CHOICE

9 JULY 2018

PROTECTING YOUR SUPER PACKAGE
Submission to the Senate Economics Legislation Committee

ABOUT US

Set up by consumers for consumers, CHOICE is the consumer advocate that provides Australians with information and advice, free from commercial bias. By mobilising Australia's largest and loudest consumer movement, CHOICE fights to hold industry and government accountable and achieve real change on the issues that matter most.

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INTRODUCTION

CHOICE welcomes this reform package as it represents a significant improvement on the status quo. For too long poor system design and industry inaction has led to a proliferation of accounts and serious erosion of people's retirement savings.

Reuniting people with their inactive superannuation accounts will help to fix one of the costliest problems facing Australians in saving for their retirement. The $6 billion in superannuation expected to go back to the accounts of three million members will have tangible benefits later in life.[1] For some this will mean the difference between worrying about how they will afford the next energy bill or weekly shop and being able to retire in comfort.

The proposed improvements to life insurance targeting will deliver big benefits to younger people and people on low incomes. From inception the policy of default opt-out life insurance in superannuation has lacked a well-developed purpose. As a result, we have seen many people paying for insurance they do not know they have and in some cases do not require. We maintain that there is still work to do to ensure members are getting value for money and properly targeted protection for when they are unable to work due to disability.

The industry had ample opportunity to fix these problems of inappropriate insurance products but failed to deliver after more than a year of talk. The Life Insurance Code of Practice attempted to tackle many of these problems, but ultimately delivered an unenforceable code. The Code was unambitious and held back by self-interest. This sector has proven itself incapable of meaningful self-regulation and therefore we welcome the Federal Government's intervention to protect the best interests of consumers.

While we endorse the policy solutions as a whole, throughout we have made recommendations on improvements to design to ensure it meets the intent without leading to unintended consequences. We also see the strong need for a broader review of the purpose of life insurance in superannuation within the broader framework of how to best provide for people impacted by death or disability. The lack of clear policy direction in this space has led to a number of the problems this reform package has had to address.

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[1] Kelly O'Dwyer, 2018, 'Media release - Encouraging and rewarding Australians by protecting your superannuation', available at: http://kmo.ministers.treasury.gov.au/media-release/050-2018/

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Summary of recommendations

- **Recommendation 1:** The appropriate regulator monitor and report on fee levels after the cap is introduced to ensure compliance and report on unintended consequences. Where unintended consequences are discovered, that the regulator be empowered to act via the regulations.
- **Recommendation 2:** The appropriate regulator monitor fee levels after the exit fee ban is introduced to ensure compliance and report on unintended consequences. Where unintended consequences are discovered, that the regulator be empowered to act via the regulations.
- **Recommendation 3:** The Federal Government conduct an independent review of life insurance in superannuation alongside a review of alternative models for providing protection for people who are unable to work due to disability.
- **Recommendation 4:** As part of the independent review of life insurance in superannuation, review the need for the introduction of a community rating system in life insurance to prevent discrimination.
- **Recommendation 5:** As part of the independent review of life insurance in superannuation, review how effective it has been in balancing the needs and costs of insurance for young people.
- **Recommendation 6:** Treasury explore methods for income mapping workers to ensure more appropriate insurance thresholds.
- **Recommendation 7:** Employers make superannuation guarantee payments at least monthly to assist income mapping.
- **Recommendation 8:** The Federal Government conduct a review of available data across industry and government to develop more targeted insurance offers.
- **Recommendation 9:** Place clearer obligations on trustees to be transparent about their insurance/balance erosion trade off, including:
    - Making the assessment available and easily comparable on the fund's website annually,
    - Specifically address how levels of default insurance premiums and cover meet members' best interests,
    - Provide simple calculators online to allow a member to estimate how insurance premiums impact their balance at retirement,
    - Give each member clear, simple information at sign up of the insurance premiums they will individually be paying annually.
- **Recommendation 10:** That industry conducts consumer testing of all member communications to ensure people are informed of the implications of their decisions with regard to life insurance.

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- **Recommendation 11:** Give the ATO adequate resources to consolidate accounts. That the ATO meet a deadline for reuniting at least 90% of eligible funds within one month of receipt and publically report on its performance.
- **Recommendation 12:** That the Federal Government put processes in place to allow appeal rights on beneficiary payments to be made through the Australian Financial Complaints Authority.

Fees charged to superannuation members

Fee caps

We support a cap on fees for low balance superannuation funds. However, we question the justification for setting the level at 3%. According to Rice Warner, on average superannuation fees are close to 1%.[2] In percentage terms a 3% fee would still see low balance consumers paying three times the average. Based on median returns on growth funds over the last decade, a 3% fee on an individual account would see most accounts break even in real terms.[3] When combined with other measures in this package people may be in a better position to grow their principal investments. We endorse the ability for the cap to be lowered via the regulations. We recommend that the adequacy of the 3% cap be reviewed as part of a broader review of the legislation within four years.

We understand the draft legislation allows superannuation funds to rebate fees charged in excess of the 3% cap on an annual basis. We are concerned that there is no proposal to also rebate earnings that would otherwise have been gained had the fees not been charged in excess of the cap. As a principle people should be no worse off than if the excess fees were not charged.

