

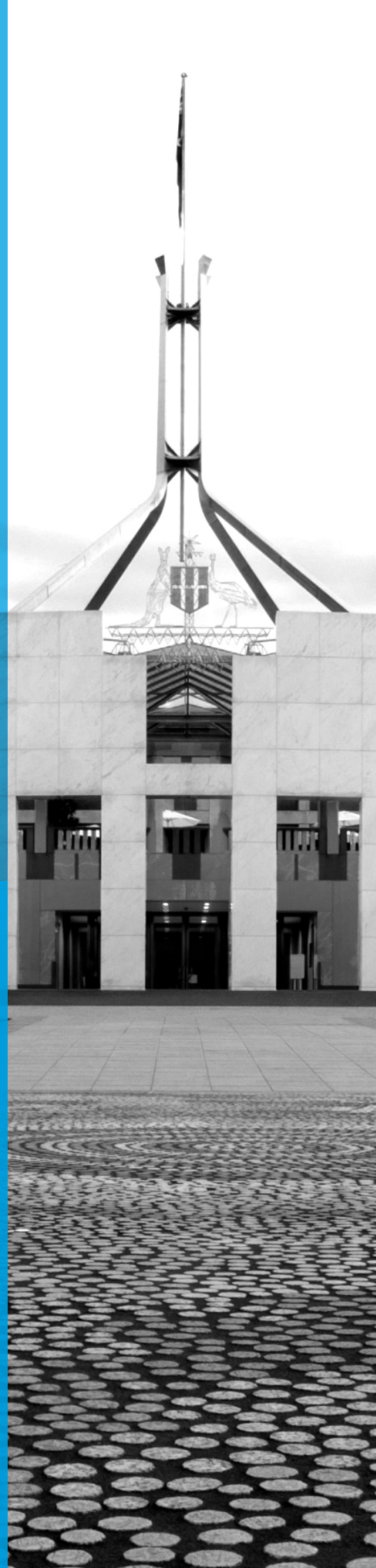


# Implementing the Protecting Your Super changes and Putting Members' Interests First

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ASFA is a non-profit, non-political national organisation whose mission is to continuously improve the superannuation system, so all Australians can enjoy a comfortable and dignified retirement. We focus on the issues that affect the entire Australian superannuation system and its \$2.9 trillion in retirement savings. Our membership is across all parts of the industry, including corporate, public sector, industry and retail superannuation funds, and associated service providers, representing nearly 90 per cent of the 16.1 million Australians with superannuation.

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## Executive Summary

In July 2019, ASFA surveyed its member funds on the impact of the Protecting Your Super (PYS) changes on the provision of insurance cover through superannuation. Respondents to the survey accounted for over a half of the total superannuation accounts in the system affected by the changes.

Based on the responses from the survey, an estimated three million accounts in total were liable to lose insurance cover on 1 July as a result of the changes. There was an average opt-in rate for insurance cover of just over 16 per cent of those affected.

However, the opt-in rate varied significantly between funds, varying from around seven per cent to 40 per cent of those affected. The demographics of fund members together with the engagement of a fund with its members appeared to influence the opt-in rates. In particular, some public sector and corporate funds achieved particularly high opt-in rates.

The paper also looks at what might be the impact of the Putting Members' Interests First (PMIF) changes. It is estimated that these further changes might impact around 1.5 million accounts initially and up to an additional 100,000 or so accounts a year on an ongoing basis.

# Background

## The survey

In order to determine the impact of the Protecting Your Super (PYS) changes to insurance ASFA conducted a survey of its members.

In July 2019, each of ASFA's member funds were contacted and asked to respond to an online survey. Survey respondents came from a variety of sectors, with a number of large industry funds and retail funds responding. There were also responses from public sector and corporate funds.

Funds were asked to identify themselves in order to assist with analysis of the results, but the survey was conducted on the basis that no information that could be linked to any individual fund would be published.

