



AUSTRALIAN INSTITUTE of
SUPERANNUATION TRUSTEES

6 July 2018

The Secretary
Senate Standing Committees on Economics
PO Box 6100
Parliament House
Canberra ACT 2600

Email: economics.sen@aph.gov.au

Dear Mr Fitt,

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

In brief:

AIST is pleased that changes recommended by AIST during Treasury consultation have been incorporated. However, we still believe that the proposed changes do not meet the policy objectives. AIST's has made recommendations in this submission designed to better align the package with the policy objectives, as well as ensuring that the requirements cannot be gamed.

AIST thanks the Committee for the opportunity to make a submission in relation to the *Treasury Laws Amendment (Protecting Your Superannuation Package) Bill 2018* ("the Bill"). AIST also made a submission in support of the exposure draft to Treasury in May.

AIST wholeheartedly supports the policy objective of preventing fees and insurance premia from eroding account balances. However, the proposed measures do not meet the policy objectives.

Schedule 1: Fees charged to superannuation fund members

AIST is concerned that the calculation of the fee cap and of exit fees could be gamed. In particular:

1. *Fee capping may be gamed*

Inconsistency between what is classified as "fees" and "indirect costs" provides an avenue for entities to game the fee capping requirements. Indirect costs should be included in the fee cap calculation. We are pleased that the Explanation refers to the regulations capturing amounts which, directly or indirectly, will reduce the return on a member's investment and will prescribe these amounts with reference to indirect costs. We do, however, believe the preferable course of action should be to await the outcome of the expert review of fees and costs.

2. *Fee caps should be calculated on retrospective amounts*

The fee cap should be calculated retrospectively. This would ensure that members do not game the fee caps by withdrawing funds prior to balance day only to move them back at a later point. Whilst the measure makes allowances for members who close (or open) their account during the year, the measure is silent on members who move funds out leaving a small amount at balance day.

3. *Exit costs could be gamed*

The exclusion of the sell component of buy/sell spreads means that exit costs could be gamed. This also affects how many members may be covered. To ensure that exit costs are not simply repackaged as part of the buy/sell spread, the sell portion of buy/sell spreads should be included as part of exit fees.

4. *Cross-subsidisation across member cohorts will increase*

Given funds have fixed costs, members who do not come under the proposals will have to pay more. This goes against a policy intention of the MySuper reforms.

5. *Insufficient lead time*

Funds will need to undertake fee modelling and administrators will then need to change fees for each fund they administer (it will not be a global task). Once resolved, funds will need to prepare a mailout to members involving both fee and any insurance issues.

6. *Removal of services*

AIST has concerns that services provided to members may be withdrawn from members with low balances in order to ensure that increased costs passed on to other members are minimised. This will undermine important member engagement activity targeted at people joining the workforce and new fund members. AIST recommends that fee caps are restricted to inactive accounts to avoid these unintended consequences.

7. *Timing of implementation*

Funds will need to ensure that fees are appropriately priced and will also incur the additional cost of providing members with Significant Events Notices.

AIST makes the following recommendations in relation to fees charged to members:

- **AIST recommends** that indirect costs be included in the fee cap calculation – see our comments under point 1 above;
- **AIST recommends** that the sell component of buy/sell spreads be included in the definition of banned exit fees;
- **AIST recommends** that the cap is only applied to inactive accounts; and
- **AIST recommends** implementation be deferred from 1 July 2019 to 1 July 2020.

Schedule 2: Insurance for superannuation members

AIST supports the provision of default insurance through superannuation as an effective and good value way of providing basic insurance cover to the millions of Australians who would not otherwise have life insurance, or for whom it would be too expensive or inaccessible. At the same time, however, we recognise that premia must not inappropriately erode member balances.

Research by Rice Warner commissioned by AIA in June 2018 found that an average individual's retirement balance would only be benefited by an additional \$1,400, representing a 0.27% impact on an average retirement balance of \$528,300.

The proposals will adversely impact young members joining the workforce. It would take a new full-time member on an annual income of \$50,000 18 months to build an account balance of \$6,000. It would take even longer for casual and part-time workers.

This will particularly impact women, as Australia has one of the highest levels of female part-time workforce participation rates of OECD countries. Women also need to be covered while on extended leave, given that women take extended leave for parental and carers' leave.

AIST supports and is a co-owner of the Insurance in Superannuation Voluntary Code of Practice ("the Code"), which has been working on solutions to fix this problem. The Code, developed by AIST, ASFA and FSC, provides a better, more extensive and consistently member-focused approach to addressing insurance in superannuation issues when compared with the Budget proposals, and will result in better outcomes.

Our concerns regarding the measures in the Bill may be summarised as follows:

1. *Best interests of younger members*

Younger members have their own needs in relation to insurance. AIST member funds service many blue collar workers who are engaged in construction, mining and other hazardous occupations. Members who are totally and permanently disabled at this stage in their lives have a longer period to retirement than one who is disabled later in life.

Many blue collar workers in hazardous industries assume financial responsibilities for others from age 21.

Many of these members would be unable to access affordable cover outside of superannuation due to exclusions of specific occupations and working environments.

Modelling by a large AIST member fund suggests that if these members were required to opt-in to insurance cover, 30% of members will be refused cover or only provided conditional cover. This modelling also suggests the proposals will result in significant price increases with a net result that members will pay the same in premiums, but receive less beneficial cover for a shorter period. This is consistent with previous research by KPMG for the Insurance in Superannuation Working Group.

AIST recommends that trustees be able to retain the right to provide default cover to members aged between 21 and 24 to ensure that members aren't disadvantaged by the loss of insurance.

