



10 July, 2019

Senate Standing Committees on Economics  
PO Box 6100  
Parliament House  
Canberra ACT 2600  
E-mail: [economics.sen@aph.gov.au](mailto:economics.sen@aph.gov.au)

Dear Senator Brockman

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

Super Consumers Australia at CHOICE welcomes the opportunity to comment on *Treasury Laws Amendment (Putting Members' Interests First) Bill 2019* (PMIF), to protect the retirement savings of superannuation fund members aged under 25, and fund balances under \$6,000, from erosion by inappropriate insurance arrangements.

**Super Consumers Australia supports the PMIF bill in its current form.**

Our position is consistent with the Productivity Commission (PC) inquiry report recommendation 15. We offer a further recommendation to preserve the integrity of the bill, and support PC inquiry report recommendation 18, for an independent inquiry into insurance in super.

***Who are Super Consumers Australia?***

Super Consumers Australia was formed in 2013 as a not-for-profit to advance and protect the interests of superannuation consumers. During its start-up phase Super Consumers Australia is partnering with consumer advocate CHOICE, with plans to secure permanent funding to establish a stand-alone specialist voice for consumers in superannuation. CHOICE made a submission in July 2018 to the Senate Economics Legislation Committee inquiry into the previous incarnation of the PMIF bill, when its objectives were contained in schedule 2 of the Protecting Your Super Package (PYSP).

***Young Australians need greater protection against junk insurance in superannuation***

Four years after the Trowbridge Review<sup>1</sup> and just months after the Financial Services Royal Commission the insurance sector remains as recalcitrant as ever. We share the widespread disappointment that legislative intervention remains necessary because the superannuation and insurance industries have repeatedly failed to introduce appropriate protections for young people and those with low superannuation balances. Few funds have introduced a simplified, age-based cover design to make insurance easier to understand and manage for members. The

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<sup>1</sup> <https://www.riskadviser.com.au/pdf/Trowbridge-report.pdf>

reality is that most young people in Australia are currently paying for insurance products that deliver little to no value to them. For people under 25, insurance in super is often a junk product.

The CHOICE submission 12 months ago challenged the opponents to reform to provide proof that this legislation was not needed, or some evidence that their proposed carve outs were warranted. We note the ('vociferous') views expressed by both superannuation funds and insurers in both past submissions and repeated in the parliamentary debate, but remain unswayed by assertions that compulsory (opt-out) insurance should be imposed on young people who have neither dependents or liabilities; or who may cease making contributions after opening an account, and have their balance completely eroded.

The parliamentary debate over schedule 2 of the PYSP in February was narrow, and largely ignored the availability of existing public workers compensation and disability schemes, or whether the insurance offerings were appropriate.

The PC examined inappropriate cross subsidisation of insurance in superannuation, and we refer the committee to section 8.4 of the report, which notes several examples of 'egregiously-inferior' outcomes, and concludes both explicitly and implicitly that default cover is providing poor value for young workers with no dependents.<sup>2</sup>

The changes proposed in the PMIF bill are feasible, and are already being made by responsible members of the superannuation sector. AustralianSuper has made insurance voluntary (opt-in) for members aged under 25, noting that only about 10 percent of claims for these members were being paid to financially dependent partners and children.<sup>3</sup>

#### *Industry have not provided evidence to show the need for carve-outs*

We recognise that some workplaces present inherently higher risks to some workers than others. The PC also acknowledges this explicitly (in recommendation 15), and states that any 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. We endorse this recommendation.

Default insurance cover is often duplicating existing compulsory public workers compensation schemes. Action on the PC inquiry recommendation (18) for an independent inquiry into insurance in super should also consider the interaction of insurance with existing public workers compensation schemes, and make recommendations on how to create a more coherent national policy framework.

It has been CHOICE's experience on the Insurance in Superannuation Working Group (ISWG), that despite their assertions, many funds have a demonstrably poor understanding of the needs of their members, with a notable lack of data on dependents, costs associated with a death, or alternative disability safety nets. The PC funds survey found that 79.5% of funds who participated did not collect information about whether members had dependents, an important factor when considering appropriate default insurance arrangements.<sup>4</sup>

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<sup>2</sup> <https://www.pc.gov.au/inquiries/completed/superannuation/assessment/report/superannuation-assessment.pdf>, see section 8.4, page 395

<sup>3</sup> <https://www.australiansuper.com/-/media/australian-super/files/about-us/media-releases/australiansuper-to-stop-account-erosion-for-young-members.pdf>

<sup>4</sup> <https://www.pc.gov.au/inquiries/completed/superannuation/assessment/report/superannuation-assessment.pdf> p.238

In its earlier submission CHOICE stated 'if the committee is contemplating carve outs we recommend the industry be required to provide robust evidence of need'.

To clarify: if the senate is contemplating carve outs for young people aged under 25 or those with low balances working in specific industries, we recommend that fund trustees be required to provide robust evidence of need for these specific cohorts; including data on dependents, and the availability of existing public workers compensation and disability schemes.

Insurers are subsidising group risk using the compulsory superannuation savings of the young and those in intermittent work.

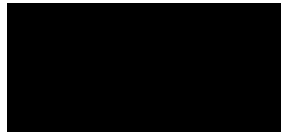
Super Consumers Australia is supportive of a system which adequately supports people and their families who need assistance due to death or disability, but remain disappointed by the reluctance of many insurers and super funds to design and price products that are appropriate for the cohorts in question.

The PMIF bill will place a greater onus on trustees to engage with and communicate the value of high quality insurance cover to their younger members.

**Recommendation:**

1. We recommend senators pass the PMIF bill in its current form.
2. If the senate is contemplating carve outs for young people aged under 25 in specific industries, we recommend that fund trustees be required to provide robust evidence of need for the specific cohort; including data on dependents, and the availability of existing public workers compensation and disability schemes.

Yours sincerely,



Xavier O'Halloran

**Acting Director - Super Consumers Australia**