We are concerned that some funds may attempt to game the 3% cap by shifting costs elsewhere. The legislation contemplates this mischief by allowing the regulations to list indirect

[2] Rice Warner, 2017, 'Superannuation fees – How low can we go?', available at: http://www.ricewarner.com/superannuation-fees-how-low-can-we-go/

[3] Based on median returns of 5.4% in growth funds over the last ten years to 31 December 2017. Over this period a 3% fee cap and average inflation of 2.4% would see principal balances stagnate without additional contributions. Using Chant West returns data: https://www.chantwest.com.au/resources/a-stellar-year-for-super-funds

fees and costs that must be included for the purpose of calculating the cap.[4] To ensure there is adequate attention on any attempts to levy fees through indirect fees and costs we recommend that the regulator monitor and report on fees and be given the power to make delegated legislation to address unintended consequences. While the regulators are already empowered to monitor fees, as an accountability measure it is important that this monitoring is publically reported on and that the regulator be empowered to act via the regulations. We would expect public reporting to occur within two years of the reforms coming into force.

Recommendation 1

- The appropriate regulator monitor and report on fee levels after the cap is introduced to ensure compliance and report on unintended consequences. Where unintended consequences are discovered, that the regulator be empowered to act via the regulations.

Exit fees

We support the introduction of a ban on exit fees. These fees represent a barrier to switching and competition. As part of CHOICE's survey on consumers' experience of superannuation, many respondents raised exit fees as complicating comparisons with other funds, with some calling for them to be abolished.[5]

While exit fees tend to be relatively small, as the Banking Royal Commission found, some can be excessive. One example from TAL Super saw a person charged a $16,189 exit fee, meaning he lost almost a quarter of his $68,000 retirement savings.[6]

As with fee caps we are concerned that some providers may seek to game the prohibition by increasing other fees that may be charged on exit. For example, under the proposal funds are free to charge for buy/sell spreads. These fees accrue when a fund buys into or sells an investment option, so will still be incurred when switching to another fund. Despite buy-sell spreads being disclosed alongside exit fees in product disclosures and a requirement that they

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[4] *Treasury Laws Amendment (Protecting Your Superannuation Package) Bill 2018*, section 99G(3)(c)
[5] The survey was sent to a group of CHOICE consumer supporters who have previously expressed an interest in financial services policy. The survey ran from 9/08/2017 to 21/08/2017. 2508 responses were recorded.
[6] The Guardian, 2018, 'Banking royal commission: AMP advice led to loss of quarter of super account', available at: https://www.theguardian.com/australia-news/2018/apr/23/banking-royal-commission-amp-advice-led-to-loss-of-quarter-of-mans-superannuation

be cost reflective, these fees are extremely opaque. Often the exact buy/sell spread is not known and therefore not disclosed in a product disclosure statement; a person is instead left with a percentage-based range they may be charged on exit. It is unlikely most consumers have any understanding of what the term buy/sell spread means, let alone the circumstances in which it will be charged.

As these fees also tend to be charged on a percentage basis, consumers are required to undertake a calculation to understand the impact in dollar terms of moving funds. Given what we know about adult numeracy levels in Australia, this is a task which many people will struggle to perform. The most recent study on adult numeracy found 21.5% of people lack the ability to perform calculations with whole numbers and common decimals, precents and fractions.[7] These are the exact skills required to make sense of a percentage-based fee. Again, we recommend monitoring and public reporting take place to ensure compliance and map any unintended consequences flowing from the exit fee ban.

Recommendation 2

- The appropriate regulator monitor fee levels after the exit fee ban is introduced to ensure compliance and report on unintended consequences. Where unintended consequences are discovered, that the regulator be empowered to act via the regulations.

Insurance for superannuation members

The purpose of insurance in superannuation

Before turning to the specific proposals, it is worth considering the purpose insurance performs in superannuation. The need to provide economically for people who through death or disability are unable to provide for themselves or their dependents is a fundamental requirement of any good society. The question that then needs to be asked is what is the most efficient and equitable way to provide protection?

[7] ABS, 2013, ‘Programme for the International Assessment of Adult Competencies, Australia, 2011-12’, available at: http://www.abs.gov.au/ausstats/abs@.nsf/Latestproducts/4228.0Main%20Features202011-12?opendocument&tabname=Summary&prodno=4228.0&issue=2011-12&num=&view=

This same question has been raised by the Productivity Commission (PC) as part of its extensive review of efficiency and competitiveness of superannuation. CHOICE endorses the PC's draft recommendation for the Australian Government to commission a formal independent review of insurance in superannuation.

Forcing this protection into the private realm has meant we are left without universal cover, because many people will not be able to afford to pay or see the value of insurance in the first place. Also, the adequacy of a person's cover is dictated by their ability to pay. Privately provided life insurance creates a need to extract a profit. In some markets the effort to extract profit can drive a business to respond to consumer needs by offering better designed or priced products.

Life insurance in superannuation is clearly not one of those markets. Behavioural biases work against consumers making rational decisions over their insurance needs. Behavioural economics recognises that consumers have limits on the amount of information they can take in; are affected by presentation; tend to be poor at anticipating the future; and are more concerned about losses than gains.[8] Given life insurance is often complex and the benefits are in the future if at all, consumers can be particularly poor at assessing their needs in relation to an insurance policy.

