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From:
Sent: Tuesday, 8 April 2014 5:06 p.m.
To:
Cc:
Subject: RE: DFSS insurances - unclassified

I refer to your question below in relation to using Reserve Accounts for Category A and Category C members for paying insurance benefits.

Category A:

8.2 states

"The Reserve Accounts shall be applied by the Trustee at the direction of the CDF... in the payment of all or part of the Expenses directed by the CDF"

Expenses include Insurance Premiums.

Category C:

48.2 states

"The Category C Reserve Account shall be applied by the Trustee: ... after consultation with the Advisory Trustee ... Payment of all or part of fees ... and payment of insurance premiums"

In each instance the decision is a mixed decision with either the CDF or Advisory Trustee having input. Outside of such consultation I can confirm we are happy with the payment of insurance premiums for all Category A and all C members to be made from their respective Reserve Accounts for the 14/15 year.

Regards

From:
Sent: Friday, 4 April 2014 3:30 p.m.
To:
Cc:
Subject: DFSS insurances - unclassified

Good afternoon

I have completed my review of the non DFSS staff insurances and that will be considered by the leadership board this month.

I am recommending significant changes to the non DFSS insurances as follows:

1. There will be a two tier structure
2. Tier one involves death payment of \$300k for RF, TF and civil staff, replacing the current multiple of salary arrangement
3. Death cover is through to age 70.
4. Regular Force and civil staff will have income continuance salary of 75% of salary payable for up to two years after an absence of three months
5. TF (Territorial Force) will retain TPD
6. Tier two will involve a menu of options that people will be able to purchase to supplement what is provided via Tier One – options under Tier Two will be additional death and IC cover, Physical Loss or Trauma Recovery benefits

If approved these changes will apply from 1 July 2014. There is also a reasonable chance that CDF will pay for the RF and TF members insurance.

This will mean we will have fundamentally different DDI (non DFSS) and DFSS insurance arrangements, including funding arrangements. Some of this will be contentious, particularly from the perspective of the DFSS members who continue to fund their own insurance. the insurance premium costs in the 13/14 scheme year were approx.

As we work through the review of the DFSS we need to look at what changes, if any, should be made to the DFSS insurance arrangements. NZDF policy is that all RF and TF should have access to full insurance cover. According to the figures Jan supplied on Weds, in the period since 2008 we have had at least four DFSS members die without access to any insurance payment. Additionally, there will be at least 350 members who will have a reduced insurance payment reflecting they have withdrawn funds to purchase a first home. So in respect of the DFSS membership there are currently gaps in our policy.

Recognising that it will take some months to work through any changes to the DFSS insurances, there are options around funding for the DFSS insurances that could remove some of the inequity. One of these options is for CDF to decide to use the Cat A Reserve Account to pay for the Cat A insurances, and apply to the Trustee to use the Cat C Reserve account to pay for the Cat C insurances. That would leave only the Cat B insurances to be paid for separately.

Before I go any further with this, please advise if the Trustee would accept use of the Cat A and C Reserve Accounts for covering the insurance costs for respectively Cat A and Cat C members in the 14/15 scheme year.

Regards

NZDF

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From:
Sent: Monday, 28 April 2014 9:02 a.m.
To:
Subject: RE: Enhancement of DFSS insurances - unclassified

I believe, if I am getting your question correct, that this is basically the same as the question already asked whereas you wish to pay for insurance premiums out of the Reserve Accounts. This can be done. However, I believe the issue will be to do with the level of benefit as the Death and TPD benefits are defined in the Trust Deed and therefore the Deed may need amending.

I understand we'll catch up later today, perhaps we can discuss then.

Cheers

From:
Sent: Thursday, 24 April 2014 5:02 p.m.
To:
Subject: Enhancement of DFSS insurances - unclassified

Good afternoon

I hope you have had a good week.

An urgent question for you , please.

The proposal that is going to CDF is that until we get the DFSS insurances resolved we extend the DDI (Death and Disability insurance provided to non-DFSS members) to DFSS members. Thus in addition to their DFSS insurances, they would receive a death payment of \$300k. There would also be income continuance provided.

This way we ensure that all DFSS members have at least the insurance available to all other NZDF personnel.

The cost of doing this is \$2.99m + FBT in FY 14/15.

Is it open to CDF to use the Cat A and Cat C Reserve account to meet the costs of the respective Cat A and Cat C members? provided a breakdown of the insurance costs for each category so I am able to identify the actual cost for the Cat A and Cat C members.

Please advise.

Regards

NZDF

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From:
Sent: Friday, 2 May 2014 11:01 a.m.
To:
Subject: RE: DFSS Reserve Accounts - unclassified

Morning

Note that each category of Reserve must be used for that category of membership so in your calculation of \$2.21m, if a high proportion of that is Category C then that Reserve may run down and/or be depleted sooner, leaving any shortfall to the members of that section or NZDF.

Note that I have sent off your request to

Cheers

From:
Sent: Thursday, 1 May 2014 2:48 p.m.
To:
Subject: RE: DFSS Reserve Accounts - unclassified

The Cat A Reserve Account estimated balance at 31 March 2014, using the unconfirmed March interest rates, is \$5,795,397.

The Cat C Reserve Account estimated balance at 31 March 2014, using the unconfirmed March interest rates, is \$1,517,752.

Regards

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From:
Sent: Thursday, 1 May 2014 11:50 a.m.
To:
Subject: DFSS Reserve Accounts - unclassified

Good morning folks

Can someone urgently supply me with the amounts in the respective DFSS Cat A and C Reserve accounts, please.

Regards

NZDF

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HEADQUARTERS NEW ZEALAND DEFENCE FORCE
Defence Personnel Executive
MINUTE No 21/2014

7450/0/1

29 April 14

PCC

PROPOSED NEW STAFF INSURANCE AND CHARGING ARRANGEMENTS TO APPLY FROM 1 JUL 14

References:

- A. DFO 4, Chapter 14
- B. DPE 7450/0/1 dated 14 Sep 12
- C. DPE 7450/0/1 dated 16 Jul 13

Introduction

1. The purpose of this Minute is to obtain PCC approval for changes to the staff insurance programme available to the death and disability insurance cover (DDI) that is in place for non-Defence Force Superannuation Scheme members (DFSS), with effect from 1 Jul 14. The proposal includes the charging regime to apply with effect from 1 Jul 14.
2. The proposed changes to the staff insurance structure were endorsed by the PCMB at a meeting on 9 Apr 14. In respect of funding for FY14/15 and outyears, the PCMB's preferred option is for CDF to continue to fund the DDI costs for members of the Armed Forces and civil staff. If funding is not available for this, PCMB's second preferred option is for CDF to meet the costs for members of the Armed Forces and for civil staff to meet their own costs by way of a deduction from salary. The third option is for members of the Armed Forces and civil staff to meet the costs of DDI.
3. A core principle is that all members of the Armed Forces have comprehensive insurance cover, particularly for operational related incidents. For that reason, Defence Personnel Executive (DPE) proposes continuation of compulsory DDI for Regular Force (RF) and Territorial Force (TF) members and voluntary DDI for civil staff members.
4. DPE also notes issues regarding the DFSS insurances and proposes transitional changes to those insurances in FY 14/15. Currently DFSS members pay for their insurance through a deduction from their employer superannuation contribution and a number of DFSS members lack full insurance cover. This cuts across the core principle referred to above. It is proposed to change those arrangements on a transitional basis by extending DDI to members of the DFSS.

Proposals in respect of the DFSS insurances to address other anomalies will be the subject of a separate Minute later in the year.

Approval Sought

5. The PCC is requested to approve changes to the DDI to apply WEF 1 Jul 14, as follows:

- a. Introduction of two new tiers of insurance cover for all NZDF personnel including members of the DFSS, with a third tier to be introduced later;

Tier 1

- (a) Regular Force and Civil Staff – death cover of \$300k and Income Protection of 75% of salary payable for up to two years after an absence of three months. Cover is for both work and non work related incidents and illnesses.
- (b) Territorial Forces – death and Total Permanent Disability (TPD) cover of \$300k. Cover is for work related incidents only.

Tier 2

- (c) A menu of additional insurance that members are able to purchase and pay for themselves without the requirement to undergo underwriting.
- b. Tier 1 insurances to be funded by CDF in FY 14/15 and outyears at a maximum cost of
- c. Tier 1 insurances for RF and TF only to be funded by CDF in FY 14/15 and outyears at a maximum cost of _____ with civil staff to meet the costs of the insurance; or
- d. RF, TF and civil staff to meet the cost of the DDI Tier 1 in FY 14/15 and outyears through a deduction from the remuneration tables for RF and TF, and through a deduction from salary for members of the civil staff.

Background

6. In 2002 NZDF senior leadership expressed concern that members of the Armed Forces were being deployed to Afghanistan without access to comprehensive insurance cover. At that stage only members of the then Armed Forces Superannuation Scheme (AFSS) - now the Defence Force Superannuation Scheme (DFSS) – Category A had access to death and Total Permanent Disability (TPD) insurance. Army and Air Force members also had access to voluntary Group Life insurances which involved death and more limited TPD cover. Other members had no direct insurance cover unless they had their own insurances and if they did, it was

unlikely the insurance included "belligerent operations" cover. Ref A made provision for CDF to make an insurance payment where a member killed or seriously injured in operations had a private insurance policy that excluded "belligerent operations". Unfortunately, this provision was inequitable in that it only applied if the member had their own insurance policy.

7. In Aug 08 CDF approved the introduction the current of compulsory insurance cover for RF and TF members who were not members of the DFSS. The insurance cover arranged includes belligerent operations. NZDF also arranged insurance cover for the civil staff as part of the same arrangement. The insurance cover in place for RF and civil staff is both work and non- work related, whereas for TF members the cover is for NZDF work related incidents only. Refer to Annex A for details of the current insurance cover.

8. CDF agreed at the time that he would fund the cost of this insurance for FY 08/09 and thereafter recipients would be required to pay for it. This was anticipated to be deducted from future increases to the total remuneration tables. However, during the three year period FY 09/10 to FY 11/12 no adjustment was made to NZDF remuneration tables. For that reason CDF agreed to continue meeting the costs of the DDI for the entire period.

9. In FY 11/12 Finance Branch in consultation with DPE and Director Risk and Assurance (DRA) undertook a review of the DDI to determine if it would be more effective from a risk and cost perspective to self insure. After weighing up the pros and cons of self insurance it was agreed that NZDF should continue to obtain commercial insurance cover. A particular concern was NZDF's vulnerability to an incident involving multiple fatalities or serious injuries.