The 23 funds responding have in aggregate around 55 per cent of the 23.4 million accounts in APRA regulated funds which are not Eligible Rollover Funds (ERFs) or are not defined benefit funds. Both ERFs and defined benefit funds are outside of the scope of the PYS changes to insurance cover.

Topics explored included:

- how funds engaged with relevant fund members on the need to opt-in in order to retain insurance cover
- the number of fund members in line to lose insurance cover
- the percentage of affected members who opted to retain insurance cover
- policies regarding reinstatement of insurance cover where cover lapsed on 1 July
- the likely impacts of the PYS changes on insurance premiums in the future.

## The nature of the PYS insurance changes

The PYS changes to superannuation came into effect on 1 July, resulting in the cancellation of insurance cover in a member's account that has not received any type of contribution for 16 months or more, unless the member makes a written election to keep their insurance.

In preparation for the introduction of the PYS changes, funds wrote to members whose accounts had been inactive for 6 months or more as at 1 April 2019 to inform about the changes and how they would be affected.

Going forward, funds will need to write to fund members after periods of inactivity of nine, 12 and 15 months to give fund members options to retain their insurance cover.

Making a contribution or rolling over into the inactive account before the account has been inactive for 16 continuous months resets the timer, meaning the insurance won't be cancelled unless the account becomes inactive for 16 consecutive months again.

Fund members can stop their insurance being cancelled by telling their superannuation fund (in writing) they want to keep it. A written election to keep insurance must be made before the account has been inactive for a continuous period of 16 months. The election in writing can be in a document mailed to the fund, in an email, in a text to the fund, or by way of an online form. A telephone call does not qualify as a written election even if the call is recorded or transcribed. Once an election has been made, insurance will be retained even if the account becomes inactive again in the future (at least under current legislative measures).

## Accounts impacted by the PYS changes

**Based on the responses to the survey it is likely that some three million accounts in aggregate had the potential to lose existing insurance cover in the absence of the relevant account holders opting to retain insurance cover.**

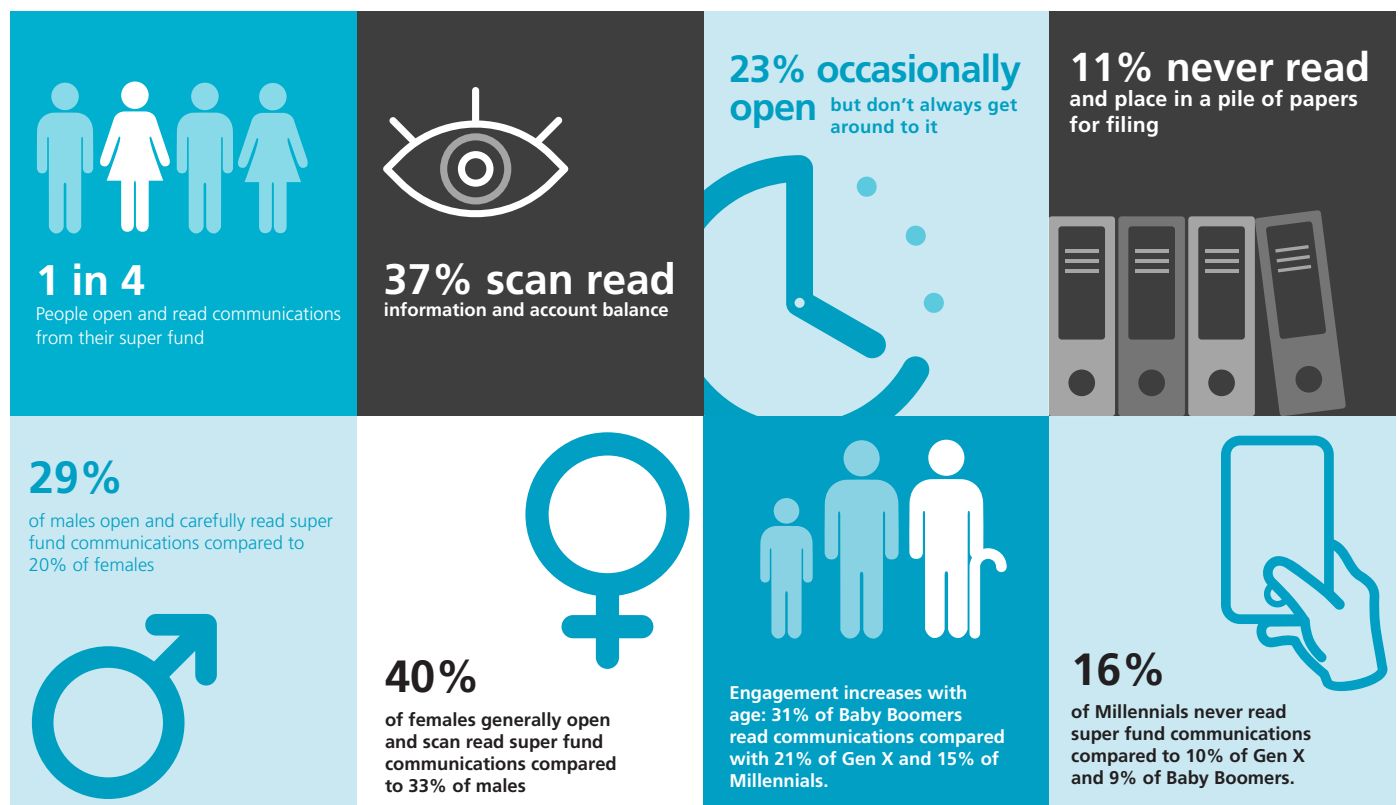
This was around 20 per cent of the total accounts in APRA regulated funds with insurance cover.