These issues can be compounded by the fact that life insurance in superannuation is a 'bundled' product. From a behavioural perspective, bundling, which can result in complex pricing, increases the costs of searching for the preferred choice, and ultimately impacts someone's ability to make an informed decision.[9] This is due to the need for consumers to obtain information and learn about the various quantities, quality and price combinations offered by a range of suppliers. Studies have shown that consumers make systematic errors when assessing the worth of bundled goods and/or services.[10] These errors may advantage producers at the expense of consumers.[11]

These behavioural biases make consumers poor judges of what is an appropriate life insurance product. Indeed, four in five consumers have never analysed the type and amount of life

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[8] Office of Fair Trading, 2010, 'What does Behavioural Economics mean for Competition Policy?', March 2010, p. 5
[9] Papandrea, F., Stoeckl, N., Daly, A., 2003, 'Bundling in the Australian telecommunications industry', *Australian Economic Review* 36 (1), 41-54.
[10] Heeler, R.M., Nguyen, A., Buff, C., 2007, 'Bundles = discount? Revisiting complex theories of bundle effects', *Journal of Product and Brand Management* 16 (7), 492-500.
[11] Estelami, H., 1999, 'Consumer savings in complementary product bundles', *Journal of Marketing Theory and Practice*, 7(3), pp. 107-114.

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insurance that suits their own circumstances.[12] The level of consumer engagement with these products is extremely low and is therefore incapable of driving competition in the interests of consumers.

Few people are making an informed decision about their life insurance. Instead trustees are given a wide discretion when designing products, other than broad requirement to act in 'member's best interests'. This has led to the development of policies which may be beneficial to the 'average' member, but are inappropriate for individuals, particularly younger people, people on low incomes and parents taking career breaks.

Legislative intent

It is important to reflect on the purpose of default insurance in superannuation. In the explanatory memorandum for the MySuper reforms the purpose was described as providing:

> *"…benefits [to] protect members against the risk of not being able to accumulate sufficient retirement savings, for themselves or their dependents, due to having to cease work as a result of injury or illness or as a result of death."*[13]

While there is mention of protecting against the risk of not being able to accumulate sufficient retirement savings, there is no explicit reference to the degree to which this risk should be protected against. In combination with the insurance covenants in the *Superannuation Industry (Supervision) Act 1993* there is specific direction to:

> *"only offer or acquire insurance of a particular kind, or at a particular level, if the cost of the insurance does not inappropriately erode the retirement income of beneficiaries."*[14]

It is clear from the legislation that the quantum of insurance offered through superannuation needs to balance the risk of insufficient retirement savings due to disability or death while not inappropriately eroding the retirement savings of a fund member. Unhelpfully there was very little prescription over how to balance these two competing interests. As a result, we have seen

[12] Zurich Australia, 2014, 'Australians and Life Insurance: Misinformed, Misinsured?', Sydney.
[13] *Superannuation Legislation Amendment (Further MySuper and Transparency Measures) Bill 2012*, Explanatory Memorandum, p.21
[14] *Superannuation Industry (Supervision) Act 1993,* s52(7)(c)

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a proliferation of policies that at best protect the 'average member', but are inappropriate for others.

Insurance reforms

Overall, we support the intent of these measures. There are clear and strong reasons for making insurance opt-in for people under 25 years of age, low income people and those with inactive accounts. The estimated $3 billion savings to these people of the reform will help people save for retirement with dignity.[15]

However, we believe there is a missed opportunity in ensuring those within these categories who still need insurance will end up with adequate protection. Again, this is not to say a privately provided insurance scheme is the most efficient way to provide this protection. Indeed, many would be better served by alternatives, such as a Disability Support Pension (DSP) that provides an adequate income to all who need it.

While the proposed measures have attempted to address some of these problems, we see value in a broader review to assess the adequacy and efficiency of providing life insurance through superannuation. This review should also assess the adequacy of funding for and access to alternatives, such as the DSP.

Recommendation 3

- The Federal Government conduct an independent review of life insurance in superannuation alongside a review of alternative models for providing protection for people who are unable to work due to disability.

Young people and insurance

For most people under 25 years of age life insurance, particularly death cover, will offer little to no value. However, there are a minority groups within this demographic, such as those with dependents, who could benefit from cover. The policy as stated does not bar these groups from electing to take up insurance either inside or outside of insurance. It must also be kept in mind

[15] O'Dwyer, 2018, 'Encouraging and rewarding Australians by protecting your superannuation', available at: http://kmo.ministers.treasury.gov.au/media-release/050-2018/

that there are other protections, such as health insurance, Medicare, workers' compensation schemes and social security to assist those unable to work or to rehabilitate back into work.

Some industry players have argued for 'carve outs' for younger people in high risk occupations, particularly where those people have dependents. CHOICE's experience through its involvement in the Insurance in Superannuation Working Group (ISWG) found that superannuation funds generally had a poor understanding of the needs of members in relation to insurance, for example data on dependents, relevant costs for the family of a deceased and access and use to alternative safety nets upon disability.

Many of the views on these important factors seemed to be based on supposition and commonly held beliefs. Whenever CHOICE requested hard evidence of these beliefs we were not provided with any formal evidence. If the committee is contemplating carve outs we recommend the industry be required to provide robust evidence of the need.

