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RE: Legislating the objective of superannuation

Australians need a super system that is fit for purpose and meets their diverse needs.

We support the introduction of the legislated objective of super. The objective will give the Australian public, government, regulators and super industry a standard to assess whether superannuation is delivering good outcomes for all Australians. We see two main areas of improvement which will help this legislation deliver on its objective.

1. The removal of claims about the role and benefits of group insurance.
2. A strengthening of the accountability mechanism to ensure future policy is aligned with the objective.

Insurance in the Explanatory Materials

We have significant concerns about the treatment of group insurance under the proposed Explanatory Materials (EM). We urge the Government to remove paragraphs 1.27-1.28 of the EM.

Paragraphs 1.27 and 1.28 make unsubstantiated qualitative assessments about the perceived role and benefits of group insurance. This statement is at odds with an established body of evidence, which raises concerns about value for money and significant protection gaps in group insurance.^{1 2 3} We reiterate the need for the Government to act on the Productivity Commission's recommendation for an independent review of insurance in super.

The EMs state: "... *Affordable group insurance is an important benefit of the superannuation system and is consistent with the objective. Through group insurance, the superannuation*

¹ ASIC 2020, *ASIC report explores how to measure 'value for money' in default insurance in superannuation*,

<https://asic.gov.au/about-asic/news-centre/find-a-media-release/2023-releases/23-076mr-superannuation-trustees-urged-to-improve-insurance-outcomes-for-members/>

² ASIC 2023, *Superannuation trustees urged to improve insurance outcomes for members*,

<https://asic.gov.au/about-asic/news-centre/find-a-media-release/2023-releases/23-076mr-superannuation-trustees-urged-to-improve-insurance-outcomes-for-members/>

³ Productivity Commission 2018, *Superannuation: Assessing efficiency and competitiveness*,

https://www.pc.gov.au/__data/assets/pdf_file/0017/232352/superannuation-assessment-insurance-supplement.pdf

system provides a safety net that delivers valuable protection to the community and meets members' needs at reasonable cost."⁴

This characterisation is at direct odds with evidence that demonstrates there are serious gaps in the safety net provided via group insurance.⁵ For example, modelling by the Productivity Commission and KPMG found that super balance erosion from insurance is noticeably higher for some groups of people, including those on lower incomes, women, younger people, and people working in and out of the workforce.⁶ AFCA complaints data shows that consumer complaints about group insurance are rising steeply - with a 136% increase in complaints about delays in claims handling last financial year - suggesting serious mismatches between policy coverage and administration, and consumer needs and expectations.⁷

Additionally, the Productivity Commission found that it is essentially impossible to assess the net benefit of the group insurance system, or whether it provides value for money, without analysis by an independent inquiry. In the 2021-2022 financial year, superannuation members paid almost \$8.7 billion dollars in group insurance premiums.⁸ However, efforts to assess the net benefit of group insurance in super have not been taken, despite this being a key review recommendation to be implemented by 2022. The Productivity Commission identified methodological limitations with some studies that argue the fiscal benefits of group insurance in super, and highlighted the need for an independent inquiry to do this work.⁹ Until then, it is dangerous to include unsubstantiated claims about group insurance in something as important as the objective of super EM.

Even if the claims made about the merits of group insurance have some validity in the current context, this may not be the case in the future. Safety nets outside of super are constantly evolving (e.g. NDIS), as is group insurance itself (e.g. the rise of activities of daily living tests which make it difficult for some people to claim). As a result the relative value of group insurance may change over time. Policy makers should not be constrained by an EM which makes universal claims about the benefits of insurance in super. Ultimately, the EM

⁴ Treasury 2023, *Exposure Draft Explanatory Materials*, paragraph 1.27, <https://treasury.gov.au/sites/default/files/2023-08/c2023-438526-so-em.pdf>

⁵ Productivity Commission 2018, p. 97

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

⁶ Ibid. p. 2.

⁷ AFCA 2023, Record 97,000 complaints taken to AFCA in 2022-23,

<https://www.afca.org.au/news/media-releases/record-97000-complaints-taken-to-afca-in-2022-23>

⁸ APRA 2022, *Annual fund-level superannuation statistics*,

<https://www.apra.gov.au/annual-fund-level-superannuation-statistics>

⁹ Productivity Commission 2018, p. 9

https://www.pc.gov.au/__data/assets/pdf_file/0017/232352/superannuation-assessment-insurance-supplement.pdf

accompanying this Bill is not an appropriate place to weigh up the benefits of specific aspects of the superannuation system.

Special reference to group insurance is not required in the EM. Policymakers must assess whether group insurance is consistent with the Objective against the clear principles it sets out. Policymakers are not assisted by blanket statements in the Objective's EM about the perceived benefits of the group insurance system.

Recommendation: That paragraphs 1.27-1.28 be removed from the Explanatory Materials.

Statements of Compatibility

In our initial submission on the objective of super, we called for an accountability mechanism to accompany the Objective that would help people practically assess the distributional and other impacts of superannuation policy proposals.

As the EM explains, there is some legislation where detailed impact assessments may not be relevant or necessary. However, there are many circumstances where that analysis is highly relevant and should be published. The absence of any prescription for the Statement of Compatibility risks reducing its preparation to a box ticking exercise.

Section 6(3) of the Superannuation (Objective) Bill should be updated to include a requirement to model the impact of significant policy changes on retirement outcomes. Where appropriate this modelling should also focus on the impacts across key cohorts. For example, this modelling could measure the financial impact of the proposed policy on people's retirement balances across income deciles. To illustrate, a policy proposal targeted at addressing the gender gap in super balances should include economic modelling on how that gap would be reduced by the proposal across low, medium and high income groups.

A measurable objective for the retirement income system

The proposed objective of super borrows heavily from the Retirement Income Review's objectives for the overall retirement system. Superannuation is just one tool for lifting the retirement outcomes of people. Already the majority of policy debate about improving people's retirement outcomes happens through the narrow frame of superannuation. There is a risk that articulating an objective of super without having broader objectives for the retirement system will continue this narrow focus. For example, homeownership is a major factor in people achieving good retirement outcomes. The debate about housing affordability for retirees is too often viewed through the frame of how superannuation can better support people. This is despite the fact that many people who rent in retirement never had significant super balances to support home ownership. We support the Retirement Income Review proposal for the development of

an objective for the retirement income system as a whole.¹⁰ This will allow for a broader debate about how Australians can be best set up to achieve a good retirement.

Please reach out to Policy Manager Rebekah Sarkoezy at rsarkoezy@superconsumers.com.au should you wish to discuss our submission further.



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¹⁰ *Retirement Income Review 2020*, p. 17,
<https://treasury.gov.au/sites/default/files/2021-02/p2020-100554-udcomplete-report.pdf>