10. In Sep 12, CDF approved adjustments to the NZDF remuneration tables (ref B). These included a pre-table deduction for the cost of the insurances, which was projected to be \$3.9m in FY12/13. Subsequently, the charging methodology was the subject of a successful complaint from a DFSS member who argued that he was required to pay for a benefit that he was not receiving, as DFSS members are not covered by DDI. As a result of upholding the complaint at ref C CDF approved revised remuneration tables for FY 13/14 which removed the cost of the insurances for all members. CDF also directed DPE to develop proposals for new staff insurance arrangements and a revised charging methodology to apply from 1 Jul 14. This Minute contains these proposals.

11. During the five year period since the inception of DDI there have been 29 death payments totalling \$4.95m¹. All deaths sustained in overseas deployments over the last five years have been subject to an insurance payment. However, no TPD payments have been made.

¹ In the same period there have been 36 deaths of DFSS members. Of those deaths 28 were the subject of a DFSS insurance payment.

12. Up until Sep 12 NZDF insurance arrangements ceased once the member reached 65 years. This was discriminatory and created an additional risk if and/or when personnel aged 65 and above were deployed. Following consultation with DRA, Defence Legal Services (DLS) and Finance Branch it was decided to self insure those members pending completion of this review. Since that change four civil staff aged 65+ have passed away and been the subject of combined NZDF payments of \$790k².

SECTION ONE: STRUCTURE OF THE INSURANCE

Purpose

13. The purpose of this review was to reconsider the DDI programme that has been in place since Aug 08 to determine, firstly, if a commercial staff insurance programme should be retained; secondly, what improvements should be made if it is decided to retain the commercial staff insurance programme; and thirdly (contained in Section Two of this paper), to determine the appropriate funding mechanism for the staff insurance programme, including potentially the DFSS insurances.

Approach

14. The review has involved extensive analysis of the claim history of the DDI policies since their inception in Aug 08, discussions with the DDI broker (AON) and the insurer, Sovereign, as well as with Defence Health, Army Liaison Officer Wounded, Injured, Ill and the Army and Air Force Welfare Fund representatives in respect of the current voluntary Group Life Insurance Plans (GLIPs). Reflecting that changes to DDI may impact on the DFSS insurance scheme, there have been discussions with Trustees Executors Ltd which owns the DFSS insurances and Mercer, the current broker for that insurance.

15. There has also been consultation with Director Reserve Forces and Youth Development (DRFYD) in respect of the TF insurances, Legal Services, DRA and Finance Branch. The State Services Commission (SSC) has been briefed on the proposals.

16. Insurance arrangements provided by the respective Australian, UK and US Armed Forces, the NZ Fire Services Commission and the NZ Police and NZ Police Association have also been reviewed to assess if these proposals reflect international and domestic best practice. These proposals are generally aligned with the insurance arrangements of those benchmarking agencies.

Review Findings

17. The review has determined the following:

² As at 2 Apr 14 there are 351 personnel aged between 65 and 81 years of age.

- a. There continues to be a requirement for compulsory commercial insurance cover for all members of the Armed Forces and offered on a voluntary basis to members of the Civil Staff. Legally, it would be difficult to make the insurance compulsory for civil staff unless CDF is meeting the costs. This is categorised as Tier One insurances. Legal Services view is there are also legal risks if CDF makes the insurance compulsory for RF and TF members and requires them to pay for it.
- b. The threshold for the Total and Permanent Disability (TPD) insurance is too high and it is very difficult to qualify for a TPD payment. The current TPD policy should either be modified to provide for modest lump sums for loss of one limb and so forth, or, alternatively, the TPD policy should be replaced with either an income continuance or, alternatively, a trauma recovery benefit policy for all members. It is considered that NZDF personnel already have access to lump sum payments through the Accident Compensation Act framework (ACC) for the loss of a limb and that there is greater benefit to be derived from introduction of an income continuance policy covering both incidents and illness (including mental illness). However, while Sovereign is prepared to offer Death and Income Continuance cover to members of the RF and Civil Staff members, it is not prepared to offer this to members of the TF. This would require interrogation of their private activities which is not desirable. Therefore for the foreseeable future, it will be necessary to retain Death and TPD cover for TF members. Annex B provides a glossary of insurance terms and payments available. Annex C details possible lump sum TPD payments; Annex D details possible trauma recovery benefits.
- c. The current arrangement of basing any insurance payment on salary is inequitable in so much as it places a different value on the life of members. It is preferable to replace the current arrangements with a lump sum payment. The review proposes a level of \$300k.
- d. It is also recognised that for some members a lump sum of \$300k would be inadequate and they should have the choice of purchasing and paying for additional insurance cover without having to be underwritten (no requirement to complete a medical questionnaire). This is categorised as Tier Two insurance and would be available to all members of the NZDF³. Subject to the approval of the respective Welfare Funds, Tier Two would replace the current GLIPs although current GLIP subscribers would be able to continue with the present arrangements if they so wish.

³ Sovereign advises that it is prepared to offer Tier Two insurances without underwriting within a set window, e.g. for current personnel within 60 days of the roll out of DDI, and for new members, within 60 days of commencing with NZDF. Any application for Tier Two outside that window would require an underwriting process (completion of a questionnaire).

- e. NZDF should arrange commercial insurance cover for those personnel aged between 65 and 70 years and Sovereign has agreed to provide this. NZDF would continue to self insure for those aged 70 and above.
- f. Current insurance arrangements cover TF members for work related incidents only although when deployed operationally a TF member automatically has RF insurance cover. Due to the complexity of their working models, no change to current arrangements is recommended at this stage and this position is endorsed by DRFYD. This is able to be reviewed in the future as TF working models evolve.
- g. There is scope for extending NZDF insurance arrangements to partners and spouses, similar to the arrangements applying through the Police Association arrangements and the GLIPs. This is categorised as Tier Three. Proposals in respect of Tier Three insurances will be submitted at a later date.

Alignment with People Capability Strategy

18. The proposed People Capability Strategy reinforces the importance in enhancing the service relationship with military members, differentiating it from an employment style relationship. The cornerstone of the service relationship is the commitment made by service members, and the support NZDF provides in return. Ensuring our members have adequate insurance cover should they be ill, injured or killed is an important demonstration of this support, and provides support to the member and their family at a time it is most needed.

Implications for the Group Life Insurance Plans (GLIPs)

19. The GLIPs have been in place for at least twenty years and although preceding DDI, now offer additional insurance for those who want cover above the insurance provided by NZDF. Current options for the GLIPs are: death cover of \$100k, \$150k and \$200k, and TPD cover of 30% of the respective life cover. Subscribers to the GLIPs have been steadily declining since inception of DDI in 2008. The insurer for the GLIPs is also Sovereign which makes it relatively simple to absorb the GLIP insurances within a revamped NZDF package, without any disruption to insurance cover currently available to GLIP subscribers.

20. The DPE has proposed to the Service Welfare Funds replacement of the GLIPs with a NZDF wide voluntary scheme (Tier Two) which would allow all members, regardless of service, to purchase (and pay for) additional insurance cover at group scheme rates and without the requirement for underwriting. The Welfare Fund representatives endorse this proposal providing current GLIP subscribers have choice and are not forced to accept reduced cover. This is able to be accommodated.

Implication for current NZDF practices

21. The revamp of the insurance programme including introduction of income continuance for military members provides the opportunity to consolidate disparate single Service practices, particularly around the treatment of seriously ill RF members. A condition of any income continuance payment is that the member is not receiving paid income from another source, whether it is NZDF or ACC or Ministry of Social Development. The adoption of the income continuance insurance provides the opportunity to set consistent rules involving the member being placed on leave without pay once they commence receiving an Income Continuance payment. Refer to Annex B for a definition of Income Continuance.

Implication for DFSS Insurances

22. Currently 3,870 personnel (military and civilian) are covered by the integrated DFSS insurance plan which involves death and TPD cover of 4 x salary for military members and up to 4 x salary for civilian members. Fund balances contribute to any death or TPD payment and insurance premiums are funded from the members' employer contribution rate. Insurance cover ceases when the member reaches 65 years of age or when their fund balance equals or exceeds the value of any insurance payment. Potential insurance payments are also affected by the value of any partial or first home purchase withdrawals.

23. Reflecting these factors, it is proposed to review the DFSS insurance scheme in consultation with Trustees Executors Ltd which actually owns the insurance to, as closely as possible, align the DFSS insurances with the revised DDI. Legally it is very difficult to make changes to the DFSS insurances without the written approval of all 3,870 members, so the most likely outcome is that current members will have the option of retaining their current insurance arrangements or moving to new arrangements.

24. Proposals in respect of the DFSS insurances will be the subject of a separate Minute to the PCC after consultation with the Trustee and Advisory Trustees.

25. Pending completion of the review and as a temporary arrangement, it is proposed to extend coverage of DDI to DFSS members, providing them with two sets of insurance. Depending on the funding option chosen, DDI could be partially funded by NZDF and members would continue to fund their DFSS premiums. It should be noted that DFSS DDI costs for Cats A and C members could be met by the respective Reserve Accounts while CDF could meet the costs for DFSS Cat B members in FY 14/15⁴.

⁴ Under the DFSS Trust Deed the Cat A and C Reserve Accounts must only be used in respect of respectively the Cat A and C membership. The Trustee of the DFSS advises that the Reserve Accounts are able to be used to fund DDI for Cat A and C members by amending the Trust Deed. This would require Advisory Trustee endorsement and CDF approval.

STAFF IN CONFIDENCE

Proposed Insurance Structure

26. A summary of the proposal is as follows:

Tier 1	<p>Compulsory commercial cover for all members of the Armed Forces, including DFSS members, and offered on a voluntary basis to members of the civil staff.</p> <p>Cover would provide for a level of \$300k per individual for death and either <i>RF and civil staff</i> - Income Continuance of 75% of salary payable for up to two years after an absence of three months,</p> <p>or</p> <p><i>TF</i> – Total Permanent Disability cover of \$300k.</p>
Tier 2 ⁵	<p>The choice of purchasing and paying for additional insurance cover and without having to be underwritten (if initiated within "window" advised by insurer), and available to all NZDF personnel. This would replace the current Welfare Fund GLIPs. (This would be paid through individual's private arrangements).</p> <p>Options would be:</p> <ul style="list-style-type: none">• Additional Death cover• Additional Income Continuance cover• Trauma Recovery Benefits⁶• Lump sum Total and Permanent Disability payments⁷ <p>Members would have the choice of which of the menu they wish to purchase, developing an insurance package that best meets their circumstances.</p> <p>DFSS members would be able to purchase Tier 2 insurances if they were concerned at the level of cover available through the DFSS.</p>
Tier 3	<p>Extending NZDF insurance arrangements to partners and spouses. (This would be paid through individual's private arrangements).</p>

⁵ Refer to Annex B for the descriptor of each of the insurances

⁶ Refer to Annex D for details of the Trauma Recovery Benefits

⁷ Refer to Annex C for the details of the lump sum TPD payments

28. Examples of the costs of Tier Two cover can be found in Annex E.

Funding of Tier One costs and charging methodology

29. While ref C directed that members must bear the cost of DDI WEF 1 Jul 14, there is now a new CDF who has signalled a different approach to the welfare of Service personnel and provision of benefits. Options for funding of DDI in FY14/15 and outyears are detailed below. Reflecting the issues that arose after application of DDI charging in Sep 12, any new charging regime involves risk of a complaint from a member of the Armed Forces. In respect of each of the options consideration has also been given to the inherent risks of each and risk mitigators.

