15 July 2019

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

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

Dear Committee Secretary,

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

AustralianSuper is pleased to make a submission on the *Treasury Laws Amendment (Putting Members' Interests First) Bill 2019 ('Members First')*.

About AustralianSuper

AustralianSuper is Australia's largest superannuation fund and is run only to benefit its members. The fund has over 2.2 million members and manages over $150 billion of members' assets. Our sole focus is to provide the best possible retirement outcomes for our members. AustralianSuper is responsible for investing the superannuation savings of more than 10% of Australia's workforce, and we take seriously our responsibility to act in the best interests of our members in this process.

AustralianSuper works hard to maintain appropriate, value for money insurance for members, aligned with their needs and ensuring their retirement outcomes are not compromised. We make no profit from insurance – the premiums we charge members are used entirely to benefit insured members of the Fund.

Key Points

- AustralianSuper supports the principles of both the *Members First* and the recent *Protecting Your Super* legislation because they protect members' retirement account balances from being eroded by inappropriate insurance arrangements. This particularly benefits low income members with intermittent work patterns (who are disproportionately female).
- In particular, AustralianSuper **supports** insurance cover *not* being provided for **under 25** year olds (unless they opt-in) for our membership. We have already implemented this change to our insurance offering in October 2018 because we found that, prior to the change, only 19% of death benefits for our under 25 year olds were paid to financially dependent spouses and children[1].
- AustralianSuper **supports** insurance cover *not* being provided for **inactive** account balances **under $6,000** (unless they opt-in) because it prevents undue erosion of members' retirement account balances.
- AustralianSuper **opposes** insurance cover not being provided for **active** account balances **under $6,000**. We believe this insurance cover should be offered on an 'opt-out' basis for these

[1] AustralianSuper death claims data (from July 2012 to June 2016) shows that 4% of death claims paid were for members aged 20 to 24, and only 19% of those claims were paid to financially dependent spouses/partners and children. By comparison, 96% of death claims paid were for members aged 25 and older, of which 66% of those claims were paid to financially dependent spouses/partners and children.

This information is of a general nature and does not take into account your personal objectives, situation or needs. Before making a decision about AustralianSuper, consider your financial requirements and refer to the Product Disclosure Statement (PDS). AustralianSuper Pty Ltd ABN 94 006 457 987 AFSL 233788, Trustee of AustralianSuper ABN 65 714 394 898. Industry SuperFund logo used with permission of Industry Fund Services (IFS). This consent had not been withdrawn at the date of publication.

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members because analysis of our membership shows that 73% of these members are aged between 25 and 55 and the insurance cover is needed and affordable because they are likely to have financial commitments and dependents.

- AustralianSuper believes the timeframe for implementation is too short and will lead to members not having enough time to make informed choices to retain cover that the legislation will remove if that cover is needed based on their own personal circumstances (dependents and financial commitments).

All our positions are consistent with the Productivity Commission recommendations[2]. We support the principles of *Members First* but believe the proposed legislation has gone too far in relation to removing insurance for **active** account balances under $6,000. The Productivity Commission recommended insurance not be provided for under 25s and **inactive** accounts but it made no such recommendation in relation to **active** accounts under $6,000.

The remainder of this submission focuses on why we believe insurance cover is valuable, affordable and needed for most **active** accounts under $6,000 and why we believe the timeframe for implementation is too short.

Why is insurance cover needed and affordable for most active accounts under $6,000?

Analysis of AustralianSuper's membership shows that 73% of **active** members with account balances below $6,000 are aged between 25 and 55. ABS statistics show that:
- 68% of this age group is married; and
- 37% of all couple families had children living at home (and this is likely to be higher in the 25 to 55 age range)

This indicates a relatively high level of financial dependence. Financial commitments are likely to be significant in these age ranges and as such there is likely to be a significant need for insurance.

We believe that active contributions into a superannuation account are a good indicator of where insurance is likely to be held, particularly following the welcome reforms implemented by *Protecting Your Super*.

As such, AustralianSuper **opposes** insurance cover being removed for **active** account balances **under $6,000.** We believe insurance in superannuation provides good value and meets the needs of the majority of these members.

<u>Example</u>:

John ceases work in a corporate restructure. He needs to work as he has a mortgage and two children. He returns to the workforce six months later, earning $60,000 p.a, and is defaulted into a new super fund. Superannuation Guarantee Contributions are directed to the new fund. John has not made active choices in relation to insurance in his super. Twelve months later John suffers a heart attack and dies. Following the *Members First* legislation he has no insurance cover because the account balance in his new fund has not yet reached $6,000 (and he has no insurance in his old fund because it is inactive).

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[2] Productivity Commission Inquiry Report No. 91, 21 December 2018 Superannuation: Assessing Efficiency and Competitiveness:
<u>*Recommendation 15*</u>*: Opt-in insurance for young and inactive members. The Australian Government should seek the passage of legislation to make insurance through superannuation opt-in for members under 25 years of age, and to require trustees to cease all insurance cover on accounts where no contributions have been made for the past 13 months (unless the member provides express permission that the cover is to be retained). In addition to these proposed legislative changes, exemptions to the under-25 opt-in restriction should only be granted if the trustee can demonstrate to APRA that opt-out disability or income protection insurance would be in the best interests of a specific cohort of younger members.*

Why is the timeframe for implementation too short?

Both *Members First* and the recent *Protecting Your Super* legislation mean that significant amounts of insurance coverage are likely to be lost across the industry. As stated we support the *principles* leading to this loss of coverage at a 'system' level as it will protect members' retirement account balances from erosion by insurance premiums. However, at an individual member level, it is important that each member has time to make an informed assessment of whether they need that cover based on their own particular circumstances (e.g. dependents and financial commitments).

When cover was being removed for inactive members under *Protecting Your Super*, AustralianSuper made a huge effort to allow members losing cover to make an informed decision. We corresponded with all affected members; we sent text messages to those who did not contact us following the initial correspondence; we contributed financially to an industry-wide ASFA awareness campaign; and we significantly increased staffing at our contact centre. Despite all this, due to the short timeframe for removing cover for inactive members, the response from affected members was overwhelming and our expanded contact centre was unable to cope with the volume of calls and provide what we would consider an acceptable service to affected members. Our understanding from industry colleagues is that this was a common experience.

Whilst losing cover may provide significant benefits from not eroding account balances for the majority of members, a failure to make an informed decision to continue cover for members with financial commitments and dependents may have dire financial consequences for those unfortunate enough to die or become disabled.

As such we believe more implementation time is needed for *Members First*, to allow individual members time to make informed decisions.

[redacted]

Yours sincerely,

[redacted]

Richard Land
Head of Insurance Product