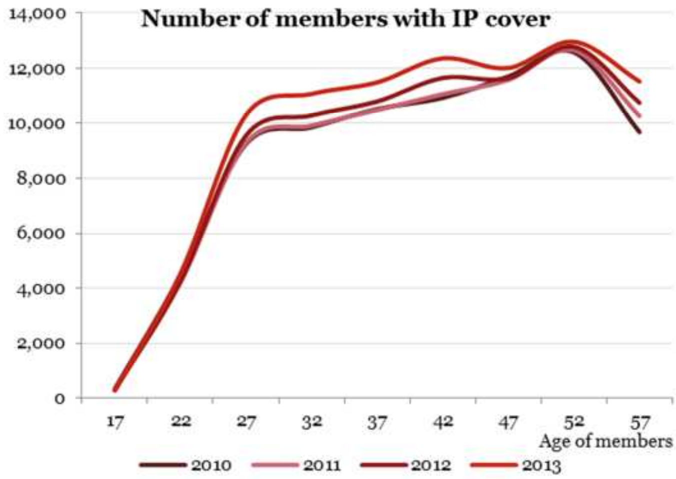
3.16 Throughout the report, the claims experience refers to all members unless stated, as the number of members (and claims) in each sub group (fixed, voluntary and other groups) is too small to be statistically significant.

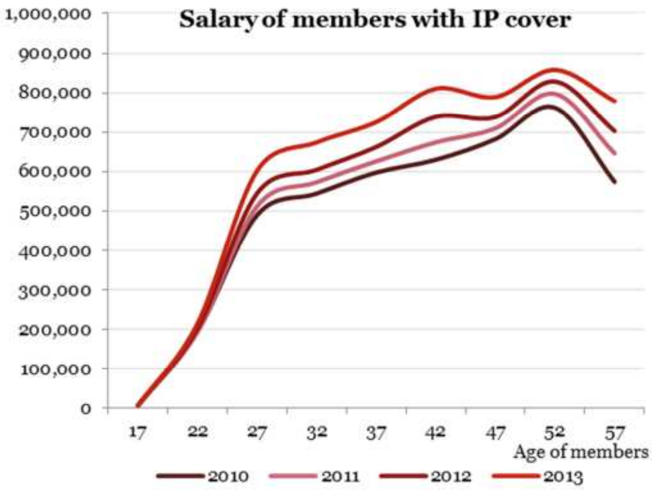
Income Protection

3.17 The number of members with Income Protection cover increased 9% from 30 June 2010, from 79,331 members to 86,544 members as at 30 June 2013 and the total salary of members with cover increased 22% (from $4.5bn to $5.5bn).

3.18 The average Income Protection benefit for insured members is $47,316 per annum as at 30 June 2013, based on 75% of the average salary of $63,088. This has increased 3.7% per annum from 30 June 2010 when the average benefit was $42,398 (average salary $56,530).

3.19 A summary of the data is shown below by age for the investigation period.





4. Death and TPD experience analysis

Adjustment for incurred but not reported (IBNR) claims

4.1 The data provided to us was effective at 30 June 2013, and was produced towards the end of July 2013.

4.2 Claims are recognised on the administration system not when they occur, but when they are approved, which can take a number of months.

4.3 This means that a number of claims which occurred prior to 30 June 2013 are not included in the data, because they are still being processed. We need to estimate and include the value of these claims, to ensure we capture all claims occurring in the period under review. This is similar to the way in which accounts need to include expenses which have been accrued but not yet incurred.

4.4 We analysed the historic delay between date of claim and date of settlement. Because the date of exit shown in the data is always the date of leaving employment, we were also provided with date of last employer contribution, which we were advised was suitable as an estimate of date of claim.

4.5 Industry observed delay periods are showing approximately:

a. 90% of claims are reported within 6 months and 98% within 12 months for death claims

b. 50% of claims are reported within 6 months, 80% within 12 months and 90% within 24 months for TPD claims.

4.6 Super SA experience was showing increased delay from that in 2007-10, and greater delays for death claims than those observed in the industry. TPD claim delays are similar to those observed in the industry. The results are summarised in Appendix B.

4.7 We have been advised that TPD claims management has been made more rigorous, increasing approval times, which could explain alignment to industry averages for TPD claims.

4.8 Death claims are now checked by Claims Management before payment which may be delaying some payments.

4.9 A review of claims advised to have been incurred in 2010 (based on data in 2013) showed the IBNR that was included for the 2010 valuation (29% of claims) was understated compared to the actual experience (52% of claims). Additional reserves were held in 2010 to cover IBNR underestimation at a level of 50% of IBNR.

	2007	2008	2009	2010	Total
Claims in 2010 data	147	210	207	103	**667**
IBNR allowance	-	-	6%	29%	
Number of claims (with IBNR)	147	210	220	132	**709**
Claims in 2013 data	152	210	213	157	**732**
Actual claim increase	3%	0%	3%	52%	

4.10 The IBNR allowance in 2010 increased the number of claims for 2007 to 2010 by 42 (667 advised claims to 709 claims, 6.3%). With the underestimation allowance, the total IBNR claims allowance was 63 claims.

4.11 The actual claims for 2007 to 2010 (based on 2013 data) were 732, being 65 claims higher than that in the 2010 data and in line with IBNR allowance.

4.12 Based on the observed delay pattern, review of 2010 IBNR allowance and industry trends, the IBNR allowance for 2013 has been increased as follows:

% of claims	2012	2013
Death IBNR	10%	70%
TPD IBNR	16%	65%
Overall death and TPD	**14%**	**66%**

4.13 The following table shows impact on claim amounts ($'000)

Claims known at 2013	2010	2011	2012	2013	Total
Amount of claims (unadjusted for IBNR)	12,746	8,785	10,731	5,410	**37,672**
Amount of pending claims(1) (2)	0	0	1,710	2,790	**4,500**
Amount of IBNR claims	0	0	2,145	6,404	**8,550**
Amount of claims (with IBNR)	12,746	8,785	14,586	14,604	**50,721**
IBNR allowance(2)	-	-	17%	78%	

[1] Potential claims are claims arising from pending and declined claims at 30 June 2013, assuming 85% of all claims will be approved

[2] The average TPD claim size for 2013 is $42,000, but average size for 2010-2012 was $70,000. Potential and IBNR claims are allowed for assuming average claim size is $90,000 for death and TPD claims

4.14 The overall claims amount is increasing from $12.7 million for 2010 to $14.6 million for 2013, however this reflects the increased sum insured amount.

