

Mental illness and life insurance

What you need to know – a brief guide

This information sheet was produced in association with



Since 2001, the life insurance industry and mental health sector have been working together to improve life insurance outcomes for people with mental illness. This information guide has been developed as part of this partnership.

Since this work commenced, industry-wide guidelines relating to mental health conditions have been developed, and there has been a decline in the rate of refusal of insurance for those with a mental illness.

For more information, see *Mental illness and life insurance – a detailed guide*. This can be downloaded from www.beyondblue.org.au, www.lifewise.org.au or www.mhca.org.au

What is life insurance?

Life insurance is designed to provide the financial means to protect you and/or preserve your way of life, or that of your family, in the event of an accident (injury), serious illness or death.

There are several types of life insurance including:

- Term life insurance – pays a lump sum upon your death or diagnosis of a terminal illness
- Total and permanent disability insurance – pays a lump sum if you become disabled and are unable to work again
- Income protection insurance – provides a replacement income if you are unable to work due to illness or injury
- Trauma insurance – pays a lump sum upon the diagnosis of one of a list of specific illnesses such as heart attack, cancer or stroke.

How does having a history of mental illness affect your insurance application?

The terms offered by different life insurers vary depending on each company's premium rates, product features and underwriting policy. The likelihood that your application will be accepted will be determined by a range of factors relating to your mental illness history. These include the seriousness of your mental health condition, its impact on your employment and lifestyle, the success of any treatment, management strategies and any ongoing symptoms.

You should make sure you understand the application process and different application options (e.g. online, by telephone, or in person). For example, online applications may have different underwriting guidelines to other products regarding past and present physical and mental illnesses. It is strongly recommended that before making any decision, you speak first to a representative from the insurance company. When considering a life insurance product it is important that you read and understand the Product Disclosure Statement (PDS) as it fully describes the product, its benefits and any limitations.

Myth: Insurers will use a history of a mental health condition to deny applicants insurance.

Fact: In order to remain a sustainable business, it is in the interest of an insurance company to insure as many people as possible. It is also unlawful under the *Disability Discrimination Act* for insurers to deny applications for insurance without having reasonable and relevant information and data to support their decision. Today, insurers have access to extensive medical information and very few applicants are turned down.

How are insurance premiums calculated?

The premium you pay will be affected by the likelihood that you will make a claim in the future. Applicants with higher risk factors (such as a history of health problems) are more likely to make a future claim, and are therefore either charged an increased premium or may have specific health conditions excluded from their policies. These are called exclusions.

Once a life insurance policy has been issued, the insurance company cannot cancel or increase the premium because of deterioration in the health of an individual.

How is risk assessed?

To assess a person's risk, life insurers rely on information from a range of sources. When applying, you will be asked to complete an application form and a medical questionnaire. You may also be asked to undergo a medical examination or have a blood test, or the company may request doctors' reports (based on patient file records), financial evidence or questionnaires about your health.

After this information is received, the insurance company's underwriter will assess the risk and decide whether or not to accept the application. They will also decide whether the premium needs to be increased or exclusions applied. It is important to remember that the policy will still cover all other events caused by unforeseeable illness or injury. However, in a small number of cases the insurance company may decide it is unable to offer any cover and decline the application.

Myth: If I am denied insurance, I will never be able to get it.

Fact: Different insurance companies use different criteria when determining who to insure and what price to charge. Insurance is very competitive and people should always seek alternative insurers. Also, if a company declines your application as a result of a current health problem that improves or goes away, the company may reconsider your application.

What are my obligations when I apply for or renew my insurance?

The law requires you to provide the life insurer with all the information about yourself that may affect your application for life insurance. This will permit the life insurance company to undertake an accurate risk assessment of your application. If you fail to disclose, or are untruthful about any relevant information, the insurance company can decline your application. Any later claims you make on a life insurance policy may also be affected.

Myth: An insurance company can cancel your life insurance policy if you develop a serious illness.

Fact: A life insurance policy is a contract between the company and the policyholder. It is a long-term contract and the law stipulates that as long as the policyholder pays his or her premium, the company cannot cancel the policy. Any subsequent changes in your health will not change the premium you pay, nor can the life insurance company cancel the policy, provided that you disclosed all relevant information when you applied.

Myth: A history of seeking treatment for a mental health condition (for example, under a Mental Health Treatment Plan) can be used by insurers to deny applications for insurance.

Fact: Insurers seek to assess accurately the degree of risk that an applicant presents. An individual who is effectively managing his/her mental illness through treatment is likely to present less of an insurance risk than someone who is not receiving treatment for a mental illness. Many people who now access treatment from a mental health professional do so through a Mental Health Treatment Plan. This enables them to receive Medicare rebates for consultations with mental health professionals, and requires an initial diagnosis and referral from a GP.¹

What are my options if my application is refused or I disagree with the terms offered?

If you believe an insurance company has not treated you fairly due to mental illness, there are several avenues you can pursue. These include:

- writing to the Chief Underwriters of the company concerned, setting out your complaint and asking that each issue be addressed in the company's response
- writing to the Complaints and Disputes Resolution Manager of the company concerned
- contacting the Mental Health Council of Australia (MHCA)
- submitting a complaint to the Financial Ombudsman Service.

¹ For more information see *beyondblue* Fact sheet 24 – Help for depression, anxiety and related disorders under Medicare, available to download or order from www.beyondblue.org.au (click [Get Information](#)) or by calling **1300 22 4636**.

For more information:

Australian Human Rights Commission

1300 656 419 www.humanrights.gov.au/complaints_information

beyondblue: the national depression initiative

1300 22 4636 www.beyondblue.org.au

beyondblue provides information about depression, anxiety and related disorders, available treatments and where to get help.

Financial Ombudsman Service

1300 780 808 www.fos.org.au email: info@fos.org.au

Insurance Law Service

1300 663 464 www.insurancelaw.org.au

The Insurance Law Service is a free legal service available to anyone in Australia who would like advice on insurance law or advice on resolving a dispute with an insurer. They act as a first point of contact for people to get advice on their rights and legal options when they are dealing with insurers or when they find themselves in an insurance dispute.

Lifewise

www.lifewise.org.au email: lifewise@lifewise.org.au

'Lifewise' is an education initiative managed by the Financial Services Council on behalf of the life insurance industry. It aims to provide Australians with relevant information to make conscious, informed decisions about their life insurance needs.

The Mental Health Council of Australia (MHCA)

(02) 6285 3100 www.mhca.org.au

MHCA is the peak, national non-government organisation committed to achieving better mental health for all Australians. The MHCA website provides detailed information to assist people with mental health problems and carers to understand their rights and responsibilities in relation to various forms of insurance. It includes an online complaints form for people with mental health problems who have had negative experiences accessing insurance. The MHCA can also advise you of the mental health advocacy groups operating in your area.

Superannuation Complaints Tribunal

1300 780 808 email: info@sct.gov.au www.sct.gov.au

For complaints relating to insurance linked with superannuation funds, you can contact the Superannuation Complaints Tribunal.

This guide was developed by:

- Australian General Practice Network (AGPN)
- Australian Medical Association (AMA)
- Australian Psychological Society (APS)
- *beyondblue: the national depression initiative*
- Financial Planning Association (FPA)
- Financial Services Council (FSC)
- formerly Investment and Financial Services Association (IFSA)
- Mental Health Council of Australia (MHCA)
- Royal Australian and New Zealand College of Psychiatrists (RANZCP)
- Royal Australian College of General Practitioners (RACGP)