There is a risk that allowing carve outs may open the floodgates and undermine the intent of the legislation. If carve outs are contemplated a robust framework, including specific criteria and regulatory approval, should be in place to prevent misuse.

We are yet to see what the experience will be for those under 25 who attempt to take out insurance for themselves and the degree to which those in high risk occupations are able to access affordable cover if these changes go through.

We see a need to design consumer protections which ensure access and affordability for this demographic are not a barrier. Australia's private health insurance system is based on a 'community rating' which means everyone pays the same premium for their health insurance and health funds are prevented from discriminating against members based on health status, age or claims history.

Critics may claim this runs against the risk-based pricing inherent in life insurance. However, the policy intent behind life insurance in superannuation appears to be constructed on a principle of universality. If the intent were not universality then it would be opt-in. The life insurance industry is also getting direct support from government through legislation that requires that their product is offered by default to Australian workers.

Again, there is policy ambiguity around exactly why people are defaulted into life insurance and we see scope to review the efficiency of this policy as a whole compared to the alternatives. However, if the life insurance sector wishes to continue to benefit from this near universal

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policy, we maintain that a community rating system should exist to ensure those that wish to take up cover are not discriminated against, at least for those who will not be automatically opted in under this policy change. This may have cost implications but to ensure equity they should be worn across the insured group.

Recommendation 4

- As part of the independent review of life insurance in superannuation, review the need for the introduction of a community rating system in life insurance to prevent discrimination.

Disengagement with insurance

Disengagement with decisions around life insurance and superannuation is another factor working against some young people seeking insurance. These decisions are made more difficult by the paucity of existing information about the cost and value of insurance. One of the few positives to come from the Life Insurance in Superannuation Code of Practice was a commitment by industry to simplify this information and provide it at more targeted occasions. While this commitment did not go nearly far enough and is not enforceable, with individual pricing information left off disclosures, this is a step in the right direction.

Better information will aid people to decide whether they should opt into insurance. However, this will need to be accompanied by a greater effort on the part of funds, employers and employee representatives, particularly those in high risk industries, to ensure those that have a need have adequately considered insurance as an option. It is unknown how successful these groups and improvements to information will be in communicating to this demographic. Therefore, we propose that the adequacy of these measures be incorporated into an overarching review of the policy default insurance within superannuation in four years' time.

Recommendation 5

- As part of the independent review of life insurance in superannuation, review how effective it has been in balancing the needs and costs of insurance for young people.

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People on low incomes and insurance

The proposed $6,000 superannuation balance threshold, below which people are not automatically defaulted into life insurance, appears targeted at people who are paid low wages who would otherwise be over-insured. However, there are people who may meet this threshold for whom life insurance may still be inappropriate; likewise there may be people on higher incomes who enter the Australian workforce later in life who may miss out on default insurance until they have a sufficient balance. We maintain there are more targeted ways to meet the policy objective of ensuring people paid low wages are not over-insured.

As the Productivity Commission found in its recent report on the impacts of life insurance on superannuation balances:

> *"The effects on retirement balances are worse for members on low incomes, especially those with intermittent labour force attachment who continue to have premiums deducted from their accounts while not contributing to their super. The retirement balance erosion for these members could reach 14 per cent ($85 000), and well over a quarter for some disadvantaged members with duplicate insurance policies ($125 000)."*[16]

Given the benefits paid under some default insurance policies do not exceed $85,000, we question if the right balance has been struck for low income people.[17]

For some people on low incomes, the DSP would more than replace their household income if they were unable to work due to disability. Mean household income for the 20% of Australians on the lowest income quintile is $421 a week or $21,892 a year.[18] Maximum payment rate for DSP for a person over 21 is $23,597.60 a year. If the purpose of Total and Permanent Disability insurance within superannuation is to replace income lost due to incapacity, then for 20% of households a default insurance product provides in excess on income replacement levels and will likely erode retirement savings at a rapid rate.

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[16] Productivity Commission, 2018, 'Superannuation Assessment Draft Overview'p.21
[17] For example, default TPD cover at REST is fixed at $28,600 for people up to 60 years of age. Available at: https://www.rest.com.au/NEW-Document-library/Guides/Member/RES0254_REST_Super-Insurance-Guide-FA_WEBSAFE.PDF
[18] ABS, 2017, 'Household Income and Wealth, Australia, 2015-16', available at: http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/by%20Subject/6523.0~2015-16~Main%20Features~Changes%20in%20Income%20Over%20Time~9

It is likely that many households within this income bracket are already reliant on social security benefits and may have no or inconsistent superannuation guarantee payments. However, it is likely some of these people will have superannuation balances above $6,000 or may reach that $6,000 threshold and no longer have regular contributions. Under the proposed policy, people on low incomes are likely to end up over-insured and have retirement balances severely eroded due to insurance premiums.

The problem of low income over-insurance would be better addressed by a policy of income mapping to ensure people have appropriate cover. Between the ATO and the superannuation funds, there is adequate data to map the expected income levels of workers. A much more targeted policy could be developed if this data were able to be harnessed to provide appropriate levels of insurance.

More broadly there appears to be a lack of data used across the sector to better understand the needs of members. Insurance products could be much better targeted if there was greater data sharing around key points in people's lives, such as parental leave, job changes and number of dependents. Mapping income data is also hampered at the fund level by outdated obligations on employers to only make superannuation guarantee payments quarterly. We maintain there should be greater data sharing across government and industry to help facilitate more targeted insurance offers.