This potential reduction in coverage was on top of the 8.5 million accounts which were not in defined benefit funds or ERFs which did not have insurance cover. There may be a number of reasons why some accounts did not have insurance cover in the first place. For instance, there were around 1.6 million pension accounts, which typically do not have insurance cover attached to them. Around 2.3 million accounts in the system relate to people aged 65 and over, with many of them also likely to be in pension phase. In other cases, individuals will have opted out from insurance, or fund rules and practices relating to the cessation of insurance cover in regard to inactive accounts will have led to insurance cover ceasing. Generally, a fund member would need to opt-in for insurance if they choose a choice product.

## Typical rates of member engagement

There are numerous challenges in engaging members. Typically, rates of opting in for products or features related to superannuation are relatively low at 10 per cent or lower. Consistent with the tenets of behavioural finance there tends to be a strong inertia in regard to such decisions, particularly if an election in writing is required.

Additionally, fund members do not always open letters from their fund. Findings from a recent survey conducted for ASFA are in the diagram below.



## Knowledge of the PYS changes

Survey data collected for ASFA also indicated that Australians did not have a great level of knowledge about the impending PYS changes in the lead up to 1 July 2019. The survey found:

- Just less than half (47 per cent) of Australians had heard that there would be changes to super coming into effect on 1 July 2019, with one in five (19 per cent) having a good understanding and 28 per cent uncertain about what the changes are.
- Only 15 per cent of Australians had heard of the Protecting Your Super Package, Protecting Your Super Bill, or Protecting Your Super Legislation.
  - When prompted for details, only 23 per cent of people who said they had heard about Protecting Your Super Package, Protecting Your Super Bill, or Protecting Your Super Legislation could accurately identify any of the changes.
  - The remaining people who said they had heard about the Protecting Your Super Package, Protecting Your Super Bill, or Protecting Your Super Legislation were unable to accurately identify any of the changes.

## Reported rate of opting in for continued insurance cover

The weighted average opt-in rate for the surveyed was 16 per cent, equivalent to some 485,000 individuals opting in across the entire superannuation sector.

Given that individuals needed to engage with both insurance and superannuation in order to opt-in, this was a relatively high percentage. Typically, opt-in rates at or below 10 per cent could be expected in such an exercise, particularly given that funds do not always have a current address for a fund member and that members do not always open the mail from their superannuation fund. However, given the importance of insurance cover to individuals there was potential for a higher opt-in rate.

