RICEWARNER
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12 July 2019

Senate Economics Legislation Committee
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Parliament House
Canberra ACT 2600

By email: economics.sen@aph.gov.au

To whom it may concern

Submission for inquiry into Treasury Laws Amendment (Putting Members' Interests First) Bill 2019

This letter has been prepared in response to a call for submissions from the Senate Economic Legislation Committee regarding the Treasury Laws Amendment (*Putting Members' Interests First*) Bill 2019.

Rice Warner supports the objectives of the package, and the already implemented changes in *Protecting Your Superannuation* (PYS), due to the importance of designing insurance that does not inappropriately erode superannuation account balances. However, we have identified two key issues in the *Putting Members' Interests First Bill* that we believe the Government should consider addressing.

The first major issue is that of *opt-in* only cover for active members with balances under $6,000. We consider this has significant detrimental consequences for members, funds, insurers and administrators and will inadvertently target members who need insurance.

The following member groups have been considered by Government:

- Members with *high* balances (defined as greater or equal to $6,000) that are **inactive** – these have been addressed already by the PYS legislation to remove insurance after 16 months of inactivity.
- Members with *high* balances (defined as greater or equal to $6,000) that are **active** – these are deemed appropriate to retain default insurance on an opt-out basis.
- Members with *low* balances (defined as less than $6,000) that are **inactive** – these have been addressed already by the PYS legislation to transfer these balances across to the ATO.
- Members with *low* balances (defined as less than $6,000) that are **active** – these members represent the remaining group to be targeted by the proposed new low balance legislation. It is therefore important to understand which members make up this group, which is discussed further below.

Active low balance members will comprise the following:

- A significant portion will be under 25s. These members are typically making lower contributions at this stage, due to lower salaries and intermittent working patterns, and due to their young age will have not yet had time to accumulate a material account balance. Hence the account balances often fall below $6,000. This segment will be addressed by the proposed legislation to remove default opt-out insurance for under 25s.

- A further significant proportion will be members over 25 years who are simply new to the Super Fund. On average a member may take approximately a year to reach an account balance of $6,000, but for many on lower salaries, or working part-time, they will take longer than two years. The vast majority of this group requires insurance because it covers:
  - Members who are returning from maternity leave and working part-time.
  - New migrants to Australia who will have no existing super balances.
  - Members who have existing balances at previous Super Funds but are not active about electing to retain their existing insurance cover.
  - Members who have existing balances at previous Super Funds and are active about rolling over their existing balances but there is a time delay for the transfer meaning there is a gap when they have no cover.

In addition to the above, this change will also mean that:

- It may prove difficult to determine the exact point at which cover turns on and off, leading to issues at claim time and inevitably, member complaints to insurers and funds.
- Insurers may see a greater risk of manipulation by individuals and introduce more prohibitive terms, or higher premiums, to defend themselves from potential anti-selection.
- There will be practical difficulties in implementation, risk of error and increased administration costs that are spread across all fund members.

We strongly recommend that the $6,000 active low balance requirement be removed.

Our second major concern is the proposed timing of implementation of insurance design changes. The insurance changes are due to take place from 1 October 2019, requiring a member stocktake to be taken at 1 July 2019 to identify members and communication to members by 1 August 2019.

Given the significance of the changes, even without the proposed $6,000 balance change, funds will need to again renegotiate the terms of their contracts with insurers. Funds and insurers are still grappling with the PYS changes, in terms of pricing investigations and negotiations, and how to implement the changes.

We recommend deferral of commencement for nine months to 1 July 2020. This will also allow time to reassess the impact of PYS on the need for the $6,000 low balance opt-in requirement.

We trust the information we have provided here is useful as you conduct your review.

Yours sincerely

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