Treasury Laws Amendment (Putting Members' Interests First) Bill 2019 – Senate Economics Legislation Committee Inquiry

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WOMEN IN SUPER

Senate Standing Committees on Economics
PO Box 6100
Parliament House
Canberra ACT 2600

Via Committee submissions portal

15 July 2019

RE: TREASURY LAWS AMENDMENT (PUTTING MEMBERS' INTERESTS FIRST) BILL 2019 – Senate Economics Legislation Committee Inquiry

WOMEN IN SUPER

Women in Super (WIS) is a national advocacy and networking group for women employed in the superannuation and wider financial services industries.

WIS advocates on behalf of its members and women generally to government, politicians, unions, employer organisations, regulators, and superannuation funds to improve women's retirement prospects and access to superannuation.

PROPOSED AMENDMENTS

If passed, the Treasury Laws Amendment (Putting Members' interests First) Bill 2019 would remove default insurance cover from all superannuation fund members aged under 25 years, and members with an active account that has a balance of less than $6,000. These changes will be far reaching and have significant implications for insurance start and reinstatement provisions.
The legislation is proposed to be implemented within months posing significant risk through rushed implementation, unintended consequences and disadvantage to millions of active superannuation fund members who will lose insurance whilst actively at work. This risk is not warranted particularly in light of the significant changes to default insurance and inactive accounts through the Treasury Laws Amendment (Protecting Your Super Package) Act 2019 which took effect from 1 July 2019. There are already complications coming to light from the rushed implementation of this earlier legislation and the impact of these changes must be assessed before more complicated arrangements are introduced.

Women in Super is strongly opposed to the **Treasury Laws Amendment (Putting Members' interests First) Bill 2019.**

The proposed changes would affect many women and their dependents, ironically including many women entering or re-entering employment following a period of maternity leave, following the birth of a child. It is well known that the insurance held through superannuation is the only insurance cover most people hold. It is totally unacceptable that these members find themselves without total and permanent disability insurance, income protection insurance or life insurance.

Insurance comes at a cost in the form of insurance premiums. Women in Super notes that Industry Funds offer a variety of insurance arrangements based on the characteristics and needs of their members seeking to balance the value of insurance cover to members and their dependents with the impact of insurance premiums on their retirement savings.

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CASE STUDY – FUND A, AN INDUSTRY SUPER FUND

Fund A is a large industry super fund. Members aged under 25 pay 65c per week or $34 per year for death and long-term disability income protection insurance cover.

Over the last decade, Fund A's insurance partners have paid a death or disability income benefit to a member aged under 25 every 12 days, on average.

Fund A has 177,742 active members with a balance under $6,000. Approximately 75% of these members are women. Their average age is 36 years old. A majority of these members have dependents. Under the proposed changes, these members will potentially lose over $500,000 in combined default death and long-term income protection.

It takes members of Fund A approximately 2 years to reach a superannuation balance of $6,000 - this reflects the industry sector Fund A services, and the low wages in the sector. Like most people, a majority of these members do not have personal insurance cover outside superannuation.

Due to demographic factors, 6% of members of Fund A never reach a superannuation balance of $6,000. For these members, the insurance component of their super is far more valuable than the additional retirement benefit that would have accrued if they didn't pay the insurance premiums.

EXISTING PROTECTIONS

The purported objective of the proposed amendments is to remove the impact of insurance premiums on retirement savings for affected cohorts. The Government has recently introduced auto-consolidation of inactive low balance superannuation accounts and removed default cover for all inactive accounts. These changes, which were supported by the industry, effectively address the impact of insurance premiums on the retirement savings of members with inactive and multiple superannuation accounts. Though it should be noted that the rushed implementation of the February legislation by 1 July 2019 meant Funds were forced to ignore best practice as outlined in APRA Regulations and provide only one written warning of transfer and removal of insurance to many millions of members. We are yet to see the extent of the unintended consequences through loss of insurance and increased costs from this approach by the Government.

The first auto-consolidation exercise is due to commence in early November 2019. The Australian Taxation Office, which is responsible for administering this process, expects that it will remove up to 5 million inactive low balance accounts from the superannuation system – half of all multiple accounts. Most of the money in these accounts will be reunited with the members' active superannuation account. This will be followed by a second auto-consolidation process in 2020. These important processes should be allowed to occur, and the impacts assessed before the Government makes any further changes to insurance in superannuation.

MEMBER OUTCOMES ASSESSMENT

The Government and the Australian Prudential Regulation Authority have recently introduced new requirements under which superannuation funds are required to regularly assess member outcomes. This includes obligations to assess insurance and retirement savings outcomes achieved for members aged under 25 and for active members with balances of under $6,000.

APRA is responsible for administering these laws and can take regulatory action where a fund, unlike A, does not deliver valuable death and disability insurance cover to younger members and active members with low balances, that strikes an appropriate balance between the cost of insurance and members' retirement savings.

Women in Super submits that the Parliament should not pass the proposed amendments. Failing that, the Government should defer commencement of the changes until 2021, to allow the Australian Taxation Office to complete the first two scheduled rounds of auto-consolidation of low balance, inactive accounts and for an assessment of the impact of the ATO processes and insurance changes. This will allow time for a proper assessment of the earlier provisions and minimise the cost of implementing the proposed changes, noting that members bear these costs.

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Yours sincerely,

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