30. Options considered are:

Option 1

- a. CDF meets the costs for Tier 1 DDI for RF, TF and civil staff members.

Option 2

- b. CDF meets the costs for Tier 1 DDI for RF and TF only and civil staff members meet the costs.

Option 3

- c. Costs of Tier 1 DDI for RF, TF and civil staff are deducted from respective remuneration tables on the basis of either:

- (1) Actual cost per member in each Tier and sector (RF and TF) or civil staff remuneration band; or
- (2) Average costs across each policy (e.g RF, TF, etc) regardless of age, gender, or rank; or
- (3) Average costs across a cluster of ranks (e.g PTE to MAJ E, Lt COL to BRIG E) and civil staff remuneration bands.

Option 4

- d. Cost of Tier 1 DDI for RF and TF are deducted from respective remuneration tables on the basis of either:

- (1) Actual cost per member in each Tier and sector (RF and TF); or
- (2) Average costs across each policy (e.g RF, TF, etc) regardless of age, gender, or rank; or
- (3) Average costs across a cluster of ranks (e.g PTE to MAJ E, LT COL to BRIG E); and

Costs of Tier 1 DDI for civil staff are deducted from members' TR through SAP on the basis of either:

- (1) Actual cost per member in each civil staff band; or
- (2) Average costs across each policy regardless of age and gender; or
- (3) Average costs across a cluster of civil staff remuneration bands.

31. Refer to the table below for analysis of each of the options.

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	Option 1	Option 2	Option 3	Option 4
Features	CDF meets DDI Tier 1 costs for RF, TF and civil staff (DFSS members included)	CDF meets DDI Tier 1 costs for RF and TF only (DFSS members included)	Costs of DDI Tier 1 are deducted from NZDF remuneration tables for RF, TF and civil staff DDI applied to DFSS members (2 x insurance) but cost of DDI for Cat A and C members met from Reserve Accounts	Costs of DDI Tier 1 for RF and TF are deducted from remuneration tables and for civil staff, deducted from members' TR through SAP. DDI applied to DFSS military members (2 x insurance).but cost of DDI for Cat A and C members met from Reserve Accounts
Cost in FY 14/15 to NZDF			\$0m	\$0m
Benefits	Does not require deduction from members' pay Simple to administer CDF viewed as caring Provides short term fix for gaps in DFSS insurances	Does not require deduction from RF or TF members' pay CDF viewed as caring by RF and TF members Provides short term fix for gaps in DFSS insurances	Less administratively complex than deduction from members' pay No civil staff perception of being second class citizens Provides short term fix for gaps in DFSS insurances	Less administratively complex for RF and TF members as no deduction required from pay. Manageable for civil staff pay Provides short term fix for gaps in DFSS insurances – military members only
Risks	Costly	Costly Additional complexity in setting up deductions for civil staff Enhance perception of civil staff as second class	Additional complexity in reimbursing civil staff who wish to opt out Inconsistent with treatment of Med/Dent costs which have been removed from rem tables Risk of complaint from RF or TF member about compulsory nature of Tier 1 Risk of complaint from DFSS member that they are being charged for more insurance than they require. Potential requirement for an opt out for RF or TF would undermine DDI principles Basis of abatement from tables likely to be questioned	Administratively complex although manageable Risk of complaint from RF or TF member about compulsory nature of Tier 1 Potential requirement for an opt out for RF or TF would undermine DDI principles Risk of complaint from DFSS member that they are being charged for more insurance than they require Basis of abatement from tables likely to be questioned

32. Finance Branch advises that it has included [redacted] of the costs of the DDI in the Defence Midpoint Rebalancing Review (DMRR) and if additional funding of [redacted] is able to be found to meet at least the total RF and TF costs, this would remove key legal risks associated with each of the charging options for DDI.

Relationship with Total Remuneration (TR) Framework

33. NZDF operates a TR framework which means any benefits provided to members should be costed and deducted from TR rather than provided outside of remuneration. There is no accepted definition of "benefit" for the purposes of a TR package, however generally they are non-wage elements of a package, of value to the member and are often optional (e.g. employer superannuation). There are some conditions of service that are not "benefits", and therefore not costed within TR (e.g. uniforms).

34. It can be argued that DDI is a benefit to members as they are covered when on duty or not (noting TF members are only covered when on NZDF duty). The counter to this is that RF members are deemed to be on duty 24/7, making the distinction of work-related vs not, difficult to determine. The insurance cover proposed also includes "belligerent operations", which would be difficult and often expensive for individuals to buy themselves. In addition, consideration should be given to whether DDI cover is so important to ensure members and their families are supported should the worst happen, that this should be provided outside TR to ensure adequate coverage for all members.

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Consultation with the Director of Risk and Assurance (DRA)

38. DRA has overall responsibility for all NZDF insurances and the DPE COSE cell manages the DDI on his behalf. In undertaking the review there has been consultation with DRA who endorses the proposals for a two tiered approach of Death and Income Continuance insurance provided for RF and civil staff, and voluntary additional Death or Income Continuance cover, or Trauma Recovery benefits or lump sum TPD payments. DRA has reiterated DLS concerns at the legal risks associated with options 3 and 4 (charging members for the DDI).

Consultation with the State Services Commission (SSC)

39. Reflecting Government's Expectations⁸ requirements, on 14 Apr 14 the SSC was briefed on the proposed changes to DDI and the fiscal implications. It was stressed to the SSC that these proposals involve a revamp of a benefit that CDF has funded since 2008 and that the increased costs is able to be absorbed within current baselines. SSC noted the NZDF comments that this proposal is aligned to the People Capability Strategy on which the SSC has also been briefed. SSC were broadly supportive of the principles, subject to further understanding fiscal implications once funding options had been considered.

Timing

40. If it is decided to recover costs from civil staff timing is a significant issue. Sovereign is able to put in place the new insurance arrangements WEF 1 Jul 14 and NZDF is able to have deductions made from total remuneration also WEF that date. However, as a separate exercise the DPE is also proposing to adjust the NZDF remuneration tables, WEF 1 Jul 14. Depending on the complexity of REM14 proposals and SAP HCM requirements it could take several months to implement any changes to remuneration tables approved by CDF. The options are to:

- a. Apply changes to DDI and any deduction of charges from 1 Jul 14 in isolation from the REM 14 package; or
- b. Apply changes to DDI and deduction of charges WEF 1 Oct 14; or
- c. Apply changes to DDI WEF 1 Jul 14 and deduction of charges from 1 Oct 14, with CDF continuing to bear the cost for the period 1 Jul to 30 Sep 14.

41. Although it was signalled to personnel in Aug 13 that charging for DDI would be reintroduced from 1 Jul 14, events have moved on since then and applying charging in isolation from any changes to remuneration tables is likely to be contentious. Accordingly, if it is decided that civil staff personnel should bear the costs of DDI, option c is preferred, at a cost of

⁸ Government's Expectations for Pay and Employment Conditions in the State Sector, May 2012.

PCMB preferred funding option

42. Reflecting the factors outlined above including the core principles of NZDF insurance cover and the potential legal risks, PCMB preference is for either:
- a. Option 1- CDF meets DDI Tier 1 costs for all members, or alternatively
 - b. Option 2- CDF meets DDI Tier 1 costs for RF and TF personnel and civil staff meet the costs of their insurance.
43. If it is decided that CDF should only meet the costs of DDI Tier 1 for RF and TF members, it is proposed that insurance for civil staff should be voluntary and DDI Tier 1 costs for civil staff be deducted from members' TR through SAP. If it is decided to charge civil staff members for DDI, PCMB's preference is for charging to be set on the basis of average costs across each policy, albeit potentially with a separate policy and charge for those aged 65 to 70 years.
44. NZDF funding of DDI would at this time be a useful demonstration of CDF's commitment to refocus the relationship with Service personnel.

SECTION THREE: SUMMARY AND RECOMMENDATIONS

Summary of proposals

45. A revamped DDI programme to apply WEF 1 Jul 14, as follows:

Tier One (includes DFSS members)

- a. RF and Civil Staff - Death cover of \$300k and Income Continuance payments of 75% of salary for two years after absence of three months. Cover for work and non-work related incidents and illnesses;
- b. TF – Death and TPD cover of \$300k – NZDF work related incidents only;
- c. Cost for RF and TF is met by CDF; or cost for the RF and TF only is met by CDF; and
- d. Costs for the DFSS Cat A and C DDI insurances are met out of the respective reserve accounts and costs of the DFSS Cat B DDI are met by CDF for FY 14/15.

Tier Two

- e. RF, TF and civil staff are able to purchase and pay for additional cover as follows - Death, Income Continuance (RF and civil staff only), Trauma Recovery Benefits, Lump sum Total and Permanent Disability payments. DFSS members are also able to purchase Tier Two cover.

