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ON THE COVER

REGULARS

After **the election**

Dr Martin Fahy

ASFA Chief Executive

Whatever the result of the forthcoming federal election, ASFA is well placed to talk to the next government and explore ways we deliver on the promise of the Australian superannuation system. Ensuring we always start with the relevant data and evidence before reaching our policy positions, ASFA has always been scrupulously non-partisan in advocating those positions.

In the lead up to this election, ASFA has released a toolkit for the Government to use to enhance our superannuation system and to make sure it continues to provide significant and material benefits to Australians in retirement. It proposes measures for the future government to consider which I will briefly outline.

MOVING THE SG RATE TO 12 PER CENT AS SOON AS POSSIBLE

The super guarantee is scheduled to increase to 12 per cent from 2021 (concluding in 2025). It is pleasing that both sides of the political divide have expressed support for the increase which is crucial to ensure more Australians achieve an adequate standard of living in retirement above the Age Pension. For all income earners, even those very close to retirement, moving to 12 per cent will mean a more comfortable standard of living in retirement.

It would be even better, budgetary pressures permitting, for the move to 12 per cent to occur sooner rather than later. Each year we delay will cost Australians superannuation savings that could have helped improve their life in retirement.

ASFA modelling shows that an average income earner aged 30 today, and on a $70,000 salary, would have $71,600 less when retiring at 67 if the SG stays at 9.5 per cent. For this person, bringing forward the timetable for lifting the rate of SG by two years will boost their retirement savings by an additional $7,000.

STABILISING THE TAX SETTINGS FOR SUPER

Over the last few years a range of measures have been introduced with the aim of making the retirement income system more equitable and robust. In very recent times the Protecting Your Super and Improving Accountability/Member Outcomes packages have introduced further reforms that will have a big impact on insurance in superannuation, the role of the regulators and the superannuation landscape more generally.

Whether you regard it as tinkering or wholesale reform, there is no question that constant meddling with policy settings ultimately undermines confidence in the superannuation system. We need a period of stability so that people in the industry can take a breath and ensure that recent changes to the superannuation system are properly introduced and bedded down.

BOOSTING BALANCES FOR WOMEN AND LOW-INCOME EARNERS

Australia's compulsory superannuation system is a great public benefit. However, it can leave those with broken work patterns or on low or part-time incomes, predominantly women, at a disadvantage and unable to fund a comfortable lifestyle in retirement.

To redress this imbalance, we support a number of reforms. The first thing that needs to be done is the removal of the $450-a-month earnings threshold for payment of the SG. While this would help both men and women, almost two thirds of the beneficiaries would be women.

The next is the payment of superannuation on parental leave payments which addresses the problem of broken work patterns and recognises the need for income replacement to incorporate super.

Finally, we support the extension of the existing Low Income Superannuation Tax Offset (LISTO), a targeted and efficient system, to enable 'top up' contributions for eligible members. These top up amounts would be determined by the ATO, and provided until these members can accrue a sufficient balance or critical mass to benefit from compounding returns.

LIFTING THE BAR FOR MYSUPER

Over the last year there has been much talk about underperformance in the system and the various models for doing so. While some of the proposals are somewhat arbitrary and heavy-handed, we owe it to members to commit to the removal of habitual underperformers.

We support doing this not by picking winners but through a Right to Remain test based on a careful definition of underperformance, timely resolution and the orderly transfer of fund assets, potentially with the help of the regulators.

ENSURING APPROPRIATE INSURANCE FOR MEMBERS WITH INSURANCE IN SUPER

The role of insurance in superannuation is a vital part of the retirement system and is widely undervalued. 70 per cent of Australians get their insurance through superannuation; coverage is extensive, the premium cost rates achieved through group are affordable, and 90 per cent of premiums gets paid out each year to help members and their families deal with the challenges that illness, injury and death can bring.

At the same time, it needs to be acknowledged that the cost of insurance reduces retirement benefits for those who don't make a claim and that there needs to be a balance between the two. However, the balance struck must protect younger members—40 per cent of full-time employees are under age 25, many of whom have houses and dependent children—and also those in hazardous occupations who might not be otherwise able to get insurance. For these reasons we regard 21 as a more suitable threshold for age-based restrictions on default cover than age 25 and we support exemptions for those in high risk or dangerous occupations, should the Government decide to revisit this in the future.