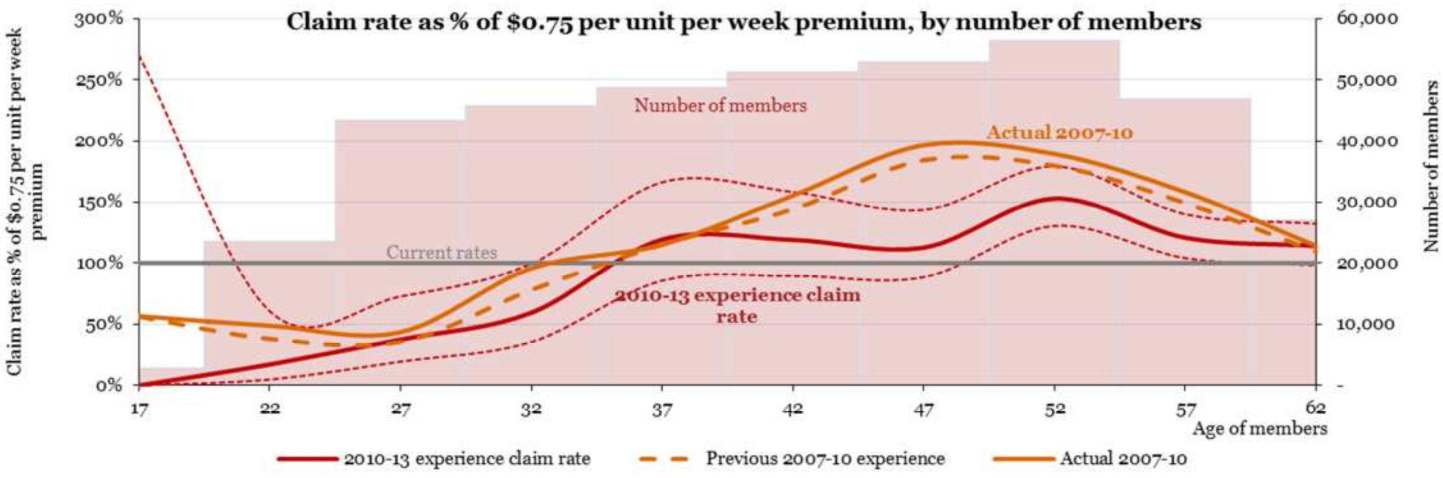
4.15 The allowance for IBNR claims is $8.5 million of claims, which is up from $3.4 million in 2010. The actual IBNR could still be higher than $8.5 million (based on past experience) so underestimation allowance maintained at 50% of IBNR ($4.25 million).

4.16 The number of claims and amount of claims following this point in the report include the IBNR allowance (unless advised otherwise).

4.17 The effect of the IBNR on the actual number of claims for Death and TPD Insurance for 2010 to 2013 is detailed in Appendix B.

Claims experience by number of claims

4.18 The claim rates for Death and TPD Insurance, based on the number of claims and the number of insured members, are shown below:



4.19 By way of explanation:

a. The solid red line shows the rate of claim for each age group, relative to the expected rate implied by the current insurance rates, net of expenses.

b. The dotted red lines show the "95% confidence interval", i.e. the true claim rates should be somewhere within the dotted lines with a 95% probability.

c. The shaded bars in the background show the number of members in each age group. The dotted confidence intervals are narrowest where there is the most data.

d. The orange dashed line shows previous equivalent rates from the 2007-2010 investigation (claims rate of 0.18% of number of members).

e. The solid orange line shows the actual 2007-2010 claim rate. The actual claim rate was 0.20% of number of members, which is higher than the previous calculated 2007-2010 experience because of underestimate of IBNR (although largely covered by reserves).

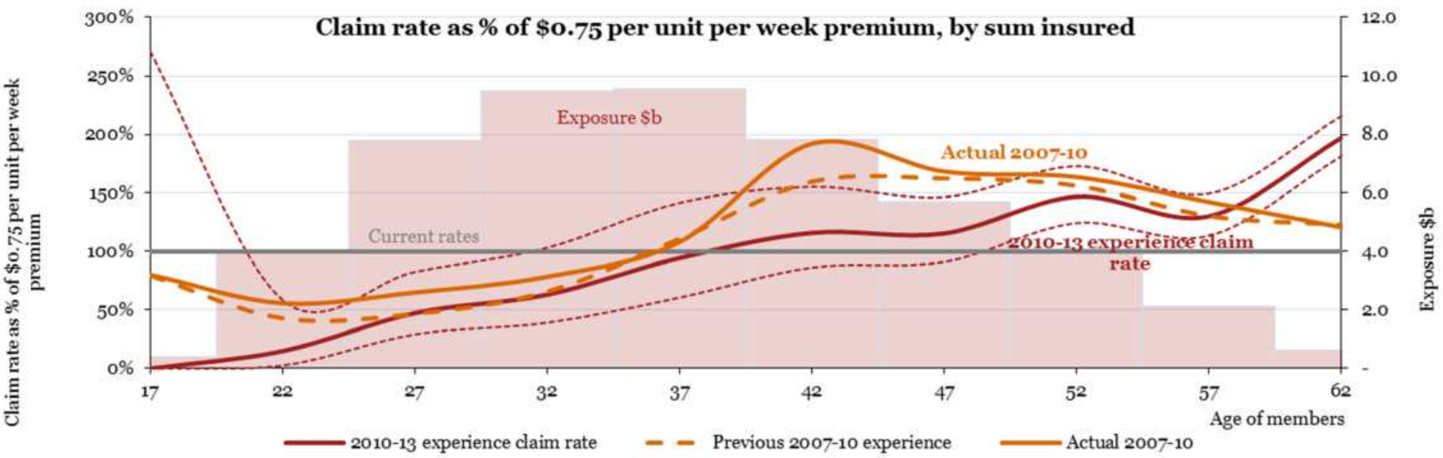
4.20 The number of claims (including IBNR) has marginally reduced from 0.20% of members for 2007 to 2010 to 0.17% for 2010 to 2013; however, IBNRs are increasing as claims are being delayed longer. The resulting average claim rate for 2007 to 2013 was 0.19%.