Recommendations 6, 7 and 8

- Treasury explore methods for income mapping workers to ensure more appropriate insurance thresholds.
- Employers make superannuation guarantee payments at least monthly to assist income mapping.
- That the Federal Government conduct a review of available data across industry and government to develop more targeted insurance offers.

Impact on premiums

We are concerned that elements of industry have sought to muddy the waters on the expected impact of these changes on premiums. Commentary from KPMG appeared to contradict its own research by claiming in the media that insurance premiums could rise by as much as 30% due to the proposed changes.[19] A KPMG report released in late 2017 found that if insurance for under 30s was made opt-in, not just under 25s, the expected increase in premiums would be a more modest 5% to 15%.[20]

These conflicting figures may in part be explained by a greater reduction in duplicate accounts under the Federal Government's policy. From a member's perspective this 30% figure is misleading, given there are 10 million unintended multiple accounts with an estimated $2.6 billion in annual fees and insurance.[21] This means that many people are currently paying for two or more insurance policies, reducing these duplicates will obviously greatly decrease a member's total insurance spend. The savings from closing these duplicates are likely to more than offset any potential premium increase. While total insurance spend may go up for those with only one account, these people are currently the beneficiaries of cross-subsidisation due to less engaged people paying extra across duplicate accounts. This is clearly unfair and the Federal Government's steps to stamp out duplicate accounts should be implemented.

Inappropriate erosion

The covenant under the Superannuation Industry (Supervision) Act 1993 (SIS Act) needs to be improved so that trustees have a better understanding of the meaning of 'inappropriate erosion'. The current understanding is unsophisticated; CHOICE has heard from some industry players who described it simply as not eroding the principal. This is an unsatisfactory definition. People do not delay spending and invest in a superannuation product so their money will simply maintain the value it had on entry. People invest, particularly in a compulsory superannuation environment where their access to earnings are delayed until retirement, with the expectation of return on the principal.

An expanded definition is necessary to give further protection to peoples' retirement savings. The proposed policies go to protecting those with inactive accounts, some people on low incomes and people under 25, however there are people outside of these groups that may require further protection. As an example, most 25-30 year olds do not have dependents, so

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[19] The Australian, 'Super life insurance fees 'could rise 30pc', available at: https://www.theaustralian.com.au/business/financial-services/life-insurance-fees-could-rise-30pc-super-life-insurance-fees-could-rise-30pc/news-story/7f3de77bf6ab791caeaf47cc4b7cad34?login=1
[20] KPMG, 2017, 'Review of default group insurance in superannuation' p.ix, available at: https://assets.kpmg.com/content/dam/kpmg/au/pdf/2017/default-group-insurance-superannuation-review.pdf
[21] Productivity Commission, 2018, 'Why our Super system needs to be modernised', available at: https://www.pc.gov.au/inquiries/current/superannuation/assessment/draft

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they have a lower need for some types of insurance.[22] This demographic is also in the early years of paid employment, some of which is inconsistent, with fledgling superannuation balances. The need for certain types of insurance, such as death cover and in some cases income protection is less clear for this demographic. We maintain that there should be clearer obligations on trustees about what constitutes 'inappropriate erosion' for demographics like this one.

As the Productivity Commission recommended in its draft report, APRA should immediately require the trustees of all APRA-regulated superannuation funds to articulate and quantify the balance erosion trade-off determination they have made for their members in relation to group insurance, and make it available on their website annually. CHOICE recommends that data standards be set so that this information is easily comparable. This will allow consumers and third parties to easily understand who a fund has designed the product for decide which best meets an individuals need.

As part of this, trustees should clearly articulate in their annual report why the level of default insurance premiums and cover chosen are in members' best interests. Trustees should also be required to provide on their websites a simple calculator that members can use to estimate how insurance premiums impact their balances at retirement.

CHOICE also recommends that people are given clear, simple information at sign up of the insurance premiums they will individually be paying annually. Currently members are provided with complicated product disclosure statements and required to perform mathematical equations in order to determine the premiums they will individually be charged (see appendix 1). The current level of premium disclosure is incredibly poor and is compounding erosion issues as few know what they are being charged for insurance.

Recommendation 9

- Place clearer obligations on trustees to be transparent about their insurance/balance erosion trade off, including:
    - Making the assessment available and easily comparable on the fund's website annually,

[22] ABS, 2014, 'Marriages and divorces, Australia, 2013', ABS cat. no. 3310.0. Canberra: ABS.; ABS, 2015, 'Births, Australia, 2014' available at: http://www.abs.gov.au/ausstats%5Cabs@.nsf/0/8668A9A0D4B0156CCA25792F0016186A?Opendocument

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- Specifically address how levels of default insurance premiums and cover meet members' best interests,
- Provide simple calculators online to allow a member to estimate how insurance premiums impact their balance at retirement,
- Give each member clear, simple information at sign up of the insurance premiums they will individually be paying annually.

Communication of changes to insurance cover

The legislation requires a trustee to provide written notifications to members with inactive accounts. This will have the interpretation given under the Acts Interpretation Act. Treasury has indicated there will be further prescription on what form this notification will take in the regulations. These need to be consumer tested to ensure a higher level of consumer comprehension of the impacts.

