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Mr Mark Fitt
Committee Secretary
Senate Standing Committees on Economics
PO Box 6100
Parliament House
Canberra ACT 2600

9 July 2018

Dear Mr Fitt,

Re: Inquiry into Treasury Laws Amendment (Protecting Your Superannuation Package) Bill 2018 [Provisions]

Thank you for the opportunity to provide comments on the *'Protecting Your Superannuation Package'* outlined in Treasury Laws Amendment (Protecting Your Superannuation Package) Bill 2018 [Provisions].

By way of background, Dixon Advisory provides administration and advice services to 8,000 self-managed superannuation fund (SMSF) trustees with a combined asset base in excess of $5 billion.

Dixon Advisory supports the overarching objectives behind the package to provide special protection of retirement savings of low balances accounts through fees and premiums for default insurance.

Specifically, we support:

- banning on exit fees for MySuper and Choice products of regulated superannuation funds;
- a cap on excessive fees for smaller account balances and insurance premiums changed to an opt-in basis for those with balances less than $6,000, under 25-year old's, or those that have not received a contribution for 13 months and the account is inactive; and a
- allowing the Australian Taxation Office the ability to proactively return the balances of inactive accounts, along with unclaimed superannuation moneis to their rightful owner.

The legislation will improve practices within the superannuation system. A key benefit will be ensuring regulatory arrangements are focused on the fundamental objective of superannuation to provide for retirement incomes for all Australians. A flow on benefit of this legislation is that it will restore confidence in the superannuation system – which is essential to successfully encouraging increased saving for fully or partially self-funded retirement.

Evidence suggests the regulatory framework has historically allowed significant balance erosion to the detriment of consumers due to high fees, through premiums for default insurance, and due to multiple accounts. Previous evidence highlighting these problems includes:

- **Exit fees:** APRA data suggests that exit fees were charged were approximately $52 million, across approximately one third of funds in 2016-17.

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- **Insurance coverage for under 25s:** KPMG research in 2017 notes that current levels of insurance reduce retirement benefits for under 20s by approximately 6.5 per cent, and those aged between 20 to 24 by approximately 7 per cent on average.[1] A case study in the research also notes the impacts are particularly worse for low income individuals, with an 18-year-old who pursues a career a chef suffering a 15 per cent erosion of their retirement saving balance due to insurance.
- **Low balance, multiple accounts**: ATO data for 2017 indicates that as 40 per cent of superannuation account holders have more than one account, with around 176,000 individuals holding six or more accounts.

Further, while we recognise the importance of insurance more broadly for Australian consumers, specific features of the group insurance market in Australia further underlie the need for the legislative changes proposed:

- The one-size fits all approach in group insurance has led to members, especially those under 25 paying for a product they don't or can't use. Under 25s generally have low levels of debt, no dependants and good health.
- Under 25s, by cross-subsidising the insurance needs of older cohorts, are arguably being treated inequitably by superannuation trustees if averaging in pricing is not realised over the next 20 to 30 years. Should current pricing be found to be unsustainable, premium rates faced by older cohorts would be expected to increase – further punishing those funding the initial cross subsidisation.
- Many members are unaware: that they have insurance; that they are paying for insurance; and of the type of insurance cover provided to them.
- In certain circumstances, members can be covered for protection they cannot make a claim against – for example, income protection requires a minimum level of employment to be eligible to claim – making it redundant for many low-income earners working on a part time and casual basis.

An important, but perhaps overlooked element of shifting to an opt-out system for group insurance for under 25s, is that it will not preclude the under 25s opting into the group insurance should they have particular circumstances that warrant insurance at such a young age. This is particularly important when considering the claim that individuals in high risk occupations may not be able to get insurance coverage outside of super.

Yours Sincerely,

Nerida Cole
Managing Director, Head of Advice

[1] KPMG (2017), Review of default group insurance in superannuation, https://assets.kpmg.com/content/dam/kpmg/au/pdf/2017/default-group-insurance-superannuation-review.pdf