

Senate Select Committee on Superannuation and Financial Services

Main Inquiry Reference (a)

Submission No. 50

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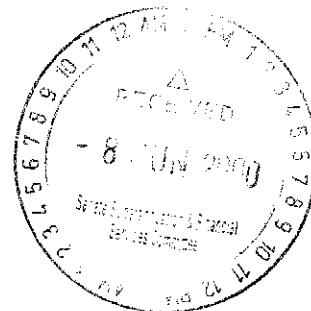
- 2 JUN 2000

Your Ref:
Our Ref: NC/210/ADM

1 June, 2000

Senator John Watson
P O Box 662
Launceston Tas 7250

Dear Senator Watson



Severe Financial Hardship Claims

I am writing to bring to your attention the impact Severe Financial Hardship claims are having on superannuation funds, such as Tasplan. There is a growing concern among the Tasplan Trustees that the availability of this benefit needs to be re-visited. Its process is cumbersome, costly, time consuming and judging by a number of the claims received by Tasplan, it is being exploited to clear debt on credit cards. This is clearly not its intention.

In accordance with Superannuation Industry (Supervision) Regulations Part 6.01(5), for the release of benefits to a member because of "severe financial hardship" the Trustee of a superannuation entity must be satisfied:

- (i) based on written evidence provided by at least one Commonwealth department or agency responsible for administering a class of Commonwealth income support payments, that:
 - (a) the person has received Commonwealth income support payments for a continuous period of 26 weeks, and
 - (b) the person was in receipt of payments of that kind on the date of the written evidence, and
- (ii) that the person is unable to meet reasonable and immediate family living expenses.

Even where the above rules are met, cashing restrictions may still apply in certain cases to limit the amount of the benefits payable, e.g. the maximum amount that can be released because of severe financial hardship of a person under regulation 6.01 (5) (a) is \$10,000 in each 12 month period (Sch. 1, Item 105).

The availability of this benefit is completely at the discretion of the Trustees. Tasplan has made this benefit accessible to members but there are other funds that do not. I have enclosed the guidelines adopted by the Board in assessing and processing such claims.

The Tasplan Board has become concerned with the principle and magnitude of claims for the early release of benefits on the grounds of Severe Financial Hardship.

It has become evident that the number of claims has increased over the past two years which is impacting on the administration of the fund and time imposed on Trustees in assessing such claims.

The statistical data from the Tasplan Administration Report (attached) for the six months ended 31 March, 2000 highlights the number of claims and account balances paid out over the past 6 months.

At the recent CMSF 2000 Conference, Senator Rod Kemp made it quite clear that the Superannuation Guarantee Contributions were for retirement income only.

Indications are, based on the actual claims received, that some members are attempting to exploit this loophole to access their superannuation for immediate consumption. To fully assess the genuineness of the claim and the needs of the claimant is particularly complex and requires appropriate skills and acumen to be completely satisfied and comfortable with the final decision.

As Tasplan is not fully equipped with the skills necessary for assessment, and that the assessments are made on the written evidence provided by the claimant, it is difficult to fully understand the claimant's actual situation without gathering additional information and conducting a personal interview. All of this is very time consuming and costly.

From Tasplans' point of view, the Board is considering withdrawing the availability of this benefit, based on the following problems and concerns:

- the fundamental principle of superannuation is undermined by the fact that members gain access to their accounts prior to retirement.
- the practice is open to abuse by members.
- it is having a major impact on administration in terms of cost and time. It is estimated that 20% of Tasplan administration activity is associated with the processing of Severe Financial Hardship Claims.
- the rule imposing a single lump sum payment in any 12 month period is not policed, especially if a person is a member of more than one superannuation fund.
- the application and subsequent payment of some claims, is in effect clearing debt, which in turn, does not encourage savings.
- Member Benefit Protection (MBP) is impacted when there is a small account balance remaining in the fund or if the member re-joins the fund at a later date. MBP is detrimental to other members of the fund.
- it is too convenient for Centrelink to "handpass" such cases to Superannuation funds.

Obviously, it will be a brave decision for the Board to cease the availability of these claims as there is no doubt that people with genuine claims will be disadvantaged. But given the increase in claimants, the time taken to process the claims, the lack of expertise available to properly assess the claims, the Board does need to reconsider its position.

Most importantly, the benefits of other Tasplan member must be protected as they are, in effect, meeting MBP costs.

Tasplan has received a commitment from both ASFA and AIST to lobby Government to revisit the Regulation.

Ideally the Trustees would prefer an amendment of the Regulations rather than having to make the decision for Tasplan to withdraw the benefit.

On behalf of the Tasplan Board, I seek your support to bring to the attention of others, the problems that are associated with this benefit which hopefully will lead to an amendment to the Regulations. We believe an amendment is in the interest of our members and those of other funds.

A similar letter has been sent to Senator Sherry and I look forward to discussing it further with you. I can be contacted on (03) 6223 8650.

Yours sincerely



Neil Cassidy
General Manager

Early Release of Benefits

Tasplan Administration Committee

In accordance with the Superannuation Industry (Supervisory) Act 1993 (the Act) there is provision for the early release of benefits subject to terms and conditions approved and determined by the Trustee relating to the provision of such benefit.

