

# **Senate Select Committee on Superannuation and Financial Services**

## **Main Inquiry Reference (a) + (c)**

**Submission No. 62**

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15 June 2000

Senator John Watson  
PO Box 662  
LAUNCESTON TAS 7250

Dear Senator Watson,

**Re: Superannuation - Choice of Fund / Health cover - key design features.**

I am pleased to be able to write to you following our discussion regarding employee Choice of Fund and the provision of health cover at the Colonial superannuation seminar on 30 March 2000. I feel it is more appropriate to write as a private citizen and I trust you will find this sufficient. I apologise for the delay in writing, I have had a number of personal matters to deal with and I am afraid time has simply escaped me.

**Choice of Fund:**

The background to our discussion was your desire enable employces to have an unlimited choice of fund while retaining the benefit of the provision on a 'group insurance basis' of lump sum death and total permanent disablement benefits (collectively called the 'Insurance Benefit'). I will direct my comments towards defined contribution plans and highlight the key design features, namely:

1. Employer superannuation contributions should be unbundled from the cost of the insurance premium for the Insurance Benefit. For example from 2002, each employer would make a superannuation contribution of 9% plus an additional superannuation contribution to pay the insurance premium cost of the Insurance Benefit. If necessary, to avoid the issue of an increase in the amount of employer superannuation contributions, the minimum Superannuation Guarantee Charge contribution could be reduced slightly, probably to no less than 8.4%. The Insurance Benefit would be provided by superannuation plans in the normal way.
2. A minimum level of lump sum Insurance Benefit (expressed as a multiple of salary at time of death or total permanent disablement) would be prescribed.
3. With the introduction of Choice of Fund, the employer superannuation contribution may then be directed by the employee to another complying superannuation plan, however the employee retains the cost and cover advantages of group insurance underwriting of the Insurance Benefit.
4. The employer superannuation contribution required to pay the insurance premium cost of the Insurance Benefit should not be subject to either 15% contributions tax, or most importantly, the contribution surcharge tax. The latter is necessary for administrative simplicity, the former to reduce the cost to employers or the amount of the reduction

necessary in the minimum Superannuation Guarantee Charge contribution.

5. The Insurance Benefit should be on a sliding scale. For example (say 12.0% x years of future service from date of death to age 65):
  - Employee dies at age 30 with a salary of \$50,000, death benefit =  

$$\$50,000 \times 12.0\% \times (65 - 30) = \$210,000 \text{ or } 4.2 \text{ times salary.}$$
  - Employee dies at age 45 with a salary of \$50,000, death benefit =  

$$\$50,000 \times 12.0\% \times (65 - 45) = \$120,000 \text{ or } 2.4 \text{ times salary.}$$
6. In addition to the Insurance Benefit, the employee receives their employer funded superannuation, plus any employee funded superannuation. This benefit structure acknowledges the impact of Australia's compulsory Superannuation Guarantee system and prevents employees who change employers from double dipping, a problem with many existing Insurance Benefit structures.

#### Health Cover:

I believe there is a fundamental design flaw in the current health system, namely, it attempts to insure against an event, ill health, that is almost certain to occur. Additionally the system lacks any competitive price pressure from the consumers. The only way to contain cost in such a health system is to either restrict access or to restrict the scope and sophistication of the services available under it. Attempts at either, or both, will ultimately satisfy no one.

History suggests ill health and greater more sophisticated health procedures are as likely as retirement. Therefore they may be funded in a similar manner over a person's lifetime by saving and investment. What is more in Australia the overhead for such a health saving and investment system is already in place in the form of the superannuation industry's investment and administrative processes and systems.

The key design features of such a savings and investment health system would include:

1. A compulsory employee funded superannuation health contribution to a complying superannuation plan.
2. The ability to make additional voluntary superannuation health contributions.
3. Any person may make voluntary superannuation health contributions (i.e. not just employees).
4. The superannuation health contributions would be free of income, contribution and contribution surcharge tax.
5. A discrete superannuation health account would be opened for each superannuation plan member by the superannuation plan administrator.
6. Superannuation health contributions would be invested in the normal manner by each superannuation plan.
7. Each member's superannuation health account balance would be preserved until death. The eventuality of death may be used to encourage a member to spend their

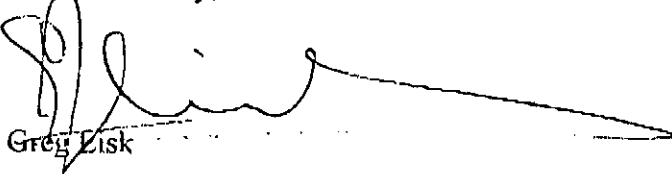
superannuation health funds wisely, and to discourage tax avoidance. For example, on the death of a member the superannuation health account balance may be transferred to immediate family members' superannuation health accounts or left to immediate family members in cash subject to tax.

8. Funds in the member's superannuation health account may only be spent on approved services provided by approved service providers.
9. At any stage in a member's life, the member may choose to encash all or part of their superannuation health account balance to purchase approved services. This is fundamental and will achieve two very important results, it will:
  - i. Inject normal consumer price pressure into the provision of health services as each person will be spending their health funds.
  - ii. Empower each Australian by providing them with the choice as to what type and level of health service they wish to purchase from time to time. The sophistication of services and the use of new expensive procedures would then be controlled by the consumer in the normal way through the price mechanism.
10. Finally, Medicare should be retained as a minimum service level for people who simply can not afford to save or who for whatever reason exhaust their superannuation health account balance.

Thank you for the opportunity to discuss and present my thoughts, I hope they are of assistance to you.

If you have any questions or wish to pursue either subject in more detail please do not hesitate to contact me.

Yours sincerely,



Greg Eisk

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