



MLC WHOLE OF LIFE AND ENDOWMENT PRODUCTS

2020 Annual Outcomes Assessment

The MLC Whole of Life and Endowment products are traditional bundled products that give members access to life insurance cover and investment arrangements provided by MLC Limited (the Insurer).

MLC Whole of Life and Endowment products form part of the MLC Super Fund, of which NULIS Nominees (Australia) Limited ('NULIS') is the Trustee. NULIS is responsible for all fiduciary, legal and regulatory obligations in relation to running the superannuation fund.

Each year, NULIS is required to conduct an Outcomes Assessment which determines whether it has 'promoted the financial interests' of the members of MLC Whole of Life and Endowment products.

The Outcomes Assessment is performed by MLC Wealth Limited (MLC) with the assistance of MLC Limited, on behalf of NULIS using industry benchmarking, comparative data, in-house data and reviews performed by research houses. The Outcomes Assessment helps us to understand how we are performing on a range of measures. This benefits members since it helps us identify ways to improve the benefits and services we provide to them.

Note that MLC Limited is a different entity from MLC Wealth Limited. MLC Limited uses the MLC brand under licence. MLC Limited is part of the Nippon Life Insurance Group.

The Outcomes Assessment for the 2020 calendar year concluded that overall, **the MLC Whole of Life and Endowment products are promoting the financial interests of members.**

This document provides a summary of the factors that were assessed in reaching this conclusion, including what we are doing well, areas identified as requiring improvement and how we intend to enhance the outcomes of members in future.

It should be noted that this document reflects an assessment of product performance based on data collected during the 2020 calendar year. Our members receive yearly updates about the performance of their own superannuation product, as well as details about any product changes, in their annual statements and other communications.

MLC Whole of Life and Endowment products comprise:

- MLC Whole of Life Superannuation
- MLC Endowment Superannuation

- MLC Pure Endowment Superannuation
- Whole of Life (formerly Aviva)
- Endowment (formerly Aviva)

Each time a member commenced in these products, a life insurance policy was purchased. The insurer is MLC Limited. The regular premium payments the member makes to us are superannuation contributions, which we use to pay the premiums on the life insurance policy.

These products are no longer offered to new members (which is also referred to as being 'off sale').

The MLC Whole of Life and Endowment products were assessed together as they provide access to similar investment and insurance benefits.

Product Assessment

Options, benefits and facilities

Whole of Life and Endowment products are older style bundled life insurance and investment products that are very different from contemporary products generally available in Australia and across the industry, and most of them are no longer offered to new members. Product disclosure documents for these products are generally not publicly available. For these reasons, there are very few comparable products offered in the market to use as a basis for peer review.

When comparing our products to the few similar competitor products that we identified, we found that the features and benefits were similar. Although our products are no longer offered to new members, product definitions continue to be subject to periodic reviews and upgrades to ensure they remain aligned with industry standards.

For an additional premium cost, members are also able to add optional insurance benefits such as Accidental Death Benefit, Extra Death Benefit, and Total and Permanent Disablement Benefit.

Members who make an insurance claim are allocated a dedicated claims assessor to help them through the claims process. There is also a dedicated team of rehabilitation consultants that work with the member and their doctor to assist members on their path to recovery and help them to get safely back to work.

MLC WHOLE OF LIFE AND ENDOWMENT PRODUCTS

2020 Annual Outcomes Assessment

MLC Limited's claims services are complemented by additional health focussed services for members and their immediate family including:

- *Best Doctor Service* which provides access to more than 50,000 leading medical specialists from Australia and around the world, for a second medical opinion at no additional cost
- *Mental Health Navigator* which provides a review and second opinion on diagnosis and a treatment plan for mental health conditions

Members are also provided with online education support regarding insurance in super.