Recommendations

46. The PCC is recommended to:

DDI structure

- a. **Approve** a two tiered structure of DDI with:
- (1) Tier One - compulsory for RF and TF members and voluntary for civil staff members, and
 - (2) Tier Two - voluntary for all personnel including DFSS members that is able to be purchased and paid for by the members;
- b. **Approve** Tier One insurance to consist of:
- (1) RF and Civil staff - \$300k Death cover and Income Continuance insurance of 75% of salary payable after three months of absence for a maximum of two years, and
 - (2) TF - \$300k of Death and Total Permanent Disability cover;
- c. **Approve** Tier Two insurance to consist of a menu of options that involve:
- (1) purchase of additional Death cover in \$50k clusters, or
 - (2) additional Income Continuance insurance in terms of years to a maximum of five years, or alternatively when the member turns 65, or
 - (3) a Trauma Recovery Benefit, or
 - (4) Lump sum Total and Permanent Disability payments.
- d. **Approve** Tier One and Tier Two insurances to be made available to those NZDF members aged between 65 and 70 years with cover to cease upon the member turning 70, with ongoing self insurance for those aged 70 and above;

DDI costs

- e. **Approve** either:
- (1) CDF to continue to meet the full costs of Tier One insurance, projected to be \$10.396m inclusive of FBT costs; or
 - (2) CDF to meet the costs of Tier One insurance for the RF and TF members inclusive of FBT costs, with civil staff members meeting their own costs; or

- (3) Costs to be met by all the recipients in FY 14/15, and
- (4) In respect of options (1) and (2) costs of the DFSS Cat A and C DDI insurances to be met from the respective reserve account and the costs of the DFSS Cat B military insurances to be met CDF in FY 14/15; or in respect of option (3) the costs met by the members in FY 14/15.

DDI charging – members < 65 years of age

- f. **Approve** if it is decided to have Tier One costs borne by the members, allocation of costs on either:
 - (1) the basis of average price per policy (i.e RF death and IC, TF death and IC, civil staff death and IC); or
 - (2) the basis of average price per cluster of ranks (e.g PTE to MAJ E, LT COL to BRIG E or civil staff remuneration bands) per policy; or
 - (3) Actual cost per member.

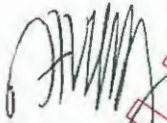
DDI charging – members 65 to 70 years

- g. **Approve** if it is decided to have Tier One costs borne by the members, allocation of the costs on the basis of average price per policy (i.e RF death and IC, TF death and IC, civil staff death and IC);

Effective Date of Changes

- h. **Approve** if it is decided that costs of Tier One DDI are to be met by all recipients or civil staff only, to either:
 - (1) Apply DDI charging WEF 1 Jul 14 in isolation from the REM 14 package; or
 - (2) Apply changes to DDI and deduction of charges WEF 1 Oct 14; or
 - (3) Apply changes to DDI WEF 1 Jul 14 and deduction of charges from 1 Oct 14, which would require CDF to bear the cost for the period 1 Jul to 30 Sep 14, at a cost of .
- i. **Note** that the proposed structure will impact on the GLIPs and there has been consultation with the Army and Air Force Welfare Funds which endorse these proposals;
- j. **Note** there has been consultation with Legal Services which advises the preferred options involve low legal risk;

- k. **Note** there has been consultation with Defence Health which endorses the proposed options of Tier One Death and Income Continuance (RF and civil staff) or Death and TPD (TF), and Tier Two voluntary additional Death or Income Continuance or Trauma Recovery Benefits or lump sum TPD payments;
- l. **Note** there has been consultation with the Director of Risk and Assurance who endorses the proposed options of Tier One Death and Income Continuance (RF and civil staff) or Death and TPD (TF) and Tier Two voluntary additional Death or Income Continuance or Trauma Recovery Benefits or lump sum TPD payments;
- m. **Note** proposals in respect of Tier Three insurances (partners and spouses) will be submitted to PCC at a later date;
- n. **Note** there has been consultation with Finance Branch in respect of the options;
- o. **Note**, the State Services Commission has been briefed on the proposed changes to DDI and noted the potential fiscal implications;
- p. **Approve** referral of the preferred option in 45 (a) to (d) to CDF for approval.



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Annexes:

- A. Details of Current Staff Insurance Arrangements
- B. Glossary of Insurance Terms and Payments Available
- C. Details of Lump Sum TPD payments
- D. Details of Trauma Recovery Benefits
- E. Examples of costs of additional cover available

STAFF IN CONFIDENCE

ANNEX A to DPE
MINUTE 7450/0/1
dated 29 April 2014

Current Staff Insurance Arrangements

Category of Personnel	Non DFSS (DDI) – Paid by CDF	DFSS- Paid by member
Regular Force	3 x salary +MF combined Work and Non- Work related	4 x salary + MF combined. Work and Non-Work related Member's fund balance contributes to insurance payment
TF	3 x salary +MF combined Work related incidents only	As above Work related incidents only
Civilian Staff	3 x salary Work and Non- Work related	Choice of 1,2,3 or 4 x salary elected by the member. Member's fund balance contributes to insurance payment Work and Non – Work related
Casual staff	\$100k Work related incidents only	N/A
Military cadet staff	\$100k Work related incidents only	4 x salary + MF combined Work and Non – Work related
Leave without Pay	Automatic cover for the first 365 days of leave without pay or parental leave with the option of the member arranging and paying for cover from day 366 onwards.	
Continuance Option	Member may automatically extend insurance cover upon leaving NZDF, providing this is arranged within 60 days of the individual leaving	

Glossary of Insurance Terms and Payments Available

Type of Policy	Descriptor	Maximum Payable
Death	<p>Payment made upon death of the member</p> <p>"Living Death" payment may be approved by the insurer in advance of death</p>	<p>3 x salary + MF combined</p> <p>Maximum payment under current arrangements and Tier 1 - \$700k</p> <p>Paid in a lump sum</p>
Total and Permanent Disablement	<p>Member must be totally and permanently disabled</p> <p>and</p> <p>unable to obtain paid employment for which they are suited by way of background, training and education</p>	<p>Up to 3 x salary + MF combined</p> <p>Maximum payment under current arrangements and Tier 1 - \$700k</p> <p>A partial TPD payment may be approved in accordance with the schedule outlined in Annex C where the member is injured but not totally and permanently disabled</p> <p>Paid in a lump sum</p>
Income Continuance/Income Protection	<p>Payable after an absence of three months for up to two years</p> <p>Not payable if the member is receiving income from another source such as ACC or NZDF sick leave</p>	<p>75% of salary (+MF) for most personnel</p> <p>75% of salary for first \$250k 50% of next \$150k salary 25% of next \$150k salary</p> <p>Maximum payment under Tier 1 - \$300k</p> <p>Possible to extend to 5 years or when member turns 65 years</p> <p>Paid in monthly instalments in arrears.</p>
Trauma Recovery Benefit	Paid upon confirmation	Option of 50% of salary

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	that the member has affliction listed in Annex D (e.g. heart attack, cancer etc.)	or \$25k upon confirmation of affliction Paid as a lump sum
CDF Self Insurance	CDF provides insurance cover for member and does not pay a premiums to	3 x salary +MF combined Maximum payment under current arrangements - \$700k

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**ANNEX C to DPE
MINUTE 7450/0/1
dated 29 April 2014**

Details of Lump Sum TPD payments

Maximum Payment 3 x salary + MF combined

Injury	Percentage of sum injured (3 x salary +MF combined)
Death	100%
Permanent Total Disablement	100%
Permanent and Incurable paralysis of all limbs	100%
Permanent total loss of sight of both eyes	100%
Permanent total of sight of one eye	100%
Permanent total loss of use of two limbs	100%
Permanent total loss of use of one limb	100%
Permanent and incurable insanity	100%
Permanent total loss of hearing in: A both ears	100%
B one ear	20%
Permanent total loss of four fingers and thumb of either hand	80%
Permanent total loss of the lens of one eye	60%
Permanent total loss of use of four fingers of either hand	50%
Third degree burns and/or resultant disfigurement covering 40% of the entire external body	50%
Permanent total loss of use of one thumb of either hand	30%
A both joints	15%
B One joint	
Permanent total loss of use of fingers of either hand	
A three joints	10%

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B two joints C one joint	8% 5%
Permanent total loss of use of toes of either foot	
A – all – one foot B – great – both joints C- great – one joint D other than great, each toe	15% 5% 3% 1%
Fractured leg or patella, with established non-union	10%
Shortening of leg by at least 5%	7.5%
Permanent Total Disablement not otherwise provided for under Insured events above	Such percentage of the sum insured determined by the insurer

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Details of Trauma Recovery Benefits

Maximum Payment \$25,000 per incident or 50% of salary

Affliction	Specifics
Alzheimer's disease and dementia	
Angioplasty	
Aplastic anaemia	
Cancer	
Chronic liver failure	
Chronic lung disease	
Chronic renal failure	
Creutzfeldt-Jakob disease	
Heart attack	
Major transplant surgery	
Major burns	
Major transplant surgery	
Stroke	
Coronary artery bypass surgery	
Paralysis	
Loss of functionality	Loss of independent existence
Permanent blindness	
Major cardiovascular disease	
Major neurological disease (other than stroke)	Benign brain tumour Coma Encephalitis
Idiopathic Parkinson's disease	Major head trauma Motor neurone disease Multiple sclerosis Muscular dystrophy Peripheral neuropathy
Paralysis	Diplegia Hemiplegia Paraplegia Quadriplegia

Tier Two- Examples of costs of additional cover available

Category of Policy	Average Cost per member per year
RF Trauma Recovery Max payment of \$25k (lump sum)	\$138.95 p.a
RF Trauma Recovery Max payment of 50% of salary (lump sum)	\$238 p.a
RF Physical Loss – Max payment of \$50k	\$20.87 p.a
TF Physical Loss – Max payment of \$50k	\$20.87 p.a
Civil Staff Trauma Recovery Max payment of \$25k (lump sum)	\$266.39 p.a
Civil Staff Trauma Recovery Max payment of 50% of salary (lump sum)	\$353.29 p.a
Civil Staff Physical Loss Max payment of \$50k	\$10.00 p.a

From:
Sent: Thursday, 1 May 2014 6:17 p.m.
To:
Subject: Use of DFSS Cat A and C Reserve Accounts to fund enhancement to Cat A and C insurances - unclassified

Good afternoon

As discussed on 29 April 14 and at previous meetings, NZDF has undertaken a review of the insurance arrangements applying to its personnel. NZDF policy is to have all uniformed members in particular covered by comprehensive insurance covering both work and non work related incidents and illnesses.

The 4000 members of the DFSS have access to integrated death and total permanent disability (TPD) insurance of up to 4 x salary. There are a number of gaps in this insurance and a number of DFSS members only have access to limited insurance. Mercer advises that in the last six years eight DFSS members have died without any insurance cover.

Since 2012 over 350 members have withdrawn funds to purchase a first home and such withdrawals also impact on any potential insurance payment.

Moreover, experience has shown that it is very difficult to obtain a total and permanent disability insurance payment owing to the high threshold applying for such payments. In many respects TPD is a meaningless benefit as it is virtually unachievable.

Following the review referred to above, the DPE is proposing to introduce the following for RF and civil staff:

1. Death cover of \$300k
2. Income continuance of 75% of salary payable for up to two years after an absence of three months.

