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Committee Secretary
Senate Standing Committee on Economics
Parliament House
Canberra ACT

Via Email: economics.sen@aph.gov.au

15 July 2019

Treasury Laws Amendment (Putting Members' Interests First) Bill 2019

Thank you for the opportunity to provide a submission to the Economics Legislation Committee inquiry into the *Treasury Laws Amendment (Putting Members' Interests First) Bill 2019*.

For over 100 years, QSuper has been the default superannuation fund of the Queensland Government, helping current and former public-sector employees and their spouses create a financially secure future. QSuper is one of the country's largest and most respected superannuation funds, with more than $91 billion in Funds Under Management. On 1 July 2017, QSuper became a public offer fund, opening our doors for all Australians to join.

QSuper is unique in the Australian superannuation and group life insurance landscape as it is the only profit-for-members superannuation fund in the country that wholly owns a life insurance company - QInsure - to provide Death and Disablement insurance cover for its members. The QSuper/QInsure model extends a profit-for-members philosophy across both the Fund and QInsure and provides significant and tangible benefits to QSuper members.

QSuper believes that insurance and superannuation are essential to supporting retirement income adequacy for members and default insurance within superannuation is an efficient way to provide insurance to a large number of Australians. Therefore, QSuper supports the overarching intent of the Government's legislative changes to make superannuation simpler for members and to prevent undue erosion of accounts.

QSuper's submission contains three sections;

1. QSuper's philosophy on insurance provided through superannuation;

2. Issues relating to the proposed start date of 1 October 2019, and;

3. Drafting issues relating to application at account or product level.

We trust this feedback will be beneficial. If you would like to discuss QSuper's view further, or require any information, please contact [redacted].

Yours faithfully

[redacted]

Jason Murray
Chief of Member Experience
QSuper

QSuper's philosophy on insurance provided through superannuation

Central to QSuper's core purpose as a superannuation fund is ensuring members are adequately funded for retirement, which we believe must include not only growing members' retirement balances, but also protecting them and their dependents against the risks that could impact their retirement saving capability. This includes protection against loss of income due to injury, early disability or death.

In this context, QSuper believes life insurance plays an important role in bridging the gap between a member's retirement account today and their retirement 'estimated future value'. Central to this is the provision of income replacement benefits as this protects members for periods where they are not able to earn an income.

By nature, trustees must strike a balance between providing adequate levels of insurance cover and the costs of this cover.

Trustees have a fiduciary duty to act in the best interests of their members. QSuper believes that if trustees are discharging their best interests duty correctly, the adequacy of cover provided is an essential consideration and should not be overshadowed by a focus on cost alone.

This approach is central to QSuper's philosophy on insurance, which promotes the provision of meaningful levels of default cover for members, supported by sustainable premiums and with the ability and support to personalise cover to meet individual circumstances.

QSuper considers meaningful cover to include integrated protection, which includes Death, Total and Permanent Disability (TPD) as well as Income Protection (IP), that appropriately support a member's ability to return to health and work where possible. The integrated disability model of IP with TPD provides valuable protection to all ages and, importantly, maintains a member's superannuation funding in the event of temporary or permanent ill health.

Members Utilise Insurance

A recent global study by Zurich with the Smith School of Enterprise and Environment at the University of Oxford, showed that 47 per cent Australians surveyed believe they have less than 10 per cent chance of lost earnings due to disability or illness[1]. Meanwhile 44 per cent of Australians had experienced some degree of income loss due to sickness or accident[2]. In addition, 20 per cent of mortgage defaults in Australia (2010) were due to illness or an accident affecting a member of the household[3].

Internal claims data shows that QSuper members value our insurance product, and in the case of income protection are increasingly utilising this cover.

[1] Zurich, Income Protection Gaps: challenge and opportunity, 2016 Global Survey findings
[2] ibid
[3] Berry, M., Dalton, M., and Nelson, A. (2010) Mortgage default in Australia: nature, causes, and social and economic impacts, Australian Housing and Urban Research Institute, RMIT Research Centre

It should be noted that QSuper allows members to personalise their insurance cover and a member can elect to unbundle death and TPD cover and hold death only, TPD only or any combination of death and TPD cover.

Low Balance members

QSuper recommends that cover is retained for members with a balance less than $6,000.

In the context of the Putting Members' Interests First (PMIF) Bill, QSuper contends that members across all account balances and age groups are likely to claim, but the Bill imposes a risk that low balance members will be left without cover.

For example, consider two Corrections Officers who commence work and join QSuper. One does not consolidate their existing accounts and is therefore not covered, but the other does consolidate and with a balance greater than $6,000 is covered. If these members are injured one will be covered and one will not and will receive very different outcomes in terms of financial support.

Whilst we acknowledge the potentially erosive effect of premiums on low balances, we contend that this has most impact on young people who are not yet in full-time work and on low-balance inactive accounts. Both of these segments will be protected by the PMIF Bill and the Protecting Your Super provisions respectively, making this requirement largely redundant, yet damaging to those in full-time work with financial commitments and dependents who may be otherwise not protected by insurance.