Overall, we consider that the options, benefits and facilities available to members in the MLC Whole of Life and Endowment products are reasonable and adequate for members holding the products. This is on the basis that:

- Options, benefits and facilities are comparable to those offered by peer insurers in the Australian life insurance market with respect to traditional, bundled, life insurance products
- Members are provided with the option to apply for optional insurance cover
- Members are offered complementary services that give them access to supporting medical expertise if they become affected by a medical condition

Overall, the options, benefits and facilities offered to members in each of the MLC Whole of Life and Endowment products have been assessed as being appropriate.

Investment Strategy

The MLC Whole of Life and Endowment products are traditional, bundled, life insurance and investment products. The premiums for these products cover both the life insurance cover (for a sum insured amount specified by the member) and the investment arrangements. These products do not accumulate an account balance.

Members can redeem their policy before it reaches maturity but will only receive a portion of the policy value or sum insured. On this basis, it is typically preferable for members to keep these policies and continue to pay the premiums until maturity.

These products may be either 'participating' or 'non-participating' policies.

'Participating' policies are invested in the MLC Limited Statutory Fund 5. They may share in the declared profits of Statutory Fund 5 in the form of reversionary bonuses, which are declared and approved by MLC Limited's Appointed Actuary annually. Once a bonus has been declared, it supplements or adds to the investment value of the policy and to the sum insured.

'Non-participating' policies are invested in the MLC Limited Statutory Fund 1. These policies don't share in the declared profits of Statutory Fund 1, and therefore have no bonuses added to their sum insured or investment value.

The investment objective for these products and benchmark asset allocations are designed to achieve stable earnings with minimum volatility, whilst managing investment risk to secure policyholder benefits guaranteed by MLC Limited. MLC Limited estimates that the number of negative annual returns over any twenty year period (Standard Risk Measure) is '1 – Very low, nil'. This means the estimated number of negative annual returns over any twenty year period is very low to nil.

The investment strategies for both Statutory Fund 1 and Statutory Fund 5 and details of MLC Limited's Bonus Policy are set out below.

MLC Limited Statutory Fund 1

The investment strategy of the Fund aims to secure guarantees to policyholders by investing part of its investment portfolio in a suitably structured portfolio of interest bearing securities that matches those guaranteed obligations.

Surplus assets over and above those required to fund guaranteed benefits will generally be invested in a more return-seeking, diversified portfolio. There is no investment choice for policyholders.

The benchmark asset allocation of Statutory Fund 1 is 100% defensive assets, in Australian interest bearing securities.

MLC Limited Statutory Fund 5

The fund assets are invested in a diversified portfolio of growth and defensive assets. Asset allocation ranges under normal conditions are up to 25% growth assets and at least 75% defensive assets.

MLC Limited Bonus Policy

MLC Limited complies with all APRA regulations and disclosures to policyholders requiring the sharing of profit between policyholders and shareholders that is earned by the participating pool. Within those rules, MLC Limited has some discretion about how and when the policyholder profits are allocated to policyholders. The policyholder profits are allocated to policyholders through guaranteed and non-guaranteed terminal benefits, based on decisions of the MLC Limited Board after receiving advice from the Appointed Actuary.

The principles for decisions on distribution of policyholder profit are outlined in a Bonus Rates policy that aims to achieve a more stable release of policyholder profits (i.e. less volatility than underlying returns) whilst maintaining equity between policyholders through time.

MLC WHOLE OF LIFE AND ENDOWMENT PRODUCTS

2020 Annual Outcomes Assessment

The general objective of the current Bonus Policy is to distribute to policy-owners an amount that represents an appropriate share of Operating Profits. To meet this objective, profits are allocated to policy holders as bonuses on an annual basis. The Ordinary Branch profits are allocated 81.5% to policy-owners and 18.5% to shareholders, before allowing for shareholder tax on superannuation business.

Assessment

NULIS has assessed the investment strategy as appropriate on the basis that:

- Bonuses and investment earnings are distributed appropriately
- Investment strategy has performed in accordance with product terms and/or PDSs (as applicable)
- Profits, bonuses and investment earnings are declared and approved by the Appointed Actuary on an annual basis

The strategy performed adequately over the 12 months to June 2020, exceeding its performance benchmark by 0.41% p.a. including fees. The portfolio's performance is assessed at a portfolio level not a member level. The annual review of performance concluded that both the strategy and the manager remains appropriate for the portfolio.