4.21 The reduction is largely due to a recent fall in claims for older members. The table below shows the claim rate as a percentage of the members with cover:

Age band	2007-10	2010-13
40 – 45	0.12%	0.09%
45 – 50	0.21%	0.12%
50 – 55	0.33%	0.27%
55 – 60	0.49%	0.37%

Claims experience by amount of claims

4.22 The claim rates for Death and TPD Insurance, based on the amount of claims and the sum insured, are shown below:



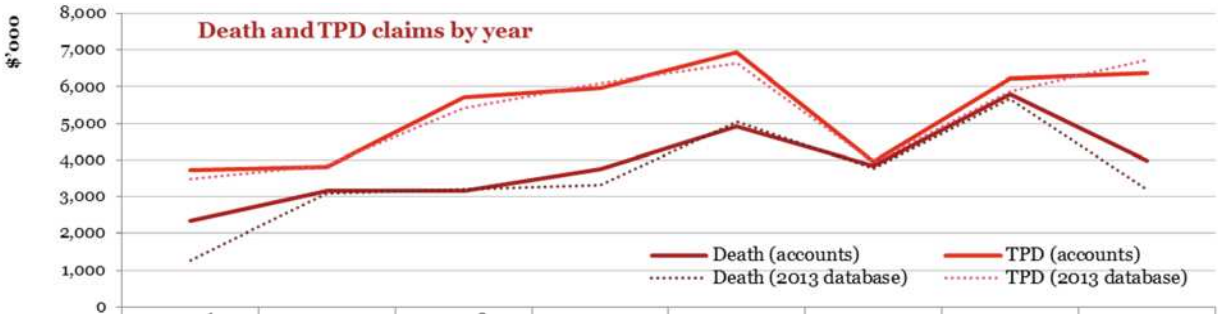
4.23 The previous estimated claim rate (including IBNR) was 0.10% of sum insured for 2007-2010 (orange dashed line). The actual 2007-2010 claim rate was 0.11% of sum insured, which is slightly higher than previously estimated due to the underestimation of the IBNR (although largely covered by reserves).

4.24 The cost of claims (including IBNR) has marginally reduced from 0.11% of sum insured for 2007 to 2010 to 0.10% for 2010 to 2013.

4.25 The average cost of claims for 2007-2013 (including IBNR) was 0.10% of sum insured.

Claims payment experience

4.26 Actual payments made in 2011 appear significantly lower than other years, particularly for TPD (as shown in the chart below).



	2006	2007	2008	2009	2010	2011	2012	2013
Death (accounts)	2,346	3,170	3,153	3,743	4,910	3,828	5,807	3,988
TPD (accounts)	3,723	3,810	5,715	5,978	6,929	3,958	6,222	6,358
Death (2013 database)	1,287	3,100	3,213	3,331	5,044	3,772	5,686	3,197
TPD (2013 database)	3,481	3,862	5,409	6,085	6,637	3,931	5,880	6,711

4.27 In addition, the number of TPD claims incurred in 2011 was 20% lower than 2010 and 2012. Super SA has confirmed the level of payments and claims in the data as accurate.

Number of claims[1]	2006	2007	2008	2009	2010	2011	2012	2013
Death paid in year	30	51	58	68	69	62	67	46
TPD paid in year	70	87	132	148	93	68	81	104
Total paid in year	**100**	**138**	**190**	**216**	**162**	**130**	**148**	**150**
Death claims in year	50	61	60	74	64	67	56	25
TPD claims in year	87	91	150	139	93	75	92	52
Total claims in year	**137**	**152**	**210**	**213**	**157**	**142**	**148**	**77**

[1] Payments are the actual payments made in a year, whereas claims incurred are the claims that arise in any year but due to the assessment process may be paid out in later years.

Death and TPD analysis by 'Group'

4.28 The insurance data enables analysis by pre-defined groups, however these designations do not allow for occupational analysis. The table and chart below detail the results for each group.

Group	Sum insured 2010-13 ($m)	Number of claims 2010-13	Total claims 2010-13 ($m)	Claim rate 2010-13 (% of sum insured)	Average claim size
Health	17,694	227	15.0	0.09%	66,366
Education	12,396	175	11.7	0.09%	67,158
Other	14,695	207	15.6	0.11%	75,330
Police	5,505	25	4.8	0.09%	194,952
Emergency	157	5	0.3	0.16%	56,152
Correctional Services	765	30	3.3	0.43%	108,009
No Group	433	1	0.0	0.01%	22,000
Total	**51,645**	**669**	**50.7**	**0.10%**	**75,817**

4.29 The analysis shows that:

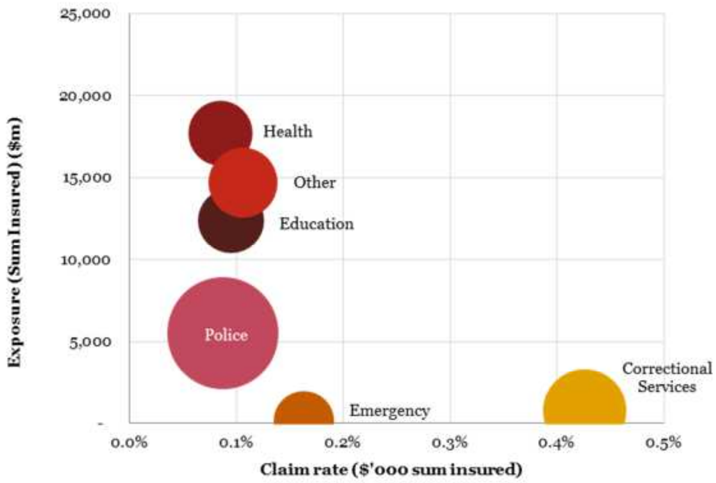
a. Correctional Services are exhibiting a high claim rate, though actual claim rate is highly uncertain due to statistically small number of claims

b. Police exhibiting largest average claim size due to higher level of default units (6 units compared to 2 units for other members)

c. Overall average claim rate 0.10% and claim size $75,817

d. All rates are indicative only as the small number of claims per group makes rates unreliable.