Supporting this are the information requirements under the Insurance in Superannuation Code of Practice. Trustees are required to inform consumers on a number of occasions about the impact of losing insurance.

For consumers who elect to keep insurance this will be an 'enduring election'. Again, consumer testing is required and protections put in place to ensure these elections contain active, informed consent.

Recommendation 10

- That industry conduct consumer testing of all member communications to ensure people are informed of the implications of their decisions with regard to life insurance.

Inactive low-balance accounts and consolidation into active accounts

We broadly support this measure as it will see billions of dollars flowing into the active accounts of people. However, we are concerned that the proposal contains no timeframes for the ATO to conduct a consolidation. The ATO has a number of competing priorities – giving it this new responsibility without additional funding or a timeframe in which to complete the activity risks delays. There is also a threat to the ATO's reputation if a belief forms that the regulator is delaying consolidation in order to boost government finances. This reputational risk is not good for building important tax payer trust in the institution. We recommend the ATO be given adequate resources to complete this new function, that it have deadlines for consolidation where an active account exists and that it report against this metric.

The ATO has estimated that for accounts that can be successfully matched to an active account, it would take less than a month to transfer the funds once they are received from the superannuation fund.[23] Based on this estimate, CHOICE recommends introducing a timeframe via the regulations that the ATO reunite at least 90% of eligible funds within one month of receipt and publically report on its performance.

We understand that some industry members prefer a system where the ATO directs consolidation by the funds rather than collect and consolidate at the regulator level. On balance we prefer the approach of greater ATO control. We acknowledge that leaving savings with the funds for longer gives greater opportunity to earn higher returns. However, given the ATO expects to be able to reunite most funds within a month these lost returns are likely to be small in quantum.

In reality some funds will not be able to be reunited. We maintain that where consolidation is not possible, greater public policy aims would be achieved by the ATO holding these savings than the savings being eroded by a superannuation fund.

Recommendation 11

- Give the ATO adequate resources to consolidate accounts. That the ATO meet a deadline for reuniting at least 90% of eligible funds within one month of receipt and publically report on its performance.

ATO acting in the place of the trustee

Another concern with the ATO holding a person's savings is what happens when that person dies. The legislation contemplates that the Commissioner must pay the money to the deceased's beneficiaries if "the person has died and the Commissioner is satisfied that the original fund would have paid the amount to the beneficiaries".[24] Currently trustees have this

[23] Treasury Laws Amendment (Protecting Your Superannuation Package) Bill 2018 Explanatory memorandum, p.57
[24] Treasury Laws Amendment (Protecting Your Superannuation Package) Bill 2018 Explanatory memorandum, p.34

duty and disputes over who are the appropriate beneficiaries are commonly escalated to the Superannuation Complaints Tribunal (SCT). It is unclear from the proposal what role the ATO intends to play in resolving these disputes or if existing administrative appeals processes are adequate to handle these cases.

Given the well-developed process that already exist in consumer facing external dispute resolution schemes such as the SCT (soon to be the Australian Financial Complaints Authority (AFCA)), we maintain that this is a better forum for deciding these escalated complaints. As such, it may be preferable for the last acting trustee to make a decision regarding these payments or for the ATO to subject itself to AFCA for the purposes of appeal.

Recommendation 12

- That the Federal Government put processes in place to allow appeal rights on beneficiary payments to be made through the Australian Financial Complaints Authority.

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Appendix 1

The following information is extracted from pages 9, 12 and 13 of the Australian Super Insurance Guide. It contains the main information a person is required to analyse in order to determine the insurance premiums they are paying for income protection alone. Two more similar equations are required to determine death and TPD premiums.

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Age-based Income Protection cover amounts

Age	Income Protection cover a month ($)
15-24	0
25	1,900
26	2,000
27	2,200
28	2,300
29	2,400
30	2,500
31	2,600
32	2,700
33	2,800
34	2,900
35	3,000
36	3,000
37	3,000
38	3,100
39	3,100
40	3,100
41	3,100
42	3,100
43	3,100
44	3,100
45	3,100
46	3,100
47	3,000
48	3,000
49	3,000
50	3,000
51	3,000
52	2,900
53	2,900
54	2,900
55	2,800
56	2,800
57	2,800
58	2,800
59	2,700
60	2,700
61-63	2,600
64	2,500
65-66	2,400
67	2,300
68-69	2,200

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The cost of Income Protection cover

How much you'll pay for Income Protection cover depends on your age, individual work rating, waiting period, benefit payment period and the amount of cover.

Weekly cost (in dollars) for $100 a month of Income Protection

You can use the costs below to calculate the total cost of your Income Protection cover (age-based or fixed cover).