Overall, we concluded that for each of the MLC Whole of Life and Endowment products, the investment strategy is appropriate.

Insurance Strategy

The premiums for these products cover both the life insurance cover and the investment arrangements. Unlike other insurance in super arrangements, the purchase of insurance cover does not cause the erosion of an account balance as there is no account balance accumulated for these products.

For an additional premium cost and subject to underwriting and acceptance by MLC Limited, members can add optional Accidental Death Benefit or Extra Death Benefit and Total and Permanent Disablement Benefit.

Members may have the option of stopping their premium payments and still retaining a sum insured benefit but it will be for a reduced value.

The assessment was limited to considering whether the level of cover offered to members is adequate and appropriate, having regard to the cost of the premiums and the accumulated bonus payments that supplement the sum insured amount.

Overall, NULIS assessed that the insurance cover provided to members is reasonable and adequate for the relevant products and membership cohorts.

Taking all this into consideration, we concluded that overall, the insurance strategy for each of the MLC Whole of Life and Endowment products is appropriate.

Insurance fees

We examined the competitiveness and affordability of insurance premiums.

A comparison of MLC Whole of Life and Endowment superannuation insurance premiums to similar competitor superannuation insurance products, most of which are also off sale and no longer offered to new members, has demonstrated that the premium cost for the life insurance is lower for MLC Limited than for competitors.

It should be noted that Whole of Life and Endowment policies can't be compared to contemporary pure life insurance products because only part of the premium goes towards insurance, and some of it is invested for future returns to be paid upon maturity. Also, the premiums of Whole of Life policies (which pay a benefit upon death or at the policy anniversary following the member's 94th birthday) differ from Endowment policies (which are generally shorter fixed term cover) due to the different time periods for which the member is insured.

We consider that the insurance premiums charged for these products are appropriate to members on the basis that they are lower than those offered by competitors for similar bundled insurance and investment products.

The assessment concluded that, on balance, the insurance fees being charged to members in each of the MLC Whole of Life and Endowment products are appropriate.

Scale

Scale is important because operating a large business supports the long-term sustainability of our products and our ability to deliver member outcomes.

For the purposes of this part of the assessment, 'scale' was considered at two levels – the scale of NULIS' business operations as the Trustee and the scale of MLC Limited as the Insurer.

NULIS operates four superannuation funds including one of the largest in Australia, which includes the MLC Whole of Life and Endowment products. Our total funds under management was \$96 billion as of 30 June 2020 (#5 in the market), and we had 1.2 million members (#5).

We concluded that NULIS' large scale permits us to effectively oversee the management of these super products.

MLC Limited, the insurance provider of the MLC Whole of Life and Endowment products, is one of the five largest insurers

MLC WHOLE OF LIFE AND ENDOWMENT PRODUCTS

2020 Annual Outcomes Assessment

in the Australian market by in-force premium income. As one of the largest life insurers in the market, MLC Limited has extensive expertise and enjoys the scale benefits derived from providing insurance to a very large number of customers and investment expertise from managing large investment pools. In addition, MLC Limited has adequate capital in order to meet the underlying insurance risks according to Australian regulatory requirements, as attested annually by MLC Limited's Appointed Actuary.

We consider that MLC Limited's scale is supporting the financial interests of members on the basis that:

- MLC Limited is one of the largest life insurers in Australia
- MLC Limited has capital reserves adequate to meet prudential regulatory requirements
- Assessment of premiums, fees and costs payable by members indicates that costs charged to members are reasonable and market competitive

With all these factors in mind, we have concluded that the scale of both NULIS' and MLC Limited's business is appropriate.

Operating costs

'Operating costs' in this context means the costs to operate the business. It does not refer to the cost paid by members for the insurance itself, this is covered in the prior section 'Insurance Fees'.