4.30 The chart below illustrates these results, where the size of the bubble represents the average claim size.



5. Income Protection experience analysis

5.1 As with death and TPD, claims are not entered on the system until they have been approved, and approval can take several months, so the data provided to us does not include all the claims which were incurred prior to 30 June 2013. We therefore need to adjust the data to allow for these claims.

5.2 There are two types of adjustments for Income Protection claims:

a. Incurred by not reported (IBNR) provisions are made for claims that are not reported or finalised for some time after they occur, and would otherwise be represented in the claims experience under review

b. Incurred but not enough reported (IBNER) provisions are made where the duration of Income Protection payments is potentially longer than the date of the next review.

Adjustment for incurred but not reported (IBNR) claims

5.3 As there is no accurate proxy for date of incident with IP claims, IBNR and IBNER are approximated based on observed claim amounts per month and delay patterns.

5.4 For the 24 months to 30 April 2013 IP claims averaged 31 claims per month. As claims in the later months of 2013 are yet to develop, targeting 31 claims for these months result in an IBNR of 10% of the observed claims for 2013. The IBNR for 2010 was 10.4% of claims.

5.5 The number of Income Protection claims adjusted for the expected number of Incurred but Not Reported claims is as follows:

Claims known at 2013	2010	2011	2012	2013	Total
Number of claims (unadjusted for IBNR)	184	260	377	350	**1,171**
IBNR claims allowance	0	0	0	35	**35**
Number of claims (with IBNR)	184	260	377	385	**1,206**
IBNR allowance	-	-	-	10%	

Adjustment for incurred but not enough reported (IBNER) claims

5.6 The claims data includes the date on which Income Protection payments will cease, or, if the date is beyond the date on which data was extracted, the date on which the member's medical condition will next be assessed. Clearly, many claims will continue beyond this date, so we need to adjust the dates to reflect the expected total payment period.

5.7 IBNER is estimated based on observed duration of claims. The average remaining duration for current IP payments is estimated based the distribution of completed IP claims.

5.8 Claims in payment, with a review date after 30 June 2013, are assumed to continue based on the following table, given their current duration (months):

Current duration	0-3	3-6	6-9	9-12	12-15	15-18	18-21	21-24
Remaining duration	9.0	9.5	9.5	8.5	8.5	7.5	4.5	1.5

5.9 IBNR and IBNER allowance equates to 77% of claims for 2013 and 8% for 2012. That is, $5.6 million, up from $2.4 million in 2010, as detailed below.

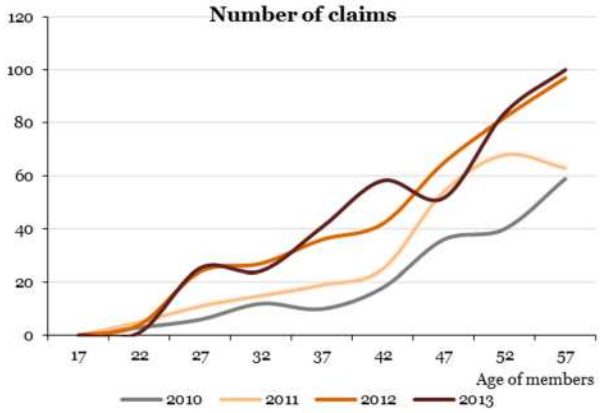
Claims know at 2013 ($'000)	2010	2011	2012	2013	Total
Amount of claims (unadjusted for IBNR)	5,023	6,153	8,739	6,266	**26,181**
IBNR & IBNER claims allowance	-	1	726	4,845	**5,572**
Amount of claims (with IBNR & IBNER)	5,023	6,154	9,465	11,111	**31,753**
IBNR and IBNER allowance	-	0%	8%	77%	

5.10 The actual IBNR and IBNER could still be higher than $5.6 million based on past experience. We have maintained an underestimation reserve of 50% of IBNR and IBNER ($2.8 million for 2013).

5.11 The number of claims and amount of claims following this point in the report include the IBNR and IBNER allowances (unless advised otherwise).

Claims experience by number of claims

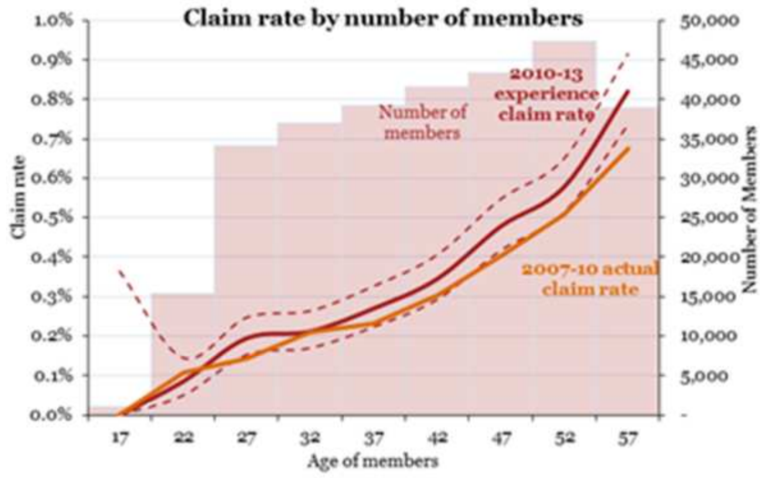
5.12 The charts below shows the number of Income Protection claims by age group, after adjustment for IBNR and IBNER.



5.13 The number of claims in 2012 and 2013 is higher than 2010 and 2011, consistent with industry experience. The claim rates, as a percentage of members, from 2010 to 2013 are as followed:

Year	Number of claims	% of members
2010	184	0.35%
2011	260	0.33%
2012	377	0.47%
2013	385	0.46%

5.14 The claim rates for Income Protection, based on the number of claims and the number of insured members, are shown below:



5.15 By way of explanation:

a. The solid red line shows the rate of claim for each age group, based on the number of insured members in that group.

b. The dotted red lines show the "95% confidence interval", i.e. the true claim rates should be somewhere within the dotted lines with a 95% probability.