Under 25-year-old members

QSuper recommends that the Government considers amendments that provide appropriate opt-out cover to members at an age where they are most likely to be in full-time work and/or have financial dependants.

QSuper's data shows that while their claim incidence rates are lower, members under age 25 are also suffering claims inducing events. Over 520 claims from members under age 25 have been made for death, TPD or IP since 2013. The majority of these claims are made by members over the age of 21.

For younger members, QSuper already recognises that they are unlikely to require a high level of death cover (as there will be limited dependency at a younger age) and provides a lower level of death cover than TPD cover to members under age 21. Default death cover increases automatically and without the need for underwriting at age 21. However, younger members with dependants have a higher need for both lump sum death and TPD cover than older members given the longer duration of family dependency in the event of death or permanent disablement.

<u>Issues relating to the proposed start date of 1 October 2019</u>

QSuper recommends that the Government delays the start date of the Putting Members' Interests First Bill until 1 July 2020.

The PMIF Bill proposes a start date of 1 October 2019, which requires funds to notify affected low balance members by 1 August 2019. To identify affected members a stocktake as at 1 July 2019 is required.

Practically, we have no ability to meet the 1 October 2019 deadline, considering the pricing, disclosure, notification and administration changes which would be required within that timeframe.

Complexity and member decision making

Members who will lose cover under the changes will need to be provided with personalised information. Based on data extracted when the changes were originally proposed in 2018, the number of impacted QSuper members is expected to be approximately 60,000.

QSuper will also be required to notify over 600,000 members and applicants of the changes to insurance terms and conditions through a Significant Event Notice. To maximise members' understanding of the changes, QSuper would typically also provide personalised information with this Notice.

To implement the insurance changes required under the recent Protecting Your Superannuation Package (PYSP) Bill - QSuper undertook a project that took 6 months to complete and cost approximately $2 million. QSuper estimates the PMIF Bill will require a project of similar size but with a much tighter timeframe which increases the risk of errors and unnecessary cost while also affecting member decision making.

The industry experience with PYSP changes was that members were very interested/concerned about the changes and funds have struggled to meet the demand for member engagement because of the tight timeframe.

This is certainly reflective of QSuper's experience:

- In June 2019 our Member Services division experienced a 97% workload increase (interaction volumes, handle times) compared with June 2018.
- This includes an approximate 70% increase in inbound phone calls and an approximate 81% increase in written interactions.

In the first instance we would expect similar levels of member engagement with the PMIF Bill, however, there is a risk that for some members a further change following soon after the recent PYSP change will drive change fatigue and despite wishing to retain insurance have their cover removed.

Mis-alignment with PYSP changes will inappropriately remove cover

The proposed timeline for PMIF introduces the risk that members may inappropriately lose or retain cover based on their account balance on the stocktake date of 1 July which could materially change shortly after.

A 2019 stocktake date for the PMIF changes does not allow for upcoming changes to member account balances driven by PYSP legislation.

The transfer of inactive low balance accounts to the ATO (commencing on 31 October 2019), and the auto-consolidation of member funds from the ATO to active member accounts (commencing on 7 November 2019) will impact many member accounts.

From a member perspective it is appropriate to consider the legislated and regulatory imposed timelines for PYSP and PMIF changes together.

Given the significant risk to members associated with the removal of cover, it is also prudent to allow adequate time to implement a high quality member communication strategy to maximise member awareness and understanding.

QSuper proposes that a stocktake date of 1 April 2020 and implementation date of 1 July 2020 will minimise the risk of inappropriate removal or retention of insurance cover for members.

<u>Drafting issues relating to application at account or product level</u>

The proposed PMIF legislation adopts similar wording to that used in the recently passed *Treasury Laws Amendment (Protecting Your Superannuation Package) Act 2019 (Cth)*. We understand that across the industry there is uncertainty as to the intended interpretation to be given to the PYSP legislation. That is, there is uncertainty as to whether the legislation is intended to apply to a member's whole Accumulation account or within each member's Accumulation account (to the MySuper and separately Choice components of that single account). In this regard, we note that APRA has issued the following guidance:

> *The Government has indicated to APRA that it will pursue amendments to the Superannuation Industry (Supervision) Act 1993 (SIS Act) to ensure the Government's policy intent, which underpinned the PYSP legislative reforms, is achieved in two areas that have been raised by industry (see below). Although the proposed amendments will not be made before the legislation takes effect on 1 July 2019, APRA supports trustees proceeding on the basis that the amendments will become law in due course.*
>
> *APRA understands the Government will seek to amend the SIS Act to provide that:*
>
> *1. the legislative requirements allow for the aggregation of a members' interests in one or more products held within a superannuation account; and*
>
> *2. the rights of members under fixed term insurance cover are not affected and insurance cover is not inappropriately removed. This may affect conventional products where the switching off of cover would have a demonstrable adverse financial effect on the member, such as products that are already fully paid up or currently non-premium paying, whole of life and endowment products, and certain legacy products.*

We strongly support these proposed amendments to the PYSP measures and recommend that amendments are also made to the PMIF Bill to clarify that the measures will apply to a member's whole Accumulation account.