PROVIDING SG FOR GIG ECONOMY WORKERS

The rise of the gig economy, along with the existing exemption for the self-employed, threatens to weaken the coverage of the SG regime and create a class of Australians who have low superannuation balances at retirement. They will become a burden on the Age Pensions system while being denied a standard of living in retirement that their 'employee' counterparts will enjoy.

To prevent this from becoming an entrenched problem we support the inclusion of the self-employed in the SG regime or at least that the Government should consider doing so. More urgently we think that those employed in the gig economy should be recognised as 'dependent contractors' by amending the SG legislation so that SG is payable.

ASFA's fundamental purpose is to help all Australians achieve the best possible retirement. These measures have been designed with that goal in mind, and we look forward to working constructively with all members of Parliament, old and new, to bring these measures to fruition. **SF**

HEADLINES

Equip Super and Catholic Super announce joint venture

The trustees of Equip Super and Catholic Super have signed a Memorandum of Understanding, which, subject to completion of final due diligence, will establish a Joint Venture Trustee - initially managing over $26 billion in funds for about 150,000 members.

The move comes as funds seek to improve member outcomes and best interests through the economies of scale consolidation can deliver.

Equip Super Chair, Andrew Fairley AM (pictured left), said he was delighted to enter into the MOU with a like-minded fund that focused on profits solely for the benefit of members, and endorsed a skills-based selection of trustees - one third from members, one third from employers and one third independent.

"This joint venture would contain costs and improve efficiency, bringing real benefits to members," Fairley said. "It is positive proof the Extended Public Offer (EPO) model provides a solution to funds who value their brands and connection to community, while enabling economies of scale."

Chair of Catholic Super, Danny Casey (right), said: "The Joint Venture is the perfect pathway, bringing our members the benefits of scale while retaining the Catholic Super identity and strong connection with those working in Catholic institutions and communities," he said.

This Joint Venture brings the opportunity for significant growth for both funds with expectations of a combined valuation of $40 to $50 billion by 2025.

VicSuper and First State Super commence early stage merger discussions

VicSuper and First State Super have announced they have signed a non-binding memorandum of understanding to explore the benefits of a potential merger.

VicSuper's CEO, Michael Dundon said, "the priority for both funds is to continue to develop leading products and services that help deliver the best outcomes for our members. Merging with First State Super would enable us to achieve greater benefits of scale, including access to a broader range of investment opportunities and an even greater ability to generate strong, sustainable returns over the long term."

First State Super CEO, Deanne Stewart said initial discussions indicated a strong cultural alignment between the two funds.

"We share a lot in common with VicSuper. We both have a member-first culture and a heritage in the public sector. Many of our members work in education, community services and health and we're both seeing strong private sector growth. Importantly, we believe quality financial advice can help our members make the most of their retirement savings."

VicSuper and First State Super have served workers in Victoria and New South Wales for more than 30 years. If combined, they would become one of Australia's largest profit-to-member super funds, managing more than $110 billion in retirement savings for over 1.1 million members.

A recommendation to the respective boards is anticipated around the middle of 2019.

Sunsuper and AustSafe Super merger finalised

Sunsuper has announced its successful merger with AustSafe Super, which means that one in five Queenslanders are now Sunsuper members.

Sunsuper's Chair, Andrew Fraser, said the merger was driven by both funds' shared values, commitment to rural and regional Australia and drive for better member outcomes.

"Like AustSafe Super, Sunsuper has a long heritage of supporting rural and regional areas and we remain committed to the strong foundations AustSafe Super has built in these communities over the last 30 years," Fraser said.

"The merger will deliver many benefits to both AustSafe Super and Sunsuper members, including a combined $10 million per annum in savings."

Through the completed merger, Sunsuper is now well positioned to continue AustSafe Super's legacy and commitment to rural and regional Australia.

AustSafe Super's Chair, Henry Smerdon AM, said the success of the merger reinforced the board's decision to partner with Sunsuper.

"This is a particularly well-suited match for both organisations," said Smerdon. "Both funds started in Queensland more than 30 years ago, are based on a profit-for-member model, provide industry leading products and services, deliver strong and consistent long-term returns, and have a passion for rural and regional Australia."