Although the review was intended initially to only cover non DFSS members, owing to the concerns about the DFSS insurances referred to above, it has also been decided to recommend to CDF the provision of the same insurance arrangements to DFSS members. As it is very difficult to change the DFSS insurances particularly in the short term it is proposed to provide these new insurances in addition to the current insurance provided under the Trust Deed.

That comes at a cost.

has proposed to the Advisory Trustees that the respective reserve accounts for the Cat A and C be used to fund the cost of the additional insurance for the respective Cat A and C members. The costs in FY 14/15 is projected to be \$2.21m and Mercer has confirmed today there are sufficient funds available in the reserve accounts to cover this in FY 14/15 and 15/16. CDF would meet the costs for the DFSS Cat B members.

Under the DFSS Trust Deed, CDF determines how the Cat A reserve account is to be used and advises the Trustee of his decision; The Trustee determines how the Cat C reserve account is to be used but is open to submissions from CDF.

Section 8.1 of the DFSS Trust Deed authorises insurance costs to be met by the scheme. Section 8.0 of the Cat A section of the Trust Deed relating to use of the cat A reserve account and section 48.2 E(iii) of the Cat C section relating to use of the Cat C reserve account authorises use of the reserve accounts to pay the insurance premiums. Note that different wording is used, reflecting that the Trust Deed is an amalgamation of three former documents.

the independent Advisory Trustee, has sought an external written legal opinion that the proposal outlined above is compliant with the DFSS Trust Deed.

To minimise any legal risks we also discussed on 29 April an amendment to the DFSS Trust Deed that would extend DDI to members of the DFSS on a transitional basis for two years and authorise use of the respective reserve accounts to cover the costs of the DDI for Cat A and C members for that same two year period.

Reflecting these three issues, please seek from

in:

1. Whether the proposed DDI and funding arrangement outlined above is compliant with the current DFSS Trust Deed;
2. The appropriate change to be made to the Trust Deed if the advice is that the Trust Deed should be amended to remove legal risks associated with the extension of DDI to members of the DFSS and use of the Cat A and Cat C reserve accounts to cover the costs of the DDI, for respectively the Cat A and C members; and
3. The appropriate change to be made to the Trust Deed to remove CDF from the process of approving the annual "determined" rate.

Regards

NZDF

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From:
Sent: Friday, 9 May 2014 5:09 p.m.
To:
Subject: letter of 7 May 2014 - unclassified

Good afternoon

I have read the draft letter of 7 May 2014.

I believe this satisfactorily covers the issues under consideration.

Please asked DLA PF to finalise the letter and send to you and me.

I am preparing communication for Howie to send to the Advisory Trustees as part of the consultation process for the extension of DDI to the DFSS and for use of the Cat C Reserve Account.

Note, in respect of the proposal to use the Cat C Reserve Account, it is likely seek the establishment of a AT sub committee to meet and consider the proposal.

The AT sub committee would probably consist of Robin, and two of the Service reps (one as chair), with you in attendance. would provide secretarial services. Neither nor I would be in attendance.

Have a good weekend.

Regards

NZDF

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HEADQUARTERS NEW ZEALAND DEFENCE FORCE
Defence Personnel Executive
MINUTE NO 40/2014

5745/9

26 Jun 14

DCA
DCN
DCAF

CONSULTATION WITH THE DFSS ADVISORY TRUSTEES ON PROPOSED USE OF THE DFSS CAT A AND C RESERVE ACCOUNTS

References:

- A. DPE Minute No 21/2014 of 29 Apr 14
- B. Trustee e-mail of 7 May 14

Introduction

1. The purpose of this Minute is to:
 - a. brief Advisory Trustees on the proposed enhancement of the DFSS insurances for the period 1 Oct 14 to 30 Jun 16, to be partially funded by the use of the DFSS Category A and C reserve accounts;
 - b. brief Advisory Trustees on the rules applying to use of the DFSS Category C reserve account, including the requirement for the Trustee to consult with the Advisory Trustees on the proposed use of the DFSS Category C reserve account; and
 - c. brief Advisory Trustees on the process to be used for obtaining their endorsement for the Trustee's proposal to use the DFSS Category C reserve account to fund Death and Disability insurance (DDI) for members of the DFSS Category C for the period 1 Oct 14 to 30 Jun 16.
2. Under the DFSS Trust Deed, CDF determines the use of the DFSS Category A reserve account while the Trustee determines the use of the DFSS Category C reserve account and is open to submissions from CDF on its use. The proposal is intended as a transitional measure to enable implementation of changes to the DFSS insurances likely to be recommended as part of the review of the DFSS currently underway.
3. The total cost of this proposal for the 21 months is projected to be \$2.677m for the DFSS Category A members and \$1.085m for the DFSS Category C members.

Approval sought

4. That the DFSS Advisory Trustees:
- a. Note my recommendation to CDF that he approves use of the DFSS Category A reserve account for the provision of DDI to members of the DFSS Category A for the period 1 Oct 14 to 30 Jun 16 at a projected cost of \$2.677m;
 - b. Note the Trustee's proposal to use of the DFSS Category C reserve account for the provision of DDI to members of the DFSS Category C for the period 1 Oct 14 to 30 Jun 16, at a projected cost of \$1.085m;
 - c. Note that a sub committee of the Advisory Trustees has been established to consider the Trustee's proposal; and
 - d. Note legal advice from [redacted] that the current provisions of the Trust Deed will allow for use of the DFSS Category A and C reserve accounts to fund DDI for members of the Category A and C respectively; and that amendments are required to the DFSS Trust Deed to apply DDI to members on a transitional basis.

Background

5. As discussed at recent Advisory Trustee meetings, NZDF personnel are currently covered by different staff insurance and funding arrangements (refer Annex A). DFSS members currently pay for their insurance through a deduction from the employer contribution to the scheme¹. By contrast, current non DFSS members have their insurance (DDI) paid for by CDF and this arrangement is felt to be inequitable by some DFSS members.

6. Additionally, it has been identified that there are a number of gaps in the DFSS insurances. For example, reflecting the integrated nature of the DFSS insurances, insurance ceases once a member's scheme balance equals or exceeds the value of any insurance payment. Moreover, any potential insurance payment is reduced by the value of any partial or first home purchase withdrawal(s). Following the death of DFSS Category A member [redacted] it was also identified that a number of DFSS members had limited insurance cover, owing either to restrictions that had been placed on the cover by the insurer, or members' failure to complete documentation. Mercer advises that over the period 2008 to 2014 eight DFSS members have died without insurance cover.

7. At ref A the People Capability Committee (PCC) has endorsed the principle that all members of the Armed Forces should have access to comprehensive insurance cover. The review of the DFSS currently underway will address the issue of insurance cover. However, owing to the requirements of the Superannuation Schemes Act 1989 it is very difficult to make changes to the Trust Deed insurance arrangements without the written approval of all DFSS members.

¹ As all Regular Force and most civil staff members are employed on a Total Remuneration package, the effect is that members pay for their insurance.

8. In the interim, at ref A the PCC has endorsed changes to the staff insurance arrangements that will apply to both DFSS and non DFSS (DDI) members with effect 1 Oct 14, subject to funding availability. The changes include application of DDI to DFSS members on a transitional basis for 21 months from 1 Oct 14 to 30 Jun 16, during which time changes will be made to the DFSS insurance arrangements (subject to consultation with the Trustee and Advisory Trustees). For that period DFSS members will have access to both DFSS insurances and DDI. Annex B details the proposed changes to staff insurance arrangements.

9. The cost of applying DDI to members of the DFSS is projected to be \$5.92m in FY 14/15 (Oct to June only) and FY 15/16. Of that total \$2.677m is attributed to DFSS Category A members and \$1.085m to DFSS Category C members. Reflecting that application of DDI to DFSS members is a benefit, it is proposed to use the DFSS Category A reserve account to meet the costs of the Category A members and the DFSS Category C reserve account to meet the costs of the Category C members. The costs of the DDI for the DFSS Category B members will be met by CDF. As at 31 Mar 14 the DFSS Category A reserve account totalled \$5.83m while the DFSS Category C reserve account totalled \$1.52m. There are sufficient funds available in the reserve accounts to meet the respective DDI costs for the period 1 Oct 14 to 30 Jun 16.

10. The DFSS Trust Deed requires the DFSS Category A and C reserve accounts to be used to the benefit of the respective membership (refer Annex C).

Consultation with the Trustee

11. There has been consultation with the Trustee who at Enclosure One has obtained legal advice from the legal advisers to the DFSS, on the proposed use of the respective reserve accounts. advise that use of the reserve accounts to fund DDI for DFSS Category A and Category C members is consistent with the DFSS Trust Deed but that amendments will be required to the DFSS Trust Deed to apply DDI to members of the DFSS.

12. Reflecting this legal advice, at ref B the Trustee recommends to the Advisory Trustees the use of the DFSS Cat C reserve account.


Exclusion of from decision process

13. has been involved in developing the proposal to extend DDI to members of the DFSS and to partially fund this initiative through use of the DFSS Category A and C reserve accounts. Accordingly, he will not be involved in the DFSS Advisory Trustee decision process. Instead, a special DFSS Advisory Trustee sub-committee consisting of DCA, DCN, DCAF and Independent Advisory Trustee, in the Chair has been established to consider and respond to this proposal. The Trustee will consult with the special DFSS Advisory Trustee sub committee on the proposal. A special meeting of the sub committee is to be co-ordinated by the Advisory Trustee secretary,

Recommendations:

14. It is recommended that you:

- a. **Note** the proposal to extend DDI to members of the DFSS on a transitional basis for the period 1 Oct 14 to 30 Jun 16 at a projected cost of \$2.667m for DFSS Category A and \$1.085m for DFSS Category C members;
- b. **Note**; that the Trustee has recommended use of the DFSS Category C reserve account to fund the provision of DDI for members of the DFSS Category C for the period 1 Oct 14 to 30 Jun 16, at a projected cost of \$1.085m;
- c. **Note** that the Trustee is required to consult with the Advisory Trustees on the use of the DFSS Category C reserve account; and
- d. **Note** a sub-committee of the Advisory Trustees has been established to consider the proposal to use the DFSS Category C reserve account to fund the provision of DDI to members of the DFSS Category C scheme.