2. *Low balance requirement should be accompanied by inactivity.*

AIST does not support default insurance being removed from an account solely on the basis of a low account balance. Full time members will take 18 months to build up an account balance if they are getting a \$50,000 income, with part time and casual members taking longer.

Consistent with the Insurance Code, AIST submits that low account balance accounts should only have automatic insurance cover ceased after a period of inactivity, unless the member advises they wish to keep the cover.

The definition of inactive should require 16 months of inactivity to accommodate the situation of women who take 12 months' maternity leave, then return to work and receive their first SG payment after a further 3 months.

3. *Better data and less multiple accounts*

The proliferation of multiple accounts and multiple insurance premiums is not a function of the default fund system as suggested in the Explanatory Material. It is function of successive governments not implementing the elements necessary for the efficient operation of a default system, including the consolidation initiatives arising from Stronger Super. If these elements had been implemented earlier, these issues would already have been largely addressed.

AIST proposes that the ATO commence consultations with the superannuation industry about the expansion of MAAS to encompass mandatory reporting of a member's insurance, including whether they have default cover or additional cover, the number of units of death, total and permanent disability cover, and income protection cover as well as the value of this cover.

4. *Transition*

Implementation of these measures will require changes to fund documentation, such as Product Disclosure Statements and the distribution of Significant Event Notices. Much more significantly, however, will be the impact on existing group life policies. These will need to be reviewed and repriced in light of the changes. It is highly likely that these changes will force a significant increase in premium costs. Most group risk policies have a life of between 3 and 5 years.

In addition, there are long negotiation timeframes between funds and insurers. With only around 10 insurers servicing the industry, this raises real issues as to whether funds will be able to comply in time.

In light of this, AIST recommends that implementation of these measure be deferred until the later of 1 July 2020 or from the end of insurance policies commenced prior to Budget night.

5. *Employer paid premiums*

AIST supports the carve-out for employer-paid premia where this is communicated to the fund. This was recommended by us during Treasury consultation and will ensure that such arrangements can continue.

AIST makes the following recommendations in relation to insurance charged to members:

- **AIST recommends** that trustees be able to retain the right to provide default cover to members aged between 21 and 24;
- **AIST recommends** that the timeframe for inactivity should be extended to 16 months;
- **AIST recommends** that the separate low balance and inactivity criteria for removing default cover should be combined into one criterion;
- **AIST recommends** a later commencement date than 1 July 2019 commencement, preferably 1 July 2020; and
- **AIST recommends** that the scope of MAAS reporting project should be extended to require greater fund reporting of member insurance arrangements to the ATO.

Schedule 3: Inactive low-balance accounts and consolidation into active accounts

AIST supports measures that prevent account erosion and the proliferation of multiple accounts. There is a need for auto-consolidation to reunite members with inactive accounts.

AIST supports consolidation initiatives that have been proposed to date, however we note that measures proposed as part of the Stronger Super initiatives designed to consolidate accounts have not been implemented.

AIST does not agree with the comments in the Explanatory Materials that the high incidence of duplicate accounts is a consequence of the current default MySuper default settings. The issue of

multiple accounts predates the MySuper reforms; the Stronger Super reforms of which MySuper is a part included measures to address these issues. These measures have had some success, and AIST supported further measures to address these issues.

AIST supports the reporting of inactive/low account balance information to the ATO, and for the ATO to use this information to support the transfer of these accounts into members' active accounts.

AIST makes the following recommendations in relation to consolidation of inactive accounts:

- **AIST supports** both super funds and ATO being given greater powers to consolidate accounts with members' active accounts, without a member's request;
- **AIST opposes** the proposed mechanism of transferring money as well as data to the ATO;
- **AIST supports** a mechanism based on direct fund-to-fund transfer of inactive accounts to active accounts, based on data provided by the ATO to funds, as an alternative;
- **AIST supports** an ongoing role for Eligible Rollover Funds that facilitate this process, particularly in the context of the proposed fee cap for low balance accounts;
- **AIST recommends** giving effect to the above initiative by an amendment to the definition of inactive members in the lost members part of the SIS Regulations, rather than amending the *Unclaimed Money and Lost Members Act 1999*;
- **AIST recommends** specific time requirements for both ATO and super funds within which to action steps in the auto-consolidation process;
- **AIST recommends** the timeframe for inactivity be extended to 16 months to ensure that to ensure that employees entitled to 12 months of parental leave do not have their superannuation inadvertently transferred to the ATO;
- **AIST recommends** that some forms of member engagement should render an account active and requiring any request for exclusion to be regularly renewed to avoid misuse, such as a 3 year renewal requirement;
- **AIST supports** a later commencement date than 1 July 2019 commencement, preferably 1 July 2020; and
- **AIST recommends** a pilot for transfer of inactive accounts for operational reasons during the 2019-20 financial year, followed by a phased implementation from 1 July 2020.

For further information regarding our submission, please contact Richard Webb, Policy & Regulatory Analyst at [REDACTED].

Yours sincerely,

[REDACTED]
Eva Scheerlinck
Chief Executive Officer

The Australian Institute of Superannuation Trustees is a national not-for-profit organisation whose membership consists of the trustee directors and staff of industry, corporate and public-sector funds.

As the principal advocate and peak representative body for the \$1.2 trillion profit-to-members superannuation sector, AIST plays a key role in policy development and is a leading provider of research.

AIST provides professional training and support for trustees and fund staff to help them meet the challenges of managing superannuation funds and advancing the interests of their fund members. Each year, AIST hosts the Conference of Major Superannuation Funds (CMSF), in addition to numerous other industry conferences and events.