The operating costs incurred in relation to the MLC Whole of Life and Endowment products are primarily borne by MLC Limited. The parent company of MLC Limited is Nippon Life Insurance Group, a mutual life insurance company. As MLC Limited is a separate entity (not related to NULIS) and given the commercially sensitive nature of this information, it was not appropriate for MLC Limited's operating cost information to be incorporated into the assessment.

However, we can infer operating cost from an 'outside in' perspective based on premiums charged to members. Market comparisons of premiums charged by MLC Limited (considered in other sections of the assessment) indicate they are competitive and therefore there is no evidence that MLC Limited's operating costs are disadvantaging or inappropriately affecting members.

As a result, we have concluded that the operating cost of MLC Limited's business is appropriate.

Basis of setting fees

This assessment factor is not applicable to the MLC Whole of Life and Endowment products. As they provide bundled investments and insurance (death cover only), the only costs for members are the insurance premiums, which are covered earlier in this document under Insurance fees.

The basis of our conclusion

The following factors were found to be supporting NULIS' objective of promoting the financial interests of members:

- *Options, Benefits & Facilities:* Despite these products being off sale and no longer offered to new members, the options, benefits and facilities provided to members in the MLC Whole of Life and Endowment products remain reasonable and adequate giving consideration to the nature and design of the products. Members can also access additional services to provide support when they or their immediate family need medical care
- *Investment Strategy:* The investment strategy performed adequately over the 12 months to June 2020, exceeding its performance benchmark by 0.41% pa (net of fees). The annual review of performance concluded that both the strategy and the manager remain appropriate for the portfolio
- *Insurance Strategy:* overall, the insurance cover provided to members in the MLC Whole of Life and Endowment products is reasonable and adequate for the relevant products and membership cohorts
- *Insurance Fees:* Competitor benchmarking found that the premium cost for the life insurance offered through these products is lower for these products than for similar competitor products
- *Scale:* The scale of NULIS' operations is substantial, which permits us to effectively oversee the management of these super products. In addition, MLC Limited is one of the five largest insurers in the Australian market by in-force premium income and has achieved the benefits of scale. In addition, MLC Limited has adequate capital to meet the underlying insurance risks according to Australian regulatory requirements
- *Operating Costs:* Since MLC Limited is a separate legal entity to NULIS, operating cost information is not available to NULIS. However, given the market competitiveness of the insurance premiums it charges, it was concluded that their operating costs are not having a negative impact upon members

NULIS' conclusion has taken into consideration the off-sale nature of these products and the fact that peer comparison is therefore challenging.

Having regard to all the factors we assessed in performing the Annual Outcomes Assessment for the 2020 calendar year, we concluded that overall, **the MLC Whole of Life and Endowment products are promoting the financial interests of members.**



Important information

NULIS Nominees (Australia) Limited (ABN 80 008 515 633 AFSL 236465) (NULIS) is the Trustee of MLC Super Fund (ABN 70 732 426 024) (Fund). If you are a current member holding any of these products, you should consider the disclosure material you received on joining, together with any significant event notices and regular reporting from us, for information about your interest in the product and to help inform any decisions. MLC Wealth Limited has conducted the Outcomes Assessment on behalf of NULIS. The Outcomes Assessment is based upon data collected in the 2020 calendar year. The relevant data and assessments reflected in the Outcomes Assessment may change from year to year. This document has been prepared for reporting purposes only and should not be used for the purpose of informing investment decisions. This information is of a general nature only and does not take your specific needs or circumstances into consideration. You should consider the appropriateness of the information having regard to your personal situation before making any financial decisions. Past performance is not a reliable indicator of future performance. The value of an investment may rise or fall with the changes in the market. Returns are not guaranteed and actual returns may vary from any target returns described in this communication. The final authority on any issue relating to members' interests in the Fund is the Fund's Trust Deed, and any relevant insurance policy, that govern members' rights and obligations.