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DTelN 349 - 7440

Annexes:

- A. Current Staff Insurance Programme
- B. Revised Staff Insurance Arrangements to apply with effect 1 October 2014

Enclosure:

1. DLA of 7 May 14

CURRENT STAFF INSURANCE PROGRAMME

Group Insured	DFSS ³ Members	Cover	NON DFSS Members (DDI)	Cover
RF	4 x salary	Death and TPD	3 x salary	Death and TPD
TF	4 x salary	Death and TPD (cover is for NZDF work related incidents only)	3 x salary	Death and TPD (cover is for NZDF work related incidents only)
Civil Staff	Choice of 1,2,3 or 4 x salary	Death and TPD	3 x salary (Death only)	Death + Income continuance of 75% of salary, paid for up to two years after an absence of three months

³ The DFSS insurances are integrated into the fund and the member's fund balance contributes to any death or TPD payment.

REVISED STAFF INSURANCE ARRANGEMENTS TO APPLY WITH EFFECT
1 OCTOBER 2014

Group Insured	NON DFSS Members	DFSS Members
RF	<p>\$300k death cover.</p> <p>Income Continuance of 75% of salary paid for up to two years after an absence of three months.</p> <p><i>Cover is work and non-work related.</i></p>	<p>Death cover of 4 x salary (from DFSS Scheme) and death cover of \$300k (from transitional DDI cover).⁴</p> <p>TPD cover of 4 x salary (from DFSS Scheme) and Income Continuance of 75% of salary paid for up to two years after an absence of three months (from transitional DDI cover).</p> <p><i>Cover is work and non-work related.</i></p>
TF	<p>\$300k death cover.</p> <p>\$300k TPD cover.</p> <p><i>Cover is for NZDF work related incidents only.</i></p>	<p>Death cover of 4 x salary (from DFSS Scheme) and death cover of \$300k (from transitional DDI cover).⁴</p> <p>TPD cover of 4 x salary (from DFSS Scheme) and TPD cover of \$300k⁵ (via transitional DDI cover).</p> <p><i>Cover is for NZDF work related incidents only.</i></p>
Civil Staff	<p>\$300k death cover.</p> <p>Income Continuance of 75% of salary paid for up to two years after an absence of three months.</p> <p><i>Cover is work and non-work related.</i></p>	<p>Death cover of 1,2,3 or 4 x salary (from DFSS scheme) and death cover of \$300k (from transitional DDI cover).⁴</p> <p>TDP cover of 1, 2, 3 or 4 x salary (from DFSS Scheme) and Income Continuance of 75% of salary paid for up to two years after an absence of three months (from transitional DDI cover).</p> <p><i>Cover is work and non-work related.</i></p>

⁴ Maximum combined death payment payable is \$800k.

⁵ NZDF is still negotiating the construct of the TPD insurances with the broker. Details to be finalised shortly.

DFSS TRUST DEED PROVISIONS RELATING TO USE OF THE DFSS CATEGORY A AND C RESERVE ACCOUNTS

CATEGORY A RESERVE ACCOUNT

PART 1- 8.1 Payment of fees, costs and expenses

Subject to the Complying Fund Rules and KiwiSaver Act, fees (including the Trustee's fee under clause 3.8) costs, Group Insurance premiums, charges and expenses (in this clause together called Expenses) incurred in the investment management and administration of the Scheme shall be, at the direction of the CDF, paid in one or more of the following ways....

PART 2: 8.2 Application of Category A Reserve Account

- (a) The Reserve Account shall be applied by the Trustee at the direction of the CDF in one or more of the following ways:
- (i) in crediting or debiting interest pursuant to clause 20.0; and
 - (ii) ***in payment of all or part of the Expenses directed by the CDF to be payable from the Reserve Account under clause 8.1(b)(iii); or***
 - (iii) in crediting Member's Retirement Accounts pursuant to rule 8.2(b); or
 - (iv) in crediting NZDF Retirement Accounts pursuant to rule 8.2(b), or
 - (v) in crediting NZDF Special Retirement Accounts pursuant to rule 8.2(b); or
 - (vi) in payment of Category A Member contributions under rule 5.1 whether or not the Category A Member is on Leave Without Pay or Parental Leave; or
 - (vii) in payment of the NZDF contributions under rule 5.3; or
 - (viii) payment to the General Reserve Account; or
 - (ix) in crediting Category A Member's Lock in accounts pursuant to rule 8.2(b).

STAFF-IN-CONFIDENCE

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- (b) The Trustee shall at the direction of the CDF apply the Reserve Account for the benefit of any class or category of Members of the Regular Forces by crediting the Member's Retirement Accounts, Member's Lock in Accounts, NZDF Retirement Accounts or NZDF Special Retirement Accounts of the relevant Category A Member.
- (c) For the avoidance of doubt, the Reserve Account will not be applied for the benefit of any Member who is not a Category A Member.

CATEGORY C RESERVE ACCOUNT

Part 4 – 48.2 Application of Category C Reserve Account

- (2) The Category C Reserve Account shall be applied by the Trustee:
 - (a) In crediting or debiting interest pursuant to clause 20.0; and
 - (b) In paying any taxation in respect of the Scheme; and
 - (c) In paying any fees, costs or expenses with regard to investments of the Fund; and
 - (d) After consultation with the Advisory Trustees at the end of each Plan Year in making such provision against any present or future actual or contingent liabilities which the Trustee considers necessary for the proper administration of the Scheme and including by way of example but not of limitation considering:
 - (i) The estimated costs and expenses (including brokerage and stamp duty) of realising the investments and converting the assets of the Fund into cash on that date; and
 - (ii) Provision against future losses in respect of any investments of the Scheme; and
 - (iii) Provision for any future application under rule 48.2(e); and
 - (iv) Provision for any other contingency or any other purpose it considers desirable.
 - (e) The Category C Reserve Account may be applied at any time by the Trustee, after consultation with the Advisory Trustees, in one or more of the following ways:
 - (i) Providing personal benefits to a Beneficiary in case of hardship; or

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- (ii) Increasing Category C Member Accounts and/or Category C NZDF Retirement Accounts on a fair and equitable basis; or
- (iii) ***Payment of all or part of the fees, costs, charges, liabilities or expenses of the Scheme and payment of insurance premiums; or***
- (iv) In exceptional circumstances and at the request of the CDF in payment of all or part of the contributions required under rules 45.3(a) and 45.3(e).

For the avoidance of doubt, the Category C Reserve Account in Category C will not be applied for the benefit of any Member who is not a Category C Member.

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From:
Sent: Monday, 30 June 2014 2:34 p.m.
To:
Cc:
Subject: Recommended use of DFSS Cat C reserve account - special AT sub committee meeting - unclassified

Good afternoon

will shortly be contacting you to discuss the arrangements for the special AT sub committee meeting to discuss the proposed use of the DFSS Cat C reserve account.

is going to be in Wanaka on holiday from 4 to 28 July inclusive and will phone in to participate in the meeting.

The meeting will be held in Freyberg House with you, the three deputies and present and with joining the meeting by speaker phone.

We need a one page paper from you to the sub committee in which you:

1. Note that you are recommending to CDF use of the DFSS Cat C reserve account for the provision of DDI to members of the DFSS Cat C for the period 1 October 2014 to 30 June 2016;
2. Seek AT sub committee endorsement for your recommended use of the DFSS Cat C reserve account;
3. Note you have been advised by AC Pers that he is recommending to CDF use of the DFSS Cat A reserve account for the provision of DDI to members of the DFSS Cat A for the period 1 October 2014 to 30 June 2016.

This will accompany the paper from AC Pers (sent out on Friday) and the Agenda I have prepared for the meeting.

Please advise.

Regards

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HEADQUARTERS NEW ZEALAND DEFENCE FORCE
Defence Personnel Executive
MINUTE NO 45/2014

9

7450/0/1

Aug 14

CDF:

Through:

DRA
CFO
COO

PROPOSED NEW STAFF INSURANCE AND CHARGING ARRANGEMENTS TO APPLY FROM 1 OCT 14

References:

- A. DPE 7450/0/1 of 29 Apr 14
- B. DPE 7450/0/ of 16 Jul 13
- C. DLA of 7 May 14
- D. DFSS Advisory Trustee Sub Committee Meeting of 17 Jul 14

Introduction

1. At ref A, proposed changes to the Death and Disability Insurance (DDI) programme with effect 1 Oct 14 were endorsed by the People Capability Committee (PCC) and Defence Force Leadership Board (DFLB) as part of the Remuneration 14 package. The purpose of this Minute is to obtain CDF's approval for those changes.

Approval Sought

- 2. CDF is requested to:
 - a. **Approve** changes to DDI to apply WEF 1 Oct 14;
 - b. **Approve** the following four tiers of insurance cover:
 - (1) Tier 1 (referred to as "Base Secure"), comprising:
 - (a) **Regular Forces** – death cover of \$300k with integrated physical loss cover of up to \$50k, and Income Protection of 75% of salary payable for up to two years after an absence of three months. Cover is for both work and non-work related incidents and illnesses and includes "belligerent operations".

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- (b) **Reserve Forces** – death cover of \$300k with integrated physical loss cover of up to \$50k and “ACC top up” cover. Cover is for NZDF work related incidents only and includes “belligerent operations”.
- (c) **Civil Staff** – death cover of \$300k with integrated physical loss cover of up to \$50k, and Income Protection of 75% of salary payable for up to two years after an absence of three months. Cover is for both work and non-work related incidents and illnesses.
- (2) **Tier 2** (referred to as “Reinforcement Support”). A menu of additional insurance that members are able to purchase and pay for themselves without the requirement to go through underwriting (medical disclosure) up to prescribed limits
- (3) **Tier 3** (referred to as “Life Partner”). Insurance that spouses and partners of NZDF personnel are able to purchase and pay for themselves without the requirement to go through underwriting (medical disclosure) up to prescribed limits.
- (4) **Tier 4** (referred to as “Comprehensive Care”). Other insurance options available to members and their families, to be paid for by the member at retail rates.
- c. **Approve** the provision of Tier 1 insurances, inclusive of Defence Force Superannuation Scheme (DFSS) members and offset by the contribution to be funded by the DFSS Reserve Accounts, to be funded by CDF at an estimated cost of _____ inclusive of Fringe Benefits Tax (FBT).
- d. **Approve** the provision of DDI to members of the Defence Force Superannuation Scheme (DFSS) for the period 1 Oct 14 to 30 Jun 16 on a transitional basis.
- e. **Approve** the use of the DFSS Category A Reserve Account to fund provision of DDI for the members of the DFSS Category A for the period 1 Oct 14 to 30 Jun 16 at a valued contribution of \$1.173m in FY 14/15 and \$1.565m in FY 15/16, a total of \$2.74m;
- f. **Approve** the ongoing provision of self insurance for those members of the NZDF who have reached the age limits for the Tier 1 policies; and
- g. **Approve** cessation of insurance cover for casual employees.