Age	Standard work rating						Low Risk work rating						Professional work rating					
	Benefit payment period						Benefit payment period						Benefit payment period					
	Up to two years		Up to five years		Up to age 65		Up to two years		Up to five years		Up to age 65		Up to two years		Up to five years		Up to age 65	
	Waiting period (days)						Waiting period (days)						Waiting period (days)					
	30	60	30	60	30	60	30	60	30	60	30	60	30	60	30	60	30	60
15	0.072	0.015	0.180	0.124	0.435	0.318	0.036	0.008	0.090	0.062	0.242	0.177	0.032	0.007	0.081	0.056	0.218	0.159
16	0.072	0.015	0.180	0.124	0.435	0.318	0.036	0.008	0.090	0.062	0.242	0.177	0.032	0.007	0.081	0.056	0.218	0.159
17	0.072	0.015	0.180	0.124	0.435	0.318	0.036	0.008	0.090	0.062	0.242	0.177	0.032	0.007	0.081	0.056	0.218	0.159
18	0.072	0.015	0.179	0.124	0.435	0.318	0.036	0.008	0.090	0.062	0.242	0.177	0.032	0.007	0.081	0.056	0.218	0.159
19	0.072	0.015	0.179	0.124	0.435	0.318	0.036	0.008	0.090	0.062	0.242	0.177	0.032	0.007	0.081	0.056	0.218	0.159
20	0.072	0.015	0.179	0.124	0.435	0.318	0.036	0.008	0.090	0.062	0.242	0.177	0.032	0.007	0.081	0.056	0.218	0.159
21	0.072	0.017	0.182	0.126	0.447	0.326	0.036	0.009	0.091	0.063	0.248	0.181	0.032	0.008	0.082	0.057	0.223	0.163
22	0.073	0.020	0.185	0.128	0.459	0.334	0.037	0.010	0.093	0.064	0.255	0.186	0.033	0.009	0.083	0.058	0.229	0.167
23	0.075	0.022	0.189	0.130	0.471	0.343	0.038	0.011	0.094	0.065	0.262	0.190	0.034	0.010	0.085	0.059	0.235	0.171
24	0.077	0.025	0.192	0.132	0.483	0.351	0.039	0.013	0.096	0.066	0.268	0.195	0.035	0.011	0.086	0.060	0.242	0.176
25	0.080	0.027	0.197	0.136	0.498	0.363	0.040	0.014	0.098	0.068	0.277	0.202	0.036	0.012	0.088	0.061	0.249	0.181
26	0.083	0.030	0.199	0.137	0.508	0.369	0.042	0.015	0.099	0.069	0.282	0.205	0.037	0.014	0.089	0.062	0.254	0.184
27	0.087	0.033	0.202	0.139	0.519	0.375	0.044	0.017	0.101	0.069	0.289	0.209	0.039	0.015	0.091	0.062	0.260	0.188
28	0.091	0.036	0.206	0.141	0.533	0.382	0.046	0.018	0.103	0.070	0.296	0.213	0.041	0.016	0.093	0.063	0.266	0.191
29	0.095	0.039	0.210	0.144	0.548	0.390	0.048	0.020	0.105	0.072	0.304	0.217	0.043	0.018	0.095	0.065	0.274	0.195
30	0.100	0.044	0.216	0.147	0.565	0.400	0.050	0.022	0.108	0.073	0.314	0.222	0.045	0.020	0.097	0.066	0.282	0.200
31	0.105	0.048	0.224	0.151	0.587	0.413	0.053	0.024	0.112	0.075	0.326	0.229	0.047	0.022	0.101	0.068	0.294	0.206
32	0.110	0.053	0.232	0.156	0.612	0.427	0.055	0.027	0.116	0.078	0.340	0.237	0.050	0.024	0.104	0.070	0.306	0.214
33	0.117	0.058	0.242	0.162	0.640	0.445	0.059	0.029	0.121	0.081	0.356	0.247	0.053	0.026	0.109	0.073	0.320	0.223
34	0.123	0.063	0.254	0.170	0.673	0.467	0.062	0.032	0.127	0.085	0.374	0.259	0.055	0.028	0.114	0.076	0.337	0.233
35	0.130	0.068	0.267	0.178	0.709	0.491	0.065	0.034	0.133	0.089	0.394	0.273	0.059	0.031	0.120	0.080	0.355	0.245
36	0.138	0.073	0.281	0.188	0.746	0.517	0.069	0.037	0.141	0.094	0.415	0.287	0.062	0.033	0.126	0.085	0.373	0.259
37	0.146	0.078	0.297	0.200	0.786	0.547	0.073	0.039	0.149	0.100	0.437	0.304	0.066	0.035	0.134	0.090	0.393	0.273
38	0.155	0.084	0.315	0.213	0.829	0.579	0.078	0.042	0.157	0.107	0.460	0.322	0.070	0.038	0.142	0.096	0.414	0.289
39	0.165	0.090	0.335	0.228	0.873	0.614	0.083	0.045	0.167	0.114	0.485	0.341	0.074	0.041	0.151	0.103	0.437	0.307
40	0.175	0.097	0.356	0.246	0.920	0.652	0.088	0.049	0.178	0.123	0.511	0.362	0.079	0.044	0.160	0.111	0.460	0.326
41	0.187	0.103	0.380	0.265	0.968	0.693	0.094	0.052	0.190	0.133	0.538	0.385	0.084	0.046	0.171	0.119	0.484	0.346
42	0.199	0.111	0.406	0.287	1.018	0.737	0.100	0.056	0.203	0.143	0.566	0.409	0.090	0.050	0.183	0.129	0.509	0.368