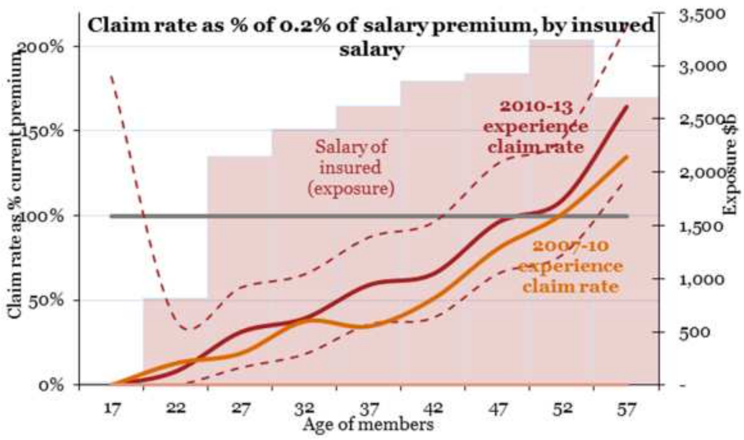
c. The shaded bars in the background show the number of members in each age group. The dotted confidence intervals are narrowest where there is the most data.

d. The solid orange line shows the actual 2007-2010 claim rate. The actual claims experience for 2007-2010 was immaterially different from the rate observed in 2010, with allowance for IBNR.

5.16 A current administration project collating 7 years' claim data may provide more information on the causes of these claims.

Claim experience by amount of claims

5.17 The claim rates for Income Protection, based on the amount of claims and the salary of insured members, are shown below relative to the current premium level of 0.2% of salary:

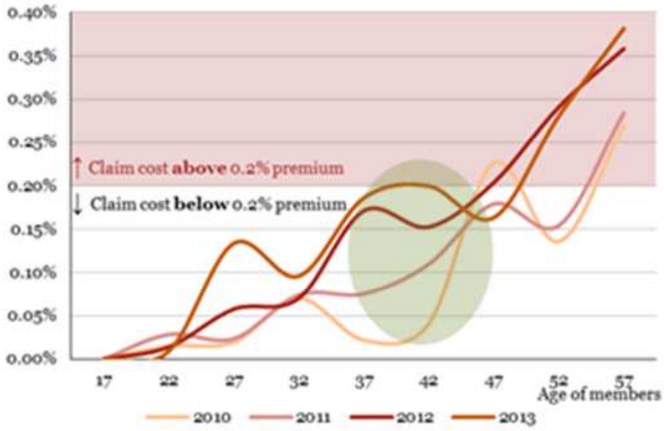


5.18 The overall amount of claims was 0.16% of salary for 2010-2013, with claims significantly increasing in 2012 and 2013, due to the increase in the number of claims highlighted above.

	2007-10	2010	2011	2012	2013
Amount of claims as % of salary insured	0.10%	0.11%	0.13%	0.19%	0.20%

5.19 The IP experience is less relevant up to 2010 as this is prior to Income Protection becoming default and the maximum payment period increasing.

5.20 There was a significant increase in claims for 35-45 year olds in 2012 and 2013, and 25-30 year olds in 2013, as shown in the green shaded area below.



5.21 The increase in IP claims is consistent with industry experience.

6. Profitability

Profitability of Death and TPD insurance

Industry Experience

6.1 TPD claims are increasing across the industry. This is compounded with an increasing presence of legal firms in claims.

6.2 Previous claim experience may reflect apathy of members and may not be the case in the future.

6.3 Super SA claims cost of 0.10% of sum insured for 2007-13 is lower than comparable funds.

6.4 Indicative industry rates for comparable schemes are at least 5-15% higher based on published premium rates and allowing for a 30% margin for administration profit in the rates.

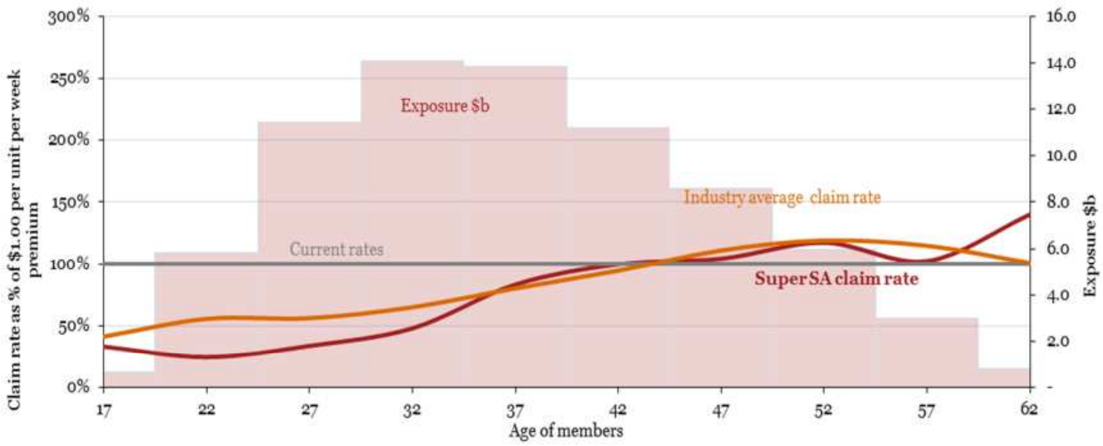
6.5 We have estimated the profitability of death and TPD rates as follows.

Expected cost of death and TPD claims

6.6 The current premium for one unit of Standard death and TPD insurance cover is $1 per week.

6.7 Based on Super SA claims experience, the expected cost of claims and expenses would generally be below $1.00 per unit (approximately $0.93) for all members.

6.8 Based on indicative industry rates, the expected cost of claims and expenses would be at least $1.00, as shown in the graph below.



Standard cover

6.9 The current premium is $1 per unit per week for Standard cover, however this is subsidised to $0.75 per unit per week from insurance reserves.

6.10 The table below illustrates that the current subsidised premium of $0.75 per unit per week remains sustainable given reserves.