STAFF-IN-CONFIDENCE**Background**

3. Since Aug 08 NZDF members have been covered by comprehensive insurance cover through either membership of the DFSS or via the DDI programme introduced for non DFSS members at that time. Over the period 1 Aug 08 to 30 Jun 14 approximately 45 DDI payments have been made to the estates of personnel who died while serving¹.

4. At ref B CDF directed a review of the staff insurance programme and charging methodology to determine if it continues to meet NZDF requirements. The outcome and findings of that review are summarised below. Additionally, current staff insurance arrangements are summarised in Annex A and the proposed new staff insurance arrangements are summarised in Annex B.

Summary of review findings

5. The review of staff insurance arrangements and cover was undertaken in the period Nov 13 to Apr 14. A summary of the review findings is as follows:

6. A summary of the review findings is as follows:

- a. A core principle remains that all members of the Armed Forces should have comprehensive insurance cover, particularly for operational related incidents.
- b. There continues to be a requirement for compulsory commercial insurance cover for all members of the Armed Forces and preferably to members of the Civil Staff. Legally, it would be difficult to make the insurance compulsory for members of the Civil Staff unless CDF is meeting the costs.
- c. The threshold for the Total and Permanent Disability (TPD) policy is too high and it is very difficult to qualify for a TPD payment. The TPD policy should either be modified or removed.
- d. The current arrangement of basing any insurance payment on salary is inequitable in so much as it places a different value on the life of the members. It is preferable to replace the current arrangements with a lump sum payment. The review proposed a level of \$300k.
- e. It is recognised that for some members a lump sum of \$300k may be inadequate and they should therefore have the choice of purchasing and paying for additional insurance cover without having to be underwritten (no requirement to complete a medical questionnaire). The option of

¹ In addition to which there were 28 death and three TPD payments made under the DFSS insurance programme.

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additional cover has been agreed by the insurer and forms the basis of the Tier Two cover option.

- f. Current commercial insurance cover ceases at age 65. NZDF should arrange commercial insurance cover for those members aged between 65 and 70 years and this has been agreed by the insurer for most, but not all, of the cover. NZDF would be required to continue to self insure for those aged 70 and above.
- g. Current insurance arrangements cover Reserve Force members for NZDF work related incidents only, noting that when deployed operationally a Reserve Force member automatically has RF insurance cover. It has been agreed with the Director of Reserve Force and Youth Development (DRFYD) that due to the complexity of Reserve Force working models, for the foreseeable future cover should continue to be NZDF work related incidents only. In addition, at the request of DRFYD the insurer has agreed to provide an "ACC top up" policy, which would cover the gap between the income reimbursed by the NZDF accredited employer programme (ACC) and any private income when the member sustains an injury when engaged in NZDF activities. This top up policy forms an integral part of the proposed Tier One insurance cover for members of the Reserve Forces.
- h. There is scope for extending NZDF insurance arrangements to partners and spouses, similar to the arrangements applying through the Police Association arrangements and the current Group Life Insurance Programmes (GLIP's) within Army and the RNZAF². The provision of cover for spouses and partners has been agreed to by the insurer and forms the basis of the Tier Three cover option.
- i. The current voluntary insurance provided through membership of the Army and RNZAF Welfare Funds will be superfluous if the Tier Two arrangements are approved for all NZDF members. Reflecting this, it has been agreed with the Army and RNZAF Welfare Funds that the GLIP's would cease accepting new clients with effect 1 Oct 14 and that current GLIP subscribers would have the choice of continuing with their current insurances or purchasing additional insurances available under the proposed Tier Two cover option.
- j. Members of the DFSS are subject to inequitable treatment in respect of their insurance arrangements and charging. Specifically, a number of DFSS members have no or limited insurance cover, and moreover, they are required to pay for own insurance whereas CDF funds DDI for non DFSS members. Unfortunately, there are considerable legal hurdles to

² Currently available on a voluntary basis to members of the Army or Airforce and spouses and partners.

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overcome to effect changes to the current DFSS insurance arrangements. Reflecting these factors, DFSS insurances should be overlaid with DDI on a transitional basis for the period 1 Oct 14 to 30 Jun 16, during which time work would be undertaken to effect the necessary changes to the DFSS insurances. The provision of DDI funding is able to be partially funded by use of the DFSS Categories A and C Reserve Accounts.

7. The review findings and recommendations have been endorsed by the PCC at ref A, subject to funding availability, DRFYD's endorsement of the insurances proposed for Reserve Force members, and CDF's approval. Finance Branch has also confirmed funding is available for the revised insurance programme, and DRFYD has endorsed the insurance arrangements proposed for Reserve Force members, which is at a reduced cost from the original proposal. It should be noted that the reduction in costs for the Reserve Forces insurance has enabled enhancement of the death cover for members of the NZDF to include a physical loss component, with no overall increase in costs.

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Summary of the revised DDI programme to apply WEF 1 Oct 14

8. A summary of the revised DDI programme to apply WEF 1 Oct 14 is as follows:

Tier 1	<p>Compulsory commercial cover for all members of the Armed Forces, and civilian staff, including DFSS members.</p> <p>Cover is \$300k per individual for death and up to \$50k physical loss and either</p> <p><i>RF and civil staff</i> – Income Protection of 75% of salary payable for up to two years after an absence of three months; or</p> <p><i>Reserve Forces</i> – “ACC Top Up” of the difference between the payment provided by NZDF AEP (ACC) and private income up to \$119k p.a.</p>
Tier 2	<p>The choice of purchasing and paying for additional insurance cover and without having to be underwritten up to set limits³ (if initiated within 60 day window provided by insurer). This would replace the current Army and RNZAF Welfare Fund GLIP's. and be paid through individual's private arrangements with the insurer.</p> <p>Options available are:</p> <ul style="list-style-type: none"> • additional Death cover (all) • additional Income Continuance cover (RF and civil staff only) • additional physical loss cover (all) • Trauma Recovery Benefits (all)
Tier 3	<p>The choice of purchasing and paying for insurance cover for spouses or partners without having to be underwritten up to set limits⁴ (if initiated within 60 day window provided by insurer).</p> <p>Options available are:</p> <ul style="list-style-type: none"> • death cover • trauma Recovery Benefits
Tier 4	<p>Additional insurance available to members and their families at retail rates, to be negotiated between the member and insurer.</p>

³ As an example, a member is able to purchase an additional \$500k death cover over that provided in Tier 1. However, underwriting would be required where the member ceases to purchase more than \$150k death cover.

⁴ As an example, a spouse or partner is able to purchase up to \$500k in death cover. Any amount over \$100k purchased would require underwriting.

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9. The insurer has agreed that for members who cease service or employment, insurance cover is able to be continued without underwriting, providing the member arranges this with the insurer within 60 days of leaving NZDF and is within age limits determined by the insurer.

Impact of the proposed staff insurance changes on members of the Defence Force Superannuation Scheme

10. As advised in para 6 (j), to remove the perception of inequitable treatment the PCC has endorsed the application of DDI to members of the DFSS on a transitional basis until the review of the DFSS is complete and any identified changes have been made to the Trust Deed. The effect of this is that for the period 1 Oct 14 to 30 Jun 16 many DFSS members will have access to two sets of insurance.

11. The cost of this additional insurance is projected to be \$2.586m in FY 14/15 and \$3.447m in FY 15/16, a total of \$6.035m. It is proposed to partially fund this additional insurance cover through use of the DFSS Category A and C Reserve Accounts.

12. However, it must be noted that the rules of the DFSS Trust Deed are very prescriptive on the use of the respective Reserve Accounts. Specifically, the Category A Reserve Account may only be used to benefit Category A members, with CDF determining how the Category A Reserve Account is to be used and advising the Trustee of his decision. Similarly, the Category C Reserve Account may only be used to benefit Category C members, with the Trustee determining how the DFSS Category C Reserve Account is to be used in consultation with the Advisory Trustees.

13. The legal advisers to the DFSS advise at ref C that use of the respective Reserve Accounts to provide DDI to members of the DFSS is compliant with the DFSS Trust Deed. However, CDF is required to fund provision of DDI to members of the DFSS Category B; the costs of which are included in paragraph 14 below.

STAFF-IN-CONFIDENCE**Consultation with the DFSS Advisory Trustees**

15. The DFSS Trust Deed requires the Trustee in consultation with the Advisory Trustees to determine how he wishes to use the DFSS Category C Reserve Account. In consultation with the DPE the Trustee has recommended to the Advisory Trustees use of the DFSS Category C Reserve Account to fund the provision of DDI to DFSS Category C members for the period 1 Oct 14 to 30 Jun 16, with that contribution valued at \$0.471m in FY 14/15 and \$0.628m in FY 15/16, a total of \$1.099m.

16. The Trustee's recommendation was endorsed by the Advisory Trustees at a sub committee meeting on 17 Jul 14 (ref D). Advisory Trustee members (DPE) did not participate in this meeting owing to their involvement in developing the DDI proposals.

NZDF members outside cover of revised DDI programme

17. It is proposed that NZDF continue to self insure the death cover for those members who are outside age limits applying to the respective policies, specifically

- a. Death and physical loss cover – RF, Reserve Forces, Civilian Staff - 70 years
- b. Income protection – RF – 65 years; Civil Staff – 70 years
- c. ACC Top Up – Reserve Forces – 65 years

Cessation of insurance cover for Casual Employees

18. The original DDI programme introduced in Aug 08 included death and total permanent disability cover for casual employees killed or injured in NZDF related incidents. That policy has not been claimed against since Aug 08 and it is proposed to discontinue that policy.

Consultation with the Director of Risk and Assurance (DRA)

20. DRA has been consulted in the development of these proposals. DRA has endorsed the proposed DDI package but in doing so, has advised the following risks:

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- a. Challenge from members required to pay for DDI from 1 Oct 14. This risk has been mitigated by the PCC decision to endorse CDF continuing to pay for DDI with effect 1 Oct 14.
- b. Challenge from DFSS members that they are required to pay for their insurance while other NZDF personnel have their cover provided for by CDF. This risk has been mitigated by the PCC recommendation that CDF funds DDI for members of the DFSS on a transitional basis for the period 1 Oct 14 to 30 Jun 16, during which time alternative insurance arrangements for the DFSS will be developed and implemented.
- c. Challenge from DFSS members that the respective Reserve Accounts are being used to partially fund the provision of DDI. This risk has been mitigated by advice from legal advisers to the DFSS that DDI is clearly a benefit and that the DFSS Trust Deed permits the respective Reserve Accounts to be used for this purpose, and endorsement from the Advisory Trustees.

