WOMEN IN SUPER

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RE: TREASURY LAWS AMENDMENT (PROTECTING SUPERANNUATION) BILL 2018 NO. , 2018
A Bill for an Act to amend the law relating to superannuation, and for related purposes

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.

One third of women currently retire in poverty and it is for this reason that WIS makes submissions to Parliament and participates in Parliamentary and Treasury inquiries into the retirement income system and the role and objectives of superannuation in achieving financial security in retirement.

PROPOSED AMENDMENTS

Women in Super has prepared this submission in response to calls for comment on the exposure draft Bill which contains amendments to the SIS Act, SUMLM Act and TAA 1953 with the aim of protecting individuals' retirement savings from erosion, ultimately increasing Australians' superannuation balances .

WIS notes that according to the explanatory legislation in 2015-16, accounts with balances below $6,000 comprised over 40 per cent of all accounts in the system. WIS supports measures to protect these accounts from erosion by disproportionately high fees and insurance premiums.

WIS is, however, keen to ensure that the measures adopted to protect small account balances do not have unintended consequences which disadvantage women and that there is sufficient flexibility to allow women to gain or maintain suitable insurance cover and to grow their account balances.

There is an intrinsic value in women with dependents having access to suitable levels of group insurance cover through superannuation and this must be balanced against the potential for account balance erosion.

Many women are engaged in casual and part time work sometimes with multiple employers and are vulnerable to illegal non-payment of Superannuation Guarantee (SG) payments by employers, and exclusion from entitlement to SG payments due to the $450 per month income eligibility threshold with an individual employer. Strong measures to ensure employer compliance with their SG obligations and the removal of the $450 threshold would lift the account balances of many women. Women's superannuation balances would also be increased were SG payments made on the Government Paid Parental Leave scheme and were the Government to make a $1000 per year contribution to the accounts of low income earners in lieu of the support through tax concessions received by high income earners.

WIS notes that the very tight timeframe for response to the draft bill has precluded a thorough analysis and response. WIS notes that a gender analysis of the impact of the package would assist with identifying any unintended outcomes affecting women.

FEES CHARGED TO SUPERANNUATION MEMBERS - CAP ON ADMINISTRATION & INVESTMENT FEES

Schedule 1 to this exposure draft Bill prevents trustees of superannuation funds from charging administration and investment fees exceeding 1.5 per cent of the balance of accounts with balances below $6,000 for the six month period immediately following the date on which the balance is calculated. It also prevents trustees from charging exit fees on all superannuation products, regardless of member's account balance thereby removing a disincentive to account consolidation or rollovers by members.

WIS believes that as a matter of principle all superannuation fees, within MySuper and Choice products, should have an appropriate costing rationale and should be based on a cost recovery principle.

WIS agrees with the principle of introducing a cap on administration and investment fees and does not see an issue with 1.5% (for a six month period) as a total maximum fee provided this includes <u>all</u> fees. WIS recommends that the legislation be worded accordingly so that it is clear that it is not just fees that exist today that are included in the cap but all charges and future fees even if they are introduced in 'non fee' terms so that there is consistency across the industry in what constitutes a fee.

WIS recommends that the fee be calculated on an annual basis and charged annually as this is less costly but also in line with the long-term nature of superannuation investments and encourages members and superannuation funds to focus on fees and performance from a medium to long-term perspective.

WIS would like to see the inclusion of any fees associated with provision of account information to be included in this cap. For example, fees can be charged by funds in divorce proceedings when a non-member spouse submits a request for superannuation information, as well as when a fund complies with a superannuation splitting order. As part of its report, Small Claims, Large Battles – Achieving economic equality in the family law court system[1], Women's Legal Services Victoria sought information from the top 42 of the largest APRA regulated superannuation funds according to the number of member accounts. The average fee charged for processing requests for information was $52, and ranged from no fee to $187. The average fee for complying with super splitting orders was $64 and ranged from no fee to $492.

These fees can be substantial and as superannuation is becoming the largest asset in many divorce proceedings, such fees act as a deterrent to spouses to pursue superannuation when the account balance is low or unknown.

WIS recommends that superannuation funds be subject to a capped fee for processing requests for information and for family law superannuation splitting orders, so that fees represent cost recovery only or be banned from applying such fees.

WIS supports the proposed prohibition of exit fees noting that some exit fees are excessive, some are charged on a cost recovery basis and that many superannuation funds do not charge exit fees already.

INSURANCE FOR SUPERANNAUTION MEMBERS

Schedule 2 to this exposure draft Bill prevents trustees from providing opt out insurance to accounts of new members aged under 25 years, all accounts with balances below $6,000, and all inactive accounts unless a member has directed otherwise.

Insurance was legislated as a compulsory requirement of MySuper products as group life cover through superannuation is the only realistic and affordable option for ordinary working people.