Millennials financially confident but inadequately

While most millennials (92 per cent) feel confident about their future financial situation, they may be unprepared for the possibility of unemployment due to injury or illness. New research from MetLife reveals that six in ten (63 per cent) millennials without an adviser and five in ten (54 per cent) advised millennials could only maintain their current lifestyle for a maximum of six months if they suffered illness or injury.

Commenting on the findings, Matt Lippiatt, MetLife Australia Head of Retail Sales, said there was a clear mismatch between millennials' level of confidence in their finances and their attitude to insurance.

ASFA SUBMISSIONS

ASFA's policy team has been working on a number of submissions lately. The most recent are:

- Submission to The Treasury
  APRA Capability Review
- Submission to The Treasury
  ASFA review of Retirement Income Disclosure consultation paper
- Submission to Australian Securities and Investments Commission (ASIC)
  Consultation Paper 308 – Review of RG 97 Disclosing fees and costs in PDSs and periodic statements
- Submission to The Treasury
  Insurance Claims Handling – consultation on recommendation 4.8 of the Banking, Superannuation & Financial Services Royal Commission
- Submission to The Treasury
  Minor superannuation tax reform technical amendments
- Submission to The Treasury
  Protecting your Super package regulations and explanatory materials consultation paper
- Submission to The Treasury
  ASFA response to Consultation Paper: Review of the early release of superannuation benefits
- Submission to the Senate Economics Committee
  Inquiry into Social Services and Other Legislation Amendment (Supporting Retirement Incomes) Bill 2018
- Submission to the Australian Law Reform Commission
  - Review of the Family Law System – Discussion Paper 86 – issues with respect to superannuation
- Submission to the Productivity Commission:
  - ASFA response to the Supplementary Paper – Investment performance: Supplementary analysis

INDUSTRY MOVEMENTS

ASFA announces new board appointment

Jo-Anne Bloch, partner, head of industry and public sector at Mercer has joined the ASFA board in April 2019, representing service providers.

With an international career including global innovation leader in the US from 2014 to 2017, Bloch has worked predominantly in financial services, at National Mutual, Macquarie Bank, NSP Buck/Mellon, and as the deputy chief executive officer of the Investment and Financial Services Association (IFSA). Bloch also worked for Mercer in Australia following the acquisition of Sedgwick Noble Lowndes in 1999, and in the UK from 2004 to 2006.

AMP appoints new chief financial officer

AMP has announced the appointment of John Patrick (JP) Moorhead as chief financial officer (CFO), effective 1 June 2019.

Moorhead will succeed Gordon Lefevre who will retire from AMP after more than five years as group CFO following an orderly transition.

Moorhead, who is currently CFO and chief operating officer of AMP Capital, will lead AMP's finance function with responsibility for capital management, treasury, mergers & acquisitions and investor relations. He will join AMP's group leadership team and report to AMP chief executive Francesco De Ferrari.

Rice Warner appoints new CEO

Rice Warner has announced that Michael Rice will step down as chief executive officer, but remains an executive and board member. Andrew Boal has been appointed chief executive officer, effective immediately.

After more than 30 years building and leading the business, Rice has decided to step down from his role as CEO to focus on working for a few key clients and on public policy initiatives. Speaking of Boal's appointment, he says:

"I have known and respected Andrew for many years. I am delighted that he has chosen to take this role. At a time of industry turmoil and rapid change, Rice Warner will be well positioned to continue to support our clients with Andrew at the helm."

SS&C announces senior appointment

SS&C Technologies has announced the appointment of Steve Tremelling as managing director, institutional & investment management (I&IM) for SS&C Technology.

In this role, Tremelling will be responsible for Sales and Client Relationships of SS&C's I&IM business in Australia and New Zealand, including identifying growth opportunities and solutions for existing and potential clients. Based in SS&C's Sydney office Tremelling reports to Christy Bremner, Senior Vice President and General Manager of Institutional and Investment Management.

TelstraSuper chair completes final term

David Leggo will shortly complete his final term as chair of Australia's largest corporate superannuation fund, TelstraSuper.

Leggo joined the board in 2010 and will depart following completion of his final term on 30 June 2019. This is in accordance with the fund's constitution and board renewal policy which provide that directors may serve a maximum of three terms of three years.

TelstraSuper CEO, Chris Davies said that Leggo's leadership has been instrumental in the success of the $21 billion fund.