Expected Values	2013 cover at $0.75/wk ($'000)	2013 cover at $1.00/wk ($'000)	Difference
Default Premiums [1]	6,616	8,821	2,205
Voluntary Premiums[2]	3,389	4,518	1,129
Total Standard Cover Premiums	**10,004**	**13,339**	**3,335**
Expected claims	(11,875)[3] to (12,400)[4]	(11,875) to (12,400)	-
Expenses[5]	(567)	(567)	-
Premiums minus payments	**(2,438) to (2,963)**	**897 to 372**	

[1] Based on 169,633 units for members with 1 and 2 units and Police and Ambulance members with 6 units

[2] Based on 86,888 units, of which 45,964 are in excess of 2 units

[3] Expected claims based on 2007 – 2013 observed claim rate for Super SA and 2013 exposure

[4] Expected claims based on industry claim rate and 2013 exposure

[5] Estimated as Insurance Administration Fees from accounts ($1.2m for 2013), death & TPD payments being 50% of total payments for 2013 and 94% of members having standard cover

6.11 The cost of standard cover remains at around $1 per week per unit when we factor in industry experience.

6.12 The premium subsidy from reserves for $0.75 per unit per week is approximately $3.3 million per annum. This is made up of:

a. $2.2 million for default cover

b. $0.5 million for the first two voluntary cover units

c. $0.6 million for voluntary cover units over 2 units

6.13 Given free reserves of $34 million, (see Reserves section below) the premium subsidy is sustainable; however the Board may wish to consider the equity of subsiding voluntary cover.

Fixed cover

6.14 Fixed cover for a fixed premium is not industry standard.

6.15 The table below shows expected premiums currently exceed expected claims and expenses. However, premiums will remain fixed whereas expected claims will increase as the fixed cover members age.

6.16 The excess premium should be considered as a contribution to reserves, as claims likely to exceed premiums in the future.

Fixed Cover Members	$'000
Expected Premiums	4,337
Expected claims[1]	(3,819)[2] to (3,816)[3]
Expenses[4]	(33)
Premiums minus payments	**485 to 488**

[1] Based on 39,125 units

[2] Expected claims based on 2007 – 2013 observed claim rate for Super SA and 2013 exposure

[3] Expected claims based on industry claim rate and 2013 exposure

[4] Estimated as Insurance Administration Fees from accounts ($1.2m for 2013), death & TPD payments being 50% of total payments for 2013 and 6% of members having fixed cover.

Profitability of Income Protection insurance

6.17 The current premium for Income Protection is 0.20% of salary. For 2012 and 2013, the claims experience was shown to be approaching this breakeven point (i.e. claim rate is nearing 0.20%).

6.18 The expected profitability of Income Protection is therefore nil if claims were to continue at the observed rates.

6.19 When administration expenses are factored in (estimated at $0.6 million based on $1.2 million Administration Fee for 2013 from accounts and Income Protection payments being 50% of total payments for 2013) costs may exceed premiums going forward, potentially requiring a subsidy from reserves if current premium rates are maintained.

6.20 Furthermore, income protection claims are increasing across the industry. The possibility of increases in Income Protection claims for Super SA is allowed for in the reserves as an underestimation allowance of 50% of IBNR and IBNER estimates.

	Based on 2010-13 claim rates	**Based on 2013 claim rates**
Expected premiums	10,920	10,920
Expected claims	(8,807)	(11,111)
Expenses	(600)	(600)
Premiums minus payments	**1,513**	**(791)**

6.21 The claim rate for 2013 matches the current premium (0.20% of salary). With an allowance for expenses, the cost is expected to increase to 0.21% of salary, with a trend to further increases.

7. Reserves

7.1 The Triple S scheme needs to hold reserves because it has no recourse to the employer. We propose that they be as follows.

Prudential reserve

7.2 A prudential reserve may include an allowance for normal statistical fluctuations in claims from time to time, underestimation of outstanding claims, and protection against exceptional events.

IBNR and IBNER reserve for claims not finalised

7.3 Our analysis has showed that some claims are not finalised, or even reported, for quite some time after they are incurred. A provision needs to be made in the Scheme accounts for these claims.

Death and TPD

7.4 The previous investigation recommended holding a provision of 32% of annual premiums for death and TPD claims.

7.5 Adjusting for the increase in the IBNR factor, and the approach to IBNR outlined earlier in this report, we have calculated a provision of 59% of annual premiums.

7.6 This amounts to $8.5 million at 30 June 2013 ($3.4 million at 30 June 2010).

7.7 In addition, we have made an allowance for pending claims expected to be approved and declined claims that may be approved on appeal in proportion to observed rates. This amounts to $4.5 million at 30 June 2013.

7.8 In total, the reserve for additional expected claims relating to the investigation period is $13.0 million as at 30 June 2013.

Income Protection

7.9 Income Protection requires a reserve not only for claims which have not been reported, but also for continuing payments for current claims.

7.10 Based on the approach outlined in this report, we estimate this at about 51% of annual premiums for IBNR and IBNER.

7.11 This amounts to $5.6 million at 30 June 2013 ($2.4 million at 30 June 2010).

Underestimation of existing claims

7.12 The IBNR and IBNER are estimates based on a number of factors including industry knowledge and observed experience however there is a risk that these estimates may be underestimated.

7.13 Consistent with the previous review, we recommend holding a reserve of 50% of the estimated outstanding claims (IBNER and IBNR), the reason being:

a. Observed margins are approximately 20% to 30% in the industry

b. 2010's IBNR and IBNER estimation were underestimated

c. Advice from Super SA around changes to claim management processes means delay experience may still be arising and not completely represented in the data.

7.14 The underestimation reserve amounts to $7.1 million in 2013 ($2.9 million at 30 June 2010).

7.15 We have included this reserve with the reserve for IBNR and IBNER, in the table which follows this analysis.

Fluctuation reserve

7.16 We estimate the random statistical variation in claim amounts for a fund of this size for Death & TPD and Income Protection combined, which is based on additional cost arising if claims experience is two standard deviation from the observed rate of claim. This gives claim costs at 95% level of confidence. We recommend a statistical fluctuation reserve remain unchanged from 30 June 2010 at $10 million at 30 June 2013.

Fixed cover reserve

7.17 Fixed premium is currently operating at a profit but as members age and premiums stay fixed, claims are expected to increase above the level of premiums.

7.18 Estimation of the reserve to be held in respect of this cohort of members has been based on the expected profit and loss assuming average claim rates will continue at current levels for 5 to 10 years. Based on this, we recommend introducing a reserve for fixed cover members of $10 million.

Self-insurance reserve

7.19 Certain additional reserves are needed for the Triple S scheme because it is a self-insurance scheme.

Asset resilience reserve

7.20 The insurance reserve is substantially invested in equity and property assets, whose value can fluctuate substantially. We suggest that it would be prudent to allow for this by holding an asset resilience reserve which approximates the amount by which the Prudential Reserves could fall. This ensures that the true value of the insurance reserve is not overstated, even when market values fall.