Opt-in rates did vary across funds. The highest recorded opt-in rate was 40 per cent and the lowest 7 per cent. Most funds recorded an opt-in rate between 10 per cent and 20 per cent.

Funds with the highest opt-in rates tended to have a strong occupational affinity with their fund members through being a corporate fund or focused on a specific industry. Funds with members in occupations or industries with higher than average risks of injury or death also tended to have higher opt-in rates.

The communication campaigns conducted by funds and other key industry stakeholders contributed to lifting rates of member engagement. ASFA played an important role through the Time to Check communication campaign: [www.timetochheck.com.au](http://www.timetochheck.com.au).

Communication with members likely to be affected by the PYS changes—through a variety of methods such as text messages, outbound calls, and through financial planners—also seemed to lift opt-in rates compared to funds who relied only on Australia Post outbound letters.

That said, the best strategy for each fund would have depended on their individual circumstances. No two funds have the same memberships, either in terms of overall numbers or their demographic composition.



## The impact of the Putting Members' Interests First insurance measures

The PMIF legislation was passed by the Parliament on 19 September. It puts insurance on an opt-in basis for all accounts under \$6,000 even if they are receiving contributions and going forward makes insurance cover opt-in for everyone aged under 25. It takes effect from 1 April 2020 in terms of insurance cover ceasing if affected members do not opt-in.

The legislation also provides that trustees can, based on actuarial evidence, identify certain high risk occupations and elect to provide insurance cover on an opt-out basis to members in such occupations. Emergency services workers can be provided with insurance on an opt-out basis without the need for actuarial investigations.

Analysis by the ASFA Research Centre of the ATO 2016-17 unit record sample data of individual taxpayers provides a guide to the total number of people affected and their demographic composition. However, it should be noted that this analysis is based on those with total superannuation under \$6,000 who received an employer contribution rather than the exact measure proposed. That said, most such people would have insurance cover and the numbers would be broadly comparable.

As indicated in Table 2 below, around 1.5 million people have active superannuation accounts with a balance of less than \$6,000.

In 2016-17, 1,729,000 individuals under age 25 had super accounts receiving employer contributions. 820,000 of those accounts were over \$6,000. So, over a period of 8 years or so the provisions relating to those aged under 25 might prevent the offering of default insurance to around 800,000 people, with the total growing at around 100,000 a year over the transition period.

In summary, the PMIF measures may lead to around 1.6 million accounts potentially losing insurance cover by April 2021, growing to about 2.3 million after 8 years as the under 25 measure fully kicks in. However, to the extent that affected members affected opt-in for insurance the actual numbers would be lower.

The carving out of high risk workers aged under 25 might reduce the 2.3 million potentially affected by PMIF by as many as 100,000 depending on the extent to which funds elect to provide cover for high risk workers on an opt-in basis.

The majority of low balance accounts relate to people aged under 25 but there are significant numbers of individuals older than 25 with a small but growing superannuation account balance. These older fund members are more likely to have a spouse and financial responsibilities than those aged under 25. Around 20 per cent of the individuals with a small account and aged under 25 had a spouse.

Table 2: Number of accounts receiving contributions with balance less than \$6,000 by age group

Age ranges	Accounts
70 and over	13,600
65 to 69	24,150
60 to 64	28,800
55 to 59	28,500
50 to 54	26,850
45 to 49	37,250
40 to 44	50,650
35 to 39	83,650
30 to 34	108,900
25 to 29	244,100
20 to 24	530,450
under 20	287,700
<b>Total</b>	<b>1,464,600</b>

Table 3: Active accounts with balance under \$6,000 by broad occupation grouping

Occupation not listed/ Occupation not specified	27,250
Managers	64,650
Professionals	135,900
Technicians and Trades Workers	112,600
Community and Personal Service Workers	260,250
Clerical and Administrative Workers	135,850
Sales workers	251,550
Machinery operators and drivers	65,050
Labourers	302,500
Consultants, apprentices, and type not specified or not listed	109,000
<b>Total</b>	<b>1,464,600</b>