Chapter summary
The issue of life insurance for Australian Defence Force (ADF) members is outside the Review’s terms of reference. The Australian Defence Organisation (Defence) brought the issue to the Review in response to ADF members being denied life insurance coverage, or having existing policies suspended, due to war exclusion clauses. This is a significant problem for Reservists on continuous full-time service, especially health professionals, where MRCA benefits for injury or death may not be sufficient to cover loss of business income.

Life insurance is a personal decision for ADF members, based on their individual financial circumstances. Defence provides financial assistance in the form of an allowance to reimburse ADF members for the additional coverage they need to purchase above the normal cost of a life insurance policy. It is difficult to see how life insurance could be integrated into the Military Rehabilitation and Compensation Act 2004 (MRCA) without radical change to the legislation and support from a wide range of stakeholders.

Compulsory insurance would also convey the impression that the MRCA is inadequate and life insurance is a necessary substitute for military compensation. In reality, compensation under MRCA is sufficient for the vast majority of ADF members, particularly when combined with the death and disability benefits provided by military superannuation schemes.

The Committee recommends that Defence and the Department of Veterans’ Affairs (DVA) jointly undertake a comprehensive communication strategy, aimed at educating serving ADF members on the full range of financial benefits provided under the MRCA and military superannuation.

Defence has elected to pursue this matter separately from the Review process, with several options under consideration before a recommendation is made to the Australian Government.

Introduction
28.1 Examination of the role of death and disability insurance in the context of the Military Rehabilitation and Compensation Act 2004 (MRCA) raises the policy question of whether personal insurance should be an integral component of military compensation arrangements, or, as is currently the case, a private arrangement between the member and the insurance provider.

Background
28.2 The issue of death and disability insurance for members of the Australian Defence Force (ADF) is outside the Review’s terms of reference. It was brought to the Review for consideration in its initial stages by the Australian Defence Organisation (Defence) in response to ADF members being potentially denied death and disability insurance coverage, or having existing policies suspended due to service related restrictions.
28.3 ADF members wishing to take out death and disability insurance policies are clearly disadvantaged in comparison with the wider community. Coverage is likely to carry conditions requiring policies to be purchased before receipt of notice of deployment and/or to have been held for a period of time (up to 12 months) before a claim arising from injury or death on deployment will be honoured.

28.4 Any requirement for insurance cover should be considered in the context of the coverage provided to members by the MRCA. The statutory scheme is considered to be one of the most generous compensation schemes in Australia, so the purchase of insurance to supplement the MRCA is dependent on individual circumstances. It is acknowledged that for some members, such as Reserve health professionals deployed on continuous full-time service, the MRCA may not provide adequate income replacement for loss of business income, nor does it take into account the financial complexity of a members’ affairs.

Death and disability insurance and existing military compensation arrangements

28.5 In its visits to ADF bases, the Committee found evidence that members are not fully aware of what they or their dependants are entitled to under military compensation arrangements, or their military superannuation scheme in case of death or injury.

28.6 Unlike some nations, an integrated death and disability insurance/military compensation model has never been a feature of Australia’s repatriation system or contemporary military compensation arrangements. For ADF members, death and disability insurance is a personal decision based on their individual financial circumstances.

28.7 Financial assistance is provided by Defence in the form of an allowance1 to reimburse ADF members for the additional coverage they need to purchase above the normal cost of a life insurance policy; however, this is dependent on the member’s occupation, not their locality.

28.8 A consequence arising from a policy of encouraging members to take out death and disability insurance is that some members, despite being encouraged or advised to this effect, may either decide against doing so before deployment or neglect to do so. If members without insurance are killed or injured, particularly where deployment was at short notice, there is a potential for dependants to argue that there is an inequity between members with and without death and disability insurance and that Defence should bear the responsibility for ensuring members are appropriately covered.

28.9 Compulsory insurance may also convey the impression to ADF members and the community that the MRCA is inadequate and death and disability insurance is a necessary supplement to military compensation. In reality, compensation provided under MRCA is sufficient for the most ADF members, particularly when combined with the death and disability benefits provided by military superannuation schemes.

28.10 Consideration was given by the Committee to the feasibility of a model that integrates compensation benefits with death and disability insurance. This would be a radical departure from the existing model, which would require support from a wide

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1 Known as ‘Life insurance — additional risk insurance’, prescribed in chapter 4 part 9 of the Pay and conditions manual (‘PACMAN’, Australian Defence Organisation 2005); the amount is currently up to $1,932 per year.
range of stakeholders. For a genuinely integrated insurance or compensation model, death and disability insurance cover would need to be compulsory to ensure sufficient numbers of participants and to minimise risk.

28.11 It is difficult to see how death and disability insurance could be integrated into the MRCA as it stands, or following any changes implemented as a result of the Review. An integrated scheme would require a mixture of lower compensation benefits complemented by death and disability insurance benefits. The model that has evolved in Australia suggests that statutory compensation and death and disability life insurance be kept separate.

28.12 Defence has elected to pursue the insurance issue separately from the Review process, with several options under consideration before a recommendation to the Australian Government is made.

Conclusions

28.13 The Committee considers that Defence has a responsibility to do all that is practical and feasible to ensure ADF members have an understanding of entitlements in the case of death and injury.

28.14 Defence needs to make it clearer to ADF members that taking out a life insurance policy is a private decision and is additional to existing military compensation benefits and military superannuation. Defence has elected to pursue the matter external to the Review and will make recommendations to the Australian Government in relation to a long-term solution.

28.15 Defence and DVA should devote more effort and resources to give ADF members appropriate education on the key financial benefits of the MRCA: death benefits, permanent impairment, incapacity payments, rehabilitation and health treatment. Such an understanding is critical in assisting members to determine whether life insurance is an expense they genuinely need to incur.

Recommendations

The Committee recommends that:

28.1 the Australian Defence Organisation (Defence) and the Department of Veterans’ Affairs jointly undertake a comprehensive communication strategy aimed at providing education to serving members of the Australian Defence Force on the full range of financial benefits provided under the Military Rehabilitation and Compensation Act 2004 and military superannuation; and

28.2 Defence should work to resolve the insurance issue external to the Review process.