7.21 We propose setting the resilience reserve at 15% of the prudential reserves in line with the approach in 2010. This results in a reserve of $6.8 million at 30 June 2013 (based on prudential reserves of $45.7 million). This is higher than the asset resilience reserve at 30 June 2010 ($1.3 million), due to the increase in the IBNR & IBNER reserves, and the inclusion of the statistical fluctuation and fixed cover reserves.

Contingency reserves

7.22 The main risk is from exceptional events which can incur large numbers of claims, such as a hospital epidemic, terrorism, or judicial risk (e.g. misinforming members about their benefits). Such rare events are extremely difficult to quantify.

7.23 On the one hand, Triple S is self-insured, and must meet its own claims unless it can obtain financial support from government. It may be prudent for the Board to hold substantial reserves to mitigate this risk. The difficulty is in quantifying the level of protection, and the corresponding reserve required to meet it.

7.24 On the other hand, reserves are financed completely from insurance premiums paid by Triple S members, and it would be unfair to those members to hold excessive reserves that had very little chance of being required.

7.25 The Board needs to balance these two potentially conflicting interests, but the difficulty of quantifying the level of protection means this has to be a matter of judgement rather than actuarial calculation.

7.26 As things stand now, Triple S has an insurance reserve of $132.2 million at 30 June 2013, which is some $79.7 million in excess of the reserves required for prudential and asset resilience reserves. This would pay for over 600 excess insurance claims.

7.27 The Board has previously considered this risk, and decided that the worst case would be a catastrophe affecting the buildings in which most Government employees work. The potential cost was estimated at $40 million in 2010. This equates to an event which affects 260 employees, assuming 130 (half) are death claims and 130 are Income Protection claims paid for 2 years followed by 130 TPD claims.

7.28 Based on current claim amounts, the contingency reserve would increase from $40 million in 2010 to $45.5 million as at 30 June 2013.

7.29 It is extremely difficult to set a contingency reserve because, by their nature, catastrophes are unexpected and can occur in many different ways. However, we believe that a reserve at this level provides a reasonable compromise between the interests of safeguarding Triple S and the interest of providing low cost insurance to members and therefore would be applicable for at least the next three years.

Reserve allocation

7.30 The existing insurance reserve of $132.2 million at 30 June 2013 has been notionally split based on the Super SA accounts. If we allow for the reserves above, then we have the following:

$ million	Death and TPD	Income Protection	Total at 30/06/13	Total at 30/6/10
Insurance reserve[1]	**108.3**	**23.9**	**132.2**	**93.4**
Prudential Reserves				
IBNR & IBNER[2]	(17.3)	(8.4)	(25.7)	(8.7)
Fluctuation reserve	(5.0)	(5.0)	(10.0)	(10.0)
Fixed Cover Reserve[3]	(10.0)	0.0	(10.0)	-
Total Prudential Reserves	**(32.3)**	**(13.4)**	**(45.7)**	**(18.7)**
Self-insurance Reserves				
Asset resilience reserve	(4.8)	(2.0)	(6.8)	(1.3)
Contingency reserve	(26.0)	(19.5)	(45.5)	(40.0)
Total Self Insurance Reserves	**(30.8)**	**(21.5)**	**(52.3)**	**(41.3)**
Expected 'free reserves'	**45.2**	**(11.0)**	**34.2**	**33.4**
Ongoing Subsidy				
Standard default cover	(2.2)	-	(2.2)	
Voluntary cover	(1.1)	-	(1.1)	
Total subsidy	**(3.3)**	**-**	**(3.3)**	**(3.1)**

[1] Insurance reserve of $132.2m notionally allocated to Death and TPD and Income Protection based Triple S accounts.

[2] Includes allowance for underestimation of IBNR & IBNR at 50%.

[3] Estimated based on current member cohort.

7.31 This shows that 'free reserves' have increased since 2010 even after allowing for the increase of prudential and self-insurance reserves. This is mainly due to good investment returns, which were 9.5% per annum from 30 June 2010 to 30 June 2013.

8. Reliance and limitations

8.1 Our work has been conducted for the sole use and benefit of the Department of Treasury and Finance of South Australia (the Department) in reviewing the insurance arrangements of Triple S, and for no other purpose. No third party may use or rely on our work for any purpose.

8.2 Unless required by law or by the terms of our engagement letter, no copy of or extract from this report is to be distributed to third parties without our prior written consent. We may at our discretion, grant or withhold our consent or grant our consent subject to conditions.

8.3 No oral or written reference to the content of this report may be made by the Department to any third parties without our prior written consent. We may, at our discretion grant or withhold our consent or grant it subject to conditions.

8.4 Our responsibilities and liabilities are to the Department in the context of the use of our report for the purpose set out above. We do not accept any liability or responsibility in relation to the use of our report for any other purpose.

8.5 This report must be read in its entirety. Individual sections of this report could be misleading if considered in isolation from each other.

8.6 All reasonable care has been taken to provide data that is accurate. However, we have relied on a range of external sources for data. As a result, we are unable to guarantee the accuracy of the data contained in this report.

8.7 The advice contained in this report is based on the circumstances of the Department as a whole. It does not take into account the specific circumstances of any individual.

8.8 Past performance is no guarantee of future performance and investment markets are volatile. PricewaterhouseCoopers Securities Ltd does not guarantee that any specific level of returns will be achieved.

8.9 We are not presently aware of any circumstances that, in our view, would constitute a conflict of interest or would impair our ability to provide objective assistance during our engagement.

8.10 We will notify you if a conflict of interest arises during this engagement. On notification of a conflict of interest we will discuss with you our continued involvement in this engagement and/or appropriate additional procedures to preserve confidentiality and to ensure independence of advice.

8.11 We receive remuneration from the Department only, as detailed in our engagement letter.

8.12 PricewaterhouseCoopers Securities Limited, its authorised representative(s) and their associates will not receive any remuneration, commissions and benefits that might reasonably be expected to be or have been capable of influencing the representative in providing this advice.

8.13 PricewaterhouseCoopers Securities Limited, its authorised representative(s) and their associates do not receive any remuneration, commissions and benefits relating to referrals.

