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1 August 2018

Mr Mark Fitt
Secretary
Senate Economics Legislation Committee
PO Box 6100
Parliament House
Canberra ACT 2600

*Via email:* economics.sen@aph.gov.au

Dear Mr Fitt,

**Inquiry into the Treasury Laws Amendment (2018 Measures No. 4) Bill 2018**
**Responding to a question taken on notice**

The ACTU would like to respond to several questions taken on notice.

> **CHAIR:** Sorry—can you clarify that: 'the revenue associated with the bill as opposed to worker safety'. What revenue associated with the bill?
> Mr Mitchell: The bill brings in $700 million in revenue over the forward estimates.
> **CHAIR:** From?
> Mr Mitchell: From insurance which is not being purchased which is tax deductible, I'm pretty sure.
> **CHAIR:** I'd love to see your numbers on that, Mr Mitchell. If you've got some analysis, that would be very helpful to the committee. I've never seen that number. Thank you. Senator Ketter.

As outlined in *Budget Measures, Budget Paper No. 2 2018-19* the *Protecting Your Super Package - changes to insurance in superannuation* is projected to net the Government $770 million in revenue from 2019-20 to 2021-22.

The table from the Budget is below for the Committee's reference.

*Budget Measures 2018-19 — Part 1: Revenue Measures*

**Protecting Your Super Package — changes to insurance in superannuation**

Revenue ($m)

| | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 |
|---|---|---|---|---|---|
| Australian Taxation Office | - | - | 240.0 | 255.0 | 275.0 |
| *Related expense ($m)* | | | | | |
| *Department of Social Services* | - | - | *14.7* | *24.3* | *25.8* |
| *Department of Human Services* | - | - | *1.1* | *1.0* | *1.1* |
| *Department of Jobs and Small Business* | - | - | *0.4* | *1.7* | *3.0* |
| *Total — Expense* | - | - | *16.2* | *27.0* | *29.8* |

> **Senator STOKER:** If you could take on notice to the best you are able find out the number of claims annually that are paid to people in those high-risk occupations you've identified for injuries that are associated with that type of work that would be good. Could you also break that down, if possible, into how many of those people have dependants? That might be helpful for the committee to understand the impact that you have identified. Could you take that on notice for me, please?

In the time available it is not possible to answer Senator Stoker's question. There is no readily obtainable information that details the system wide insurance claim payments. There is no data available to indicate the number that have dependants at the time of a claim. Reports from funds with significant cohorts in high risk industries indicate that high risk industries tend to have younger members involved in claims and that these members, having commenced in the workforce at an early age, are more likely to have dependants than persons of the same age in other occupations.
We note that this is supported by the submissions to the Committee by Cbus superannuation fund. At page 9 of their submissions Cbus outlines the types and numbers of claims paid. We also refer to Appendix B of the submissions of Industry Super Australia (ISA) which detail the Safe Work Australia data relating to work-related traumatic injury  and fatalities in Australia. It is suggested that these figures are indicative of the traumatic occupational risk within certain industries. Agriculture, forestry, fishing, mining, transport and construction are high-risk industries for traumatic death.

We also note that in its submissions ISA provided an analysis at Table 1 of the targeted population in one or more groups targeted by insurance changes. This work showed that of those persons expected to lose insurance as a result of the bill 24% are in a high risk occupation and 53.5% have dependants. This work was undertaken after an analysis of the ABS Survey of Income and Housing 2015-2016, Confidentialised Unit Record File.

> **Senator STOKER**: I understand that, but we're also talking about, of that 55 per cent of people who are changing industries, the number who would also not have rolled an account and who have come below the financial threshold. There are a few filters, I suppose, upon that data. Would you be able to see if you can get more precise figures for us, please, on how many people it's believed, by the ACTU, would be affected by that gap?

The actual numbers of persons who are likely to be affected are not available without further research. Work we note has not been undertaken by the proponents of the bill. It is however clear that removing insurance for those with low account balances disproportionately impacts upon those employees who regularly change jobs or who have broken employment patterns. Women returning from carers leave and casual and part time workers may be employed for a number of years before being eligible for automatic insurance cover. We note that the majority of part-time and casual workers are women. There seems to be no policy rationale for not commencing insurance until an account balance grows to $6,000. It is suggested that the harm caused to the individual who needs and does not have insurance available is not outweighed by the minor additional account growth. It should also be noted that it is expected that with a reduction in the insured group there will be additional cost to the insured remaining members. This cost will eventually be paid by the protected member when their balance exceeds $6,000.

> **Senator STOKER**: I mean that people are more likely to disengage from a decision-making process where somebody else is dealing with it by way of default.
> **Mr Mitchell**: No, that's not what the question was asking. The question was asking: are people more engaged in a default system where insurance is opt in or are people more engaged in a default system where insurance is opt out?
> **Senator STOKER:** Even if we frame it that way, do you have any evidence, perhaps from behavioural economics, about the fact that one might have an impact on a person's capacity or interest in their financial affairs?
> **Mr Mitchell:** I'm happy to find that evidence.

Work by KPMG[1] found that if insurance within superannuation was changed to opt-in it is expected that as few as 2% and to a maximum of 10% of persons would engage and take action to opt-in to insurance coverage. This finding is not surprising given the body of behavioural economics work[2] that demonstrates that in many instances people choose not to choose. This is particularly the case in environments where defaults are provided where people do not choose. In a regulated compulsory system many people consciously or otherwise delete choices to a private or public institution that they trust.

The work of Delpachitra and Schumann[3] suggests that in a compulsory retirement savings system superannuation fund members see themselves as consumers not investors and lack the ability or time to make complex financial decisions. This is supported by Australian financial literacy surveys that have consistently found low levels of financial literacy in Australia. The Australian Financial Attitudes and Behaviour Tracker report Wave 4[4] in 2016 found that 40 percent of those surveyed found dealing with financial decisions stressful and overwhelming. The figures amongst young and rural respondents where even higher.

Yours sincerely

[redacted]

Scott Connolly

Assistant Secretary

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[1] KPMG: Review of default group insurance, August 2017, page 42

[2] See Fear. J and Pace.G; *Choosing not to Choose – Making superannuation work by default;* The Australia Institute, Discussion Paper Number 103 November 2008; ISSN 1322-5421 and Sunstein, Cass R., Choosing not to choose (February 10 204). Harvard Public Law Working Paper No. 14-07.

[3] Delpachitra, Sarath, and Rafizadeh, Schumann, *The Switching Decision: Are Members of Superannuation Funds Rational and Informed Investors?,* Australian Accounting, Business and Finance Journal, 8(4), 2014, 45-62

[4] ASIC- EY Sweeny, ASIC Report 481: Australian Financial Attitudes and Behavious Tracker, Wave 4 September 2015-Febuary 2016.