Implication for current NZDF practices

21. The revamp of the insurance programme including introduction of income protection for military members provides the opportunity to consolidate disparate single Service practices, particularly around the treatment of seriously ill RF members. In particular, a condition of any income protection payment is that the member is not receiving paid income from another source, whether it is NZDF, or ACC or the Ministry of Social Development. The adoption of the income protection insurance will therefore provide the opportunity to set consistent policy provisions that would necessitate the member being either placed on leave without pay or discharged once they commence receiving an income protection payment.

Alignment with People Capability Strategy

22. The draft People Capability Strategy still in development reinforces the importance in enhancing the service relationship with members of the Armed Forces, differentiating it from an employment style relationship. The cornerstone of the service relationship is the commitment made by service members, and the support NZDF provides in return. Ensuring our members of the Armed Forces have adequate insurance cover should they be ill, injured or killed is an important demonstration of this support, and provides support to the member and their family at a time it is most needed.

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Consultation with the State Services Commission (SSC)

23. Reflecting Government's Expectations⁶ requirements, on 14 Apr 14 the SSC was briefed on the proposed changes to DDI and the fiscal implications. It was stressed to the SSC that these proposals involve a revamp of a benefit that CDF has funded since 2008 and that the increased costs is able to be absorbed within current baselines.

24. Acknowledging these factors, the SSC has advised that the proposed DDI programme is not required to be included in the Remuneration 14 package, which was considered by the Cabinet Committee on State Sector Remuneration Committee (CMSSR) on 31 Jul 14.

Communications Plan

25. The revised DDI programme has been packaged as the NZDF Member Insurance Benefits Programme (MIBP). A communications plan is in development to accompany the roll out of the MIBP. Communications will include presentations at camps and bases including HQNZDF in Sep and Oct 14, as well as pamphlets, intranet and internet based material. Members who subsequently register an interest in purchasing Tiers 2 or 3 insurance cover will receive a personalised offer from the insurance broker. Communications will include promotion of the Southern Cross medical insurance plan available to NZDF members.

26. The communications material is to be funded by AON, Sovereign and Southern Cross.

Recommendations

27. It is recommended that CDF:

- a. **Approve** changes to the Death and Disability Insurance programme (DDI) with effect 1 Oct 14;
- b. **Approve** the following four tiers of insurance cover:
 - (1) **Tier 1** (referred to as "Base Secure"), comprising:
 - (a) **Regular Forces** – death cover of \$300k with integrated physical loss cover of up to \$50k, and income protection of 75% of salary payable for up to two years after an absence of three months. Cover is for both work and non-work related incidents and illnesses and includes "belligerent operations".

⁶ Government's Expectations for Pay and Employment Conditions in the State Sector, May 2012

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- (b) **Reserve Forces** - death cover of \$300k with the integrated physical loss cover of up to \$50k and "ACC top up" cover. Cover is for NZDF work related incidents only and includes "belligerent operations".
- (c) **Civil Staff** – death cover of \$300k with integrated physical loss cover of up to \$50k, and income protection of 75% of salary payable for up to two years after an absence of three months. Cover is both for work and non-work related incidents and illnesses.
- (2) **Tier 2** (referred to as "Reinforcement Support"). A menu of additional insurance that members are able to purchase and pay for themselves without the requirement to go through underwriting (medical disclosure) up to prescribed limits.
- (3) **Tier 3** (referred to as "Life Partner") . Insurance that spouses and partners of NZDF personnel are able to purchase and pay for themselves without the requirement to go through underwriting (medical disclosure) up to prescribed limits.
- (4) **Tier 4** (referred to as "Comprehensive Care"). Other insurance options available to members and their families, to be paid for by the member at retail rates.
- c. **Approve** the provision of Tier 1 insurances, inclusive of DFSS members and offset by the contribution to be funded by the DFSS Reserve Accounts, to be funded by CDF at an estimated cost of _____ and outyears inclusive of Fringe Benefits Tax (FBT);
- d. **Approve** the provision of application of Death and Disability Insurance to members of the Defence Force Superannuation Scheme for the period 1 Oct 14 to 30 Jun 16 on a transitional basis,
- e. **Approve** the use of the Defence Force Superannuation Scheme Category A Reserve Account to fund provision of Death and Disability Insurance for the members of the DFSS Category A for the period 1 Oct 14 to 30 Jun 16, with that contribution valued at \$1.173m in FY 14/15 and \$1.565m in FY 15/16; a total of \$2.74m.
- f. **Note** that following consultation with the Advisory Trustees the Trustee has approved use of the Defence Force Superannuation Scheme Category C Reserve Account to fund provision of Death and Disability insurance for the members of the DFSS Category C for the period 1 Oct 14 to 30 Jun 16, with a contribution of \$0.471m in FY 14/15 and \$0.628m in FY 15/16;

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- g. **Note** that the Army and RNZAF Group Life Insurance Plans will cease accepting new clients after 1 Oct 14 and that current subscribers will have the option of retaining their current arrangements or changing to the new NZDF wide Tier 2 or 3 arrangements;
- h. **Approve** the ongoing provision of self insurance for those members of the NZDF who have reached the age limits for the Tier 1 policies;
- i. **Approve** cessation of insurance cover for casual employees; and
- j. **Note** that a communications plan is being developed to oversee the roll out of the changes to the Death and Disability Insurance programme, which includes presentations at camps and bases in Sep and Oct 14.

H.V.DUFFY

BRIG

AC Pers

DTelN 349-7440

Annexes:

- A. Current Staff Insurance Arrangements
- B. Proposed staff Insurance Arrangements to Apply WEF 1 OCT 14 – TIER 1 provided by CDF
- C. TIER 2 – Additional cover to be purchased and paid for by individuals
- D. TIER 3 – Insurance cover able to be purchased for spouses and partners

CURRENT STAFF INSURANCE ARRANGEMENTS

	NON DFSS Members (DDI)	DFSS Members
Regular Forces	3 x salary	4 x salary
Reserve Forces	3 x salary	4 x salary
Civilian staff	3 x salary	Option of 1,2,3 or 4 x salary

Notes:

1. Regular Forces and civilian cover is for work and non-work related incidents and illnesses. Reserve Force cover is for NZDF work related incidents only.
2. The DFSS insurances are integrated with the scheme and a member's fund balance contributes to any insurance payment. The quantum of any insurance payment reduces as fund balances increase.
3. Cover ceases at age 65

PROPOSED STAFF INSURANCE ARRANGEMENTS TO APPLY WEF
1 OCT 14 – TIER 1 – Provided by CDF

Level of Cover	RF – NON DFSS (DDI)	RF – DFSS	Reserve Forces – Non DFSS (DD1)	Reserve Forces – DFSS	Civil Staff – Non DFSS (DDI)	Civil Staff – DFSS
Death	\$300k	\$300k + 4 x salary	\$300k	\$300k + 4 x salary	\$300k	\$300k + 1, 2, 3 or 4 x salary
Physical Loss	Up to \$50k	Up to \$50k	Up to \$50k	Up to \$50k	Up to \$50k	Up to \$50k
Income Protection	75% of salary payable for up to 2 years after absence of 3 months	75% of salary payable for up to 2 years after absence of 3 months	No	No	75% of salary payable for up to 2 years after absence of 3 months	75% of salary payable for up to 2 years after absence of 3 months
Total Permanent Disability	No	4 x salary	No	4 x salary	No	1,2,3 or 4 x salary
ACC Top Up	No	No	20% gap between ACC payment and private income	20% gap between ACC payment and private income	No	No

Notes:

1. Cover for RF and civil staff is work and non-work related incidents and illnesses. Cover for Reserve Forces is NZDF work related incidents only.

2. For the period 1 Oct 14 to 30 Jun 16 DFSS members will receive DDI in addition to the current DFSS insurance cover. There will be a maximum death payment of \$800k.
3. The physical loss insurance policy is integrated with the Death policy and provides for a one off payment of up to \$50k in the event of permanent loss or disuse (e.g amputation or loss of use of a limb).
4. For members of the RF death insurance and physical loss the cover ceases at age 70. For income protection the cover ceases at age 65. For members of the Reserve Forces the death and physical loss cover ceases at age 70 while the ACC TOP Up cover ceases at age 65. For civil staff death insurance, physical loss and income protection the cover ceases at age 70.

TIER 2 – ADDITIONAL COVER TO BE PURCHASED AND PAID FOR BY INDIVIDUALS

Cover	RF	Reserve Forces	Civilian Staff
Death cover	Maximum additional cover of \$500k, in \$50k units. Underwriting required after \$150k	Maximum additional cover of \$500k, in \$50k units. Underwriting required after \$150k	Maximum additional cover of \$500k, in \$50k units. Underwriting required after \$150k
Income Protection	Extra 5 years benefit	No	Extra 5 years benefit
Physical Loss	Maximum additional cover of \$50k	Maximum additional cover of \$50k	Maximum additional cover of \$50k
Trauma Recovery	Base of \$20k payments and thereafter in \$10k units Maximum payment of \$150k	Base of \$20k payments and thereafter in \$10k units Maximum payment of \$150k	Base of \$20k payments and thereafter in \$10k units Maximum payment of \$150k

TIER 3 – INSURANCE COVER ABLE TO BE PURCHASED FOR SPOUSES AND PARTNERS

Type of Cover	Value of Cover
Death cover	Maximum cover of \$500k, in \$50k units Underwriting required for cover >\$100ks
Comprehensive Trauma Recovery	Maximum cover of \$100k Underwriting required for cover > \$20k

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From:
Sent: Tuesday, 23 September 2014 2:08 p.m.
To:
Cc:
Subject: MBIP Questions

Hello

Thank you for taking the time to answer my questions today in front of the forum at the 0900 MBIP public briefing at Trentham Camp.

Just to be sure that I do not misquote you in the future can you please validate your responses. A transcript is below.

can you please explain the rationale of DFLB/CDF's decision not to centrally fund the cost of MIBP Tier 1 insurance for DFSS CAT A & CAT C members?"

Yes, the decision was purely a cost driven one, NZDF only has \$10.25 mil available to provide this insurance at this time"

" So can you confirm that the expense of NZDF provided Tier 1 MIBP insurance for DFSS CAT A & CAT C members will covered by the DFSS scheme?"

"Yes, the DFSS CAT A & CAT C Reserve accounts will be used to fund this insurance expense as it is in the Member's benefit"

"Thank you"

Many thanks & regards

Courage | Commitment | Comradeship | Integrity

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