43	0.212	0.119	0.435	0.311	1.071	0.783	0.106	0.060	0.218	0.156	0.595	0.435	0.095	0.054	0.196	0.140	0.535	0.392
44	0.226	0.127	0.467	0.339	1.124	0.833	0.113	0.064	0.233	0.169	0.625	0.463	0.102	0.057	0.210	0.152	0.562	0.416
45	0.241	0.136	0.501	0.369	1.179	0.884	0.121	0.068	0.251	0.184	0.655	0.491	0.108	0.061	0.226	0.166	0.590	0.442
46	0.258	0.146	0.540	0.403	1.235	0.937	0.129	0.073	0.270	0.201	0.686	0.521	0.116	0.066	0.243	0.181	0.617	0.469
47	0.276	0.156	0.582	0.440	1.291	0.992	0.138	0.078	0.291	0.220	0.717	0.551	0.124	0.070	0.262	0.198	0.645	0.496
48	0.295	0.166	0.628	0.481	1.346	1.046	0.148	0.083	0.314	0.241	0.748	0.581	0.133	0.075	0.282	0.217	0.673	0.523
49	0.316	0.178	0.678	0.526	1.401	1.100	0.158	0.089	0.339	0.263	0.778	0.611	0.142	0.080	0.305	0.237	0.700	0.550
50	0.339	0.190	0.734	0.576	1.453	1.151	0.170	0.095	0.367	0.288	0.807	0.640	0.153	0.086	0.330	0.259	0.726	0.576
51	0.363	0.203	0.794	0.630	1.501	1.200	0.182	0.102	0.397	0.315	0.834	0.667	0.163	0.091	0.357	0.283	0.751	0.600
52	0.390	0.217	0.860	0.688	1.544	1.243	0.195	0.109	0.430	0.344	0.858	0.690	0.176	0.098	0.387	0.310	0.772	0.621
53	0.418	0.232	0.932	0.751	1.580	1.279	0.209	0.116	0.466	0.376	0.878	0.711	0.188	0.104	0.419	0.338	0.790	0.640
54	0.449	0.248	1.011	0.820	1.608	1.306	0.225	0.124	0.505	0.410	0.893	0.726	0.202	0.112	0.455	0.369	0.804	0.653
55	0.483	0.265	1.096	0.893	1.625	1.323	0.242	0.133	0.548	0.447	0.903	0.735	0.217	0.119	0.493	0.402	0.812	0.661
56	0.519	0.282	1.190	0.972	1.627	1.326	0.260	0.141	0.595	0.486	0.904	0.736	0.234	0.127	0.536	0.438	0.814	0.663
57	0.558	0.301	1.292	1.058	1.613	1.312	0.279	0.151	0.646	0.529	0.896	0.729	0.251	0.135	0.582	0.476	0.807	0.656
58	0.600	0.321	1.408	1.152	1.583	1.283	0.300	0.161	0.704	0.576	0.879	0.713	0.270	0.144	0.634	0.518	0.791	0.641
59	0.646	0.342	1.534	1.253	1.527	1.231	0.323	0.171	0.767	0.627	0.848	0.684	0.291	0.154	0.690	0.564	0.763	0.615
60	0.696	0.365	1.602	1.280	1.442	1.152	0.348	0.183	0.801	0.640	0.801	0.640	0.313	0.164	0.721	0.576	0.721	0.576
61	0.750	0.389	1.466	1.158	1.320	1.042	0.375	0.195	0.733	0.579	0.733	0.579	0.338	0.175	0.660	0.521	0.660	0.521
62	0.809	0.414	1.281	0.994	1.153	0.895	0.405	0.207	0.641	0.497	0.641	0.497	0.364	0.186	0.577	0.447	0.577	0.447
63	0.872	0.441	1.025	0.774	0.922	0.697	0.436	0.221	0.512	0.387	0.512	0.387	0.392	0.198	0.461	0.348	0.461	0.348
64	0.941	0.470	0.651	0.462	0.586	0.415	0.471	0.235	0.325	0.231	0.325	0.231	0.423	0.212	0.293	0.208	0.293	0.208
65	1.016	0.500	n/a	n/a	n/a	n/a	0.508	0.250	n/a	n/a	n/a	n/a	0.457	0.225	n/a	n/a	n/a	n/a
66	1.097	0.532	n/a	n/a	n/a	n/a	0.549	0.266	n/a	n/a	n/a	n/a	0.494	0.239	n/a	n/a	n/a	n/a
67	1.185	0.566	n/a	n/a	n/a	n/a	0.593	0.283	n/a	n/a	n/a	n/a	0.533	0.255	n/a	n/a	n/a	n/a
68	1.197	0.572	n/a	n/a	n/a	n/a	0.599	0.286	n/a	n/a	n/a	n/a	0.539	0.257	n/a	n/a	n/a	n/a
69	0.778	0.372	n/a	n/a	n/a	n/a	0.389	0.186	n/a	n/a	n/a	n/a	0.350	0.167	n/a	n/a	n/a	n/a

Total weekly costs are rounded to the nearest cent.

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How to work out your weekly Income Protection cover cost:

1. Divide the amount of cover you have, or wish to apply for, by 100.
2. Then multiply by the cost of cover based on your age, individual work rating, waiting period and benefit payment period.

Example:

Sam is aged 30. He wants to apply for $3,500 a month of Income Protection based on a benefit payment period of up to two years, a 60 day waiting period and a Standard work rating.
The cost of his cover is $1.54 a week.

$$\frac{3{,}500}{100} \times 0.044 = 1.54 \text{ a week}$$