Rice Warner estimates that 71% of death cover, 88% of total and permanent disablement and 59% of income protection coverage is provided through superannuation.[2]

WIS agrees that insurance premiums can be a cause of balance erosion for inactive super account balances below $6000 and for new super account openings for members aged under 25. Insurance cover may be appropriate for members aged under 25 in some industries and WIS would support a level of flexibility in such proven circumstances. Otherwise, WIS agrees that insurance coverage should be on an 'opt in' basis. WIS would welcome initiatives to ensure that such new members are provided with information on insurance so they can make an informed decision as to whether or not insurance is necessary for them.

[1] Small Claims, Large Battles - Achieving economic equality in the family law system, A report by Women's Legal Service Victoria, March 2018

[2] Rice Warner – Insurance in Superannuation - 2016

WIS is concerned that a new member over age 25 with active account contributions will not receive insurance cover until their account balance exceeds $6,000. This could inappropriately deny cover to women for an extended period of time. Women's lower income levels mean that they will, on average, be uninsured for longer periods than men and any interruptions in earnings could see them fall in and out of coverage. It is unclear how these arrangements will impact the cost and availability of automatic cover. Women earning higher incomes will qualify earlier however it is hard to identify why there should be any delay in the commencement of their insurance.

The provisions regarding the removal or delay of insurance coverage must be carefully considered to protect the rights of working women.

There is an intrinsic value in women with dependents having access to suitable levels of group insurance cover through superannuation. This must be balanced against the potential for account balance erosion. WIS recommends that the provisions regarding cessation of insurance due to low account balance or inactivity must be examined closely to ensure that women with dependents do not inappropriately lose insurance cover.

WIS further recommends that the 13 month period be extended to 16 months to avoid penalising women on parental leave. The period should commence from the date the legislation is introduced.

INACTIVE LOW-BALANCE ACCOUNTS AND CONSOLIDATION INTO ACTIVE ACCOUNTS

WIS is in favour of account consolidation as WIS acknowledges that there are members with multiple accounts who are paying multiple fees and therefore as a result may be unnecessarily eroding their retirement savings as a result. However, the provision to transfer inactive accounts below $6,000 could result in the account balances of women on parental leave transferred to the ATO.

<u>Case Study</u>

A female, goes on 12 months parental leave but receives no superannuation contributions during that time; she returns to work after 12 months; however, there is a delay in receipt of her first SG payment post parental leave. The member has failed to respond to fund communications providing opportunity to elect to continue to have insurance coverage due to challenging period with young baby/child and consistent with general levels of low engagement with superannuation.

If the member's account balance is under $6000, her account is automatically transferred to the ATO prior to receipt of the post parental leave contribution and her insurance coverage (if any) is automatically ceased upon transfer as the 13 month period of inactivity has been reached.

The proposed provisions under account consolidation and transfer of inactive accounts, do not state whether members can elect to retain their account with their superannuation provider despite a period of inactivity. This needs to be clarified to protect women who are on parental leave or returning from parental leave having their accounts automatically transferred and their insurance coverage ceased.

Furthermore, appropriate provisions need to be put in place to ensure that the member is being consolidated into the most appropriate account for their circumstances. For example, sole accounts should be consolidated with other sole accounts not with joint active accounts that include that member as a party unless that member is notified independently and consents independently to this consolidation taking place.

SUMMARY AND RECOMMENDATIONS

In summary, WIS welcomes a number of the provisions but is keen ensure that the measures adopted to protect small account balances do not have unintended consequences which disadvantage women and that there is sufficient flexibility to allow women to gain or maintain suitable insurance cover and to grow their account balances.

In particular, WIS makes the following key recommendations in relation to the proposed regulations of the Protecting Your Super Package:

RECOMMENDATION 1

WIS recommends that the legislation be worded clearly to ensure that the fee cap of 1.5% per 6 months (or 3% per annum) includes <u>all</u> fees (existing and future, investment, indirect, charges etc.) in any format that are deducted from a member's account.

RECOMMENDATION 2

WIS recommends that the fee be calculated on an annual basis and charged annually.

RECOMMENDATION 3

WIS recommends that superannuation funds be subject to a capped fee for processing requests for information and for family law superannuation splitting orders, so that fees represent cost recovery only or be banned from applying such fees.

RECOMMENDATION 4

WIS recommends that the provisions regarding cessation of insurance due to low account balance or inactivity must be examined closely to ensure that women with dependents do not inappropriately lose insurance cover.

RECOMMENDATION 5

WIS recommends that provision is made to include a suitable timeframe for superannuation funds to contact existing members to notify them of the withdrawal of insurance after 13 months of inactivity.

RECOMMENDATION 6

WIS further recommends that the 13 month period be extended to 16 months to avoid penalising women on parental leave and that the period should commence from the date the legislation is introduced.

RECOMMENDATION 7

WIS recommends that the proposed account consolidation provisions include protection for members who are on parental leave or returning from parental leave to prevent their accounts being automatically transferred to the ATO because the account balance is $6000 or less.

RECOMMENDATION 8

WIS recommends that due consideration is given to members outcomes and that consolidation be done on a like for like basis to ensure that the member's position is not compromised.

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Yours sincerely,

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