1. Financial Hardship Payment

Benefits will be paid to members on the grounds of financial hardship if they meet the following requirements

- has ceased employment,
- completes a 'Severe Financial Hardship Declaration' form,
- provides evidence in the form of a letter from Centrelink or Department of Veteran Affairs confirming that:
 - for members under age 55 and 39 weeks, a Commonwealth income payment is being received for at least 26 consecutive weeks,
 - for members over age 55 and 39 weeks, a Commonwealth income payment has been received for at least 26 cumulative weeks.
- completes a signed Statutory Declaration,
- completes an 'Application for payment of Benefits' form.

The amount that can be released is limited to a single lump sum payment in any 12 month period. The payment must be a minimum amount of \$1,000 before tax (except where the members benefit is less than \$1,000) and a maximum of \$10,000.

All claims over \$5000 are to be referred to Tasplan's Administration Committee for Decision. This is to ensure that the benefit payment does not exceed actual financial hardship claimed.

For members over age 55, there is no maximum payment.

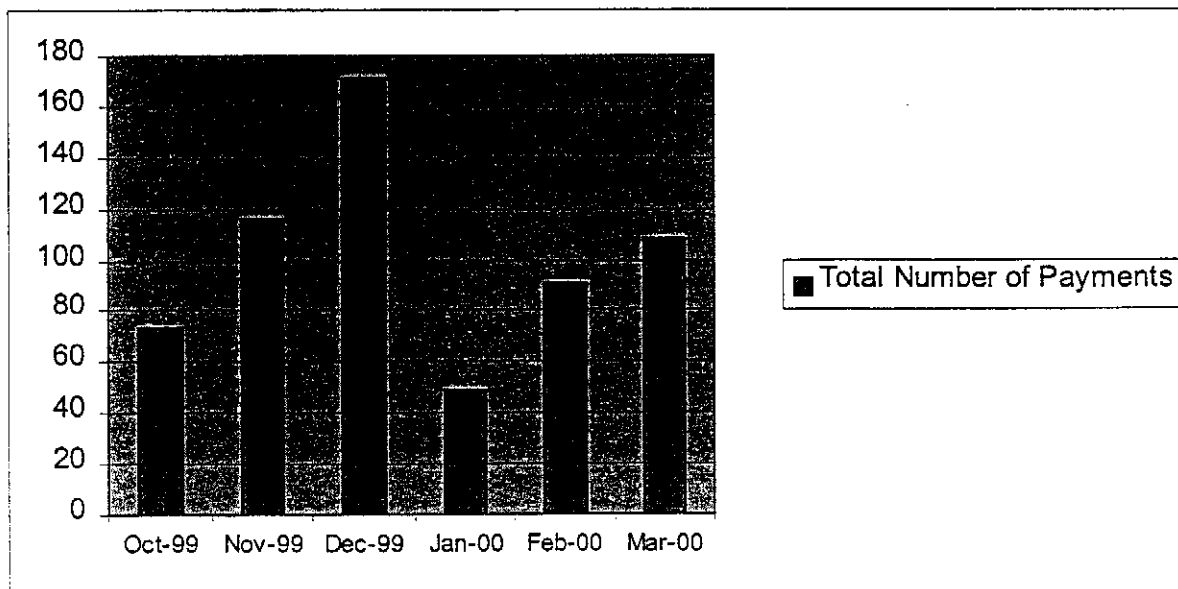
The Fund Administrator has authority to pay the benefits after all conditions have been met.

Tasplan's Administration Committee will sign off benefit payments at subsequent Administration Committee meetings.

SECTION 16 BENEFIT PAYMENTS

Type of Benefit	Quarter Ended											
	31/03/00		31/12/99		30/09/99		30/06/99		31/03/99			
	Nb	Amount \$	Nb	Amount \$	Nb	Amount \$	Nb	Amount \$	Nb	Amount \$	Nb	Amount \$
Disablement	11	155,905	14	129,971	21	346,853.45	27	402,150.43	15	243,636.37		
Death	14	223,355	18	287,463	6	76,759.39	21	293,633.83	10	125,503.97		
Financial Hardship	248	416,318	360	753,320	258	568,390.51	303	519,090.26	255	434,818.07		
Merge Members	33	26,697	32	31,236	25	9,501.42	72	82,223.51	51	56,146.34		
Retirement	95	503,586	124	334,654	113	587,827.50	141	323,846.78	77	408,522.38		
Rollover	796	2,743,875	1,025	2,668,802	1,121	3,549,621.82	812	2,037,672.93	730	2,229,762.97		
Transfer Out	101	618,488	98	849,162	212	1,543,201.80	91	513,766.04	65	319,235.09		
Unclaimed Benefits	0	0	8	12,562	0	0	0	0	0	0		
Unrestricted Benefits	21	107,794	36	107,754	20	54,386.67	0	0	0	0		
TOTAL	1619	4,796,026	1715	5,174,924	1,776	6,736,542.56	1,467	4,172,383.78	1,203	3,187,625.19		

SECTION 17 FINANCIAL HARDSHIP CLAIMS



Month Ended	Benefits Paid (\$)	Number of Payments
31/03/00	175,023	108
28/02/00	161,126	91
31/01/00	80,168	49
31/12/99	310,982	171
30/11/99	255,408	116
31/10/99	186,928	73
TOTAL	1,169,636	608

Definition of Financial Hardship

In accordance with Regulation 6.01(5) of SIS, the Trustee is satisfied that:

- i) based on written evidence provided by at least one Commonwealth department or agency responsible for administering a class of Commonwealth income support payments that:
 - a) the person has received Commonwealth income support for a continuous period of 26 weeks; and
 - b) the person is in receipt of those payments at the date of the written evidence,
 and;
- ii) the person is unable to meet reasonable and immediate family living expenses.