8.14 We have identified in the body of our report any advice that, to our knowledge, is based on incomplete and/or inaccurate information (if applicable).

8.15 We are not aware of any interests, associations and relationships between PricewaterhouseCoopers Securities Limited, the authorised representative(s) and other parties which may influence the advice given. If we become aware of any, then we will notify you immediately.

Appendix A: Extract from Southern State Superannuation Act 2009

Schedule 1 Part 5, Clause 8—Repeal of Act

A.1 The Southern State Superannuation Act 1994 is repealed.

Section 17—Report as to cost and funding of insurance benefits

A.2 The Minister must obtain a report on the cost and funding of insurance benefits (including disability pensions) provided through the scheme within 12 months after 30 June 2010 and thereafter within 12 months after the end of each triennium following that date.

A.3 Each report must be prepared by an actuary (not being a member of the Board) appointed by the Minister and must report on:

a. the cost of insurance benefits

b. the extent to which premiums paid by members and held by the Board are sufficient to meet the scheme's anticipated insurance liabilities

at the time of the report and in the foreseeable future.

A.4 The Minister must, within 6 sitting days after receiving a report under this section, have copies of the report laid before both Houses of Parliament.

Section 22—Insurance benefits

A.5 The following is to be provided through the Triple S scheme on terms and conditions prescribed by regulation:

a. invalidity insurance, death insurance and income protection for members

b. death insurance for spouse members.

A.6 Invalidity or death insurance may also be provided through the scheme for other persons on terms and conditions prescribed by regulation.

A.7 Regulations made for the purposes of this section:

a. may provide

i) for different amounts of invalidity or death insurance depending on a person's age or occupation, or whether the person was employed on a full time, part time or casual basis, or on any other relevant factor; and

ii) for annual increases in the amount of invalidity or death insurance for the benefit of persons who wish to have annual increases in their insurance; and

iii) for the amount of premiums to be fixed by the Board; and

b. may make different provision according to the various classes of members, matters or circumstances to which they are expressed to apply; and

c. may provide that specified members or spouse members, or members or spouse members of a specified class, cannot apply for, or are not entitled to, invalidity insurance, death insurance or income protection.

Appendix B: IBNR calculations for Death and TPD insurance

B.1 As noted in the body of the report, industry observed delay periods are showing approximately:

a. 90% of claims are reported within 6 months and 98% within 12 months for death claims

b. 50% of claims are reported within 6 months, 80% within 12 months and 90% within 24 months for TPD claims.

B.2 Super SA experience is showing increased delay from 2007-10, and greater delays for death claims than industry.

Cumulative	0-3 mths	3-6 mths	6-9 mths	9-12 mths	12-18 mths	18-24 mths	24-36 mths	36-48 mths
2007-10 % of claims paid Death & TPD	55%	73%	81%	88%	92%	96%	100%	100%
2010-13 % of claims paid Death & TPD	39%	59%	68%	76%	84%	93%	93%	100%
2010-13 % of claims paid Death only	32%	62%	71%	79%	87%	95%	100%	100%
2010-13 % of claims paid TPD only	45%	56%	66%	73%	82%	90%	100%	100%

B.3 The effect of the IBNR on the actual number of claims and claim amounts for Death and TPD Insurance for 2010 to 2013 is shown below.

Claims known at 2013	2010	2011	2012	2013	Total
Number of claims (unadjusted for IBNR)	157	142	148	77	**524**
Potential claims[1]	0	0	19	31	**50**
IBNR claims allowance	0	0	24	71	**95**
Number of claims (with IBNR)	157	142	191	179	**669**
IBNR allowance	-	-	14%	66%	

[1] Potential claims are claims arising from pending and declined claims at 30 June 2013, assuming 85% of all claims will be approved.

Appendix C: Death and TPD insurance cover tables

C.1 The table below shows the current standard cover.

Age last birthday	One unit cover ($)	Premium per week ($)	Age last birthday	One unit cover ($)	Premium per week ($)
Up to 34	75,000	0.75	**50**	27,000	0.75
35	72,000	0.75	**51**	24,000	0.75
36	69,000	0.75	**52**	22,000	0.75
37	66,000	0.75	**53**	20,000	0.75
38	63,000	0.75	**54**	18,000	0.75
39	60,000	0.75	**55**	16,000	0.75
40	57,000	0.75	**56**	14,000	0.75
41	54,000	0.75	**57**	12,500	0.75
42	51,000	0.75	**58**	11,000	0.75
43	48,000	0.75	**59**	10,000	0.75
44	45,000	0.75	**60**	9,000	0.75
45	42,000	0.75	**61**	8,000	0.75
46	39,000	0.75	**62**	7,000	0.75
47	36,000	0.75	**63**	6,000	0.75
48	33,000	0.75	**64**	5,000	0.75
49	30,000	0.75	**65+**	Not offered	Not offered

C.2 The table below shows the current fixed cover.

Age last birthday	One unit cover ($)	Premium per week ($)	Age last birthday	One unit cover ($)	Premium per week ($)
20 and under	75,000	0.80	**43**	75,000	2.90
21	75,000	0.85	**44**	75,000	3.10
22	75,000	0.85	**45**	75,000	3.30
23	75,000	0.90	**46**	75,000	3.50
24	75,000	0.95	**47**	75,000	3.70
25	75,000	1.00	**48**	75,000	3.90
26	75,000	1.05	**49**	75,000	4.10
27	75,000	1.10	**50**	75,000	4.40
28	75,000	1.15	**51**	75,000	4.70
29	75,000	1.20	**52**	75,000	5.10
30	75,000	1.25	**53**	75,000	5.50
31	75,000	1.30	**54**	75,000	6.00
32	75,000	1.40	**55**	75,000	6.50
33	75,000	1.50	**56**	75,000	7.10
34	75,000	1.60	**57**	75,000	7.70
35	75,000	1.70	**58**	75,000	8.40
36	75,000	1.80	**59**	75,000	9.20
37	75,000	2.00	**60**	75,000	10.10
38	75,000	2.10	**61**	75,000	11.00
39	75,000	2.30	**62**	75,000	12.00
40	75,000	2.40	**63**	75,000	13.00
41	75,000	2.60	**64**	75,000	14.10
42	75,000	2.70	**65+**	Not offered	Not offered