The search for a new chair is well underway with TelstraSuper expected to announce the appointment in due course.

Leadership team changes at UniSuper

UniSuper has made several changes to the executive leadership team, including three newly created roles.

Anna Leibel, who has been leading the fund's technology division since March 2017, has been appointed to the new role of chief technology & delivery officer.

The roles of chief commercial officer, responsible for fund strategy, product and marketing, and chief operating officer, responsible for risk and governance, legal and finance have also been created and the fund is in the process of recruiting for these positions.

Tim Anderson, executive manager - marketing & product and Nick Drohan, executive manager - program management will be departing the fund in May.

"Tim and Nick have made exceptional contributions to the fund's enviable position," CEO Kevin O'Sullivan said.

AMP announces new members of Australian Wealth Management division leadership team

AMP has announced five key appointments to its Australian Wealth Management leadership team.

The team will report to Alex Wade, AMP CEO Australian Wealth Management (AWM) include the following appointments:

Lakshman Anantakrishnan, chief investment officer, Jen Thomas, chief operating officer, Fraser Herd, managing director, client relationships, Ant Dureau, chief client officer. Also, Lara Bourguignon as CEO of SuperConcepts, AMP's self-managed super fund administration services business. Bourguignon is an internal appointment with considerable financial services experience, having most recently led AMP's customer experience team.

BlackRock appoints new head of Australasia

BlackRock has appointed Andrew Landman head of Australasia. He succeeds Dominik Rohé, who takes over as head of the Latin America region.

Landman takes up his new post in June, while continuing to play his existing role as head of Asia Pacific client business. He will return to Sydney from Hong Kong once his client business responsibilities have been transitioned to a successor. Landman will continue reporting to Geraldine Buckingham, BlackRock's chair and head of Asia Pacific.

QIC welcomes new chair

QIC has announced the appointment of Ian Martin as chair of QIC effective from 1 April.

Damien Frawley, CEO, welcomed his appointment to the role, and also thanked Don Luke for his five years of service to QIC.

MAY 2019

01 WED — **VIC I WA** Risk and Compliance Discussion Group	02 THU — **Melbourne** Spotlight on Risk and Compliance in Super **VIC** Fund Taxation Discussion Group	09 THU — **Melbourne** Core Governance for Superannuation
14 TUE — **NSW** Legislation Discussion Group	16 THU — **Melbourne** Super Governance Masterclass – Information Security	20 MON — **VIC** Legislation Discussion Group
21 TUE — **Sydney** Super Governance Masterclass – Information Security	22 WED — **Melbourne** RG 146 Superannuation Three-day workshop	23 THU — **National** Financial Crime Discussion Group
28 TUE — **NSW I VIC** SMSF Discussion Group	29 WED — **VIC I WA** Member Services Discussion Group **QLD** General Discussion Group	30 THU — **Brisbane** Super Governance Masterclass – Information Security

Events | Learning courses | Discussion Groups | *Superfunds* deadlines

See the ASFA website for more information/to register. Dates subject to change.

From paper to pixels: *Superfunds* transition underway

Exciting developments are underway with *Superfunds* magazine. We're developing a new and improved *Superfunds* website to make it easier for you to navigate and find the content you want, when and wherever you want.

A lot has happened since the first edition of *Superfunds* was published in 1962. Man walked on the moon, Sydney's Opera House was built, Medicare was introduced, the world wide web become public, compulsory super was introduced, Y2K came and went, Australia hosted a summer Olympic Games, Apple launched its first iPhone, indigenous Australians received a national apology, Australia's first female prime minister served, and marriage equality was introduced. Throughout all these notable events, and more, *Superfunds* has kept Australia's superannuation industry up-to-date without interruption or significant changes to its format.

However, the time has come for *Superfunds* to reflect the digital age we live in. Of all the events that have taken place over *Superfunds*' fifty-seven-years of publication, the digital revolution has had a lasting impact. It has fundamentally altered people's reading preferences, with the vast majority of ASFA members now telling us they prefer reading *Superfunds* online.

A NEW WAY FORWARD

To accommodate the changing preferences of our readers, ASFA has made the decision to transition *Superfunds* to a purely digital publication. Having a single digital destination for *Superfunds* will allow us to better meet the changing needs of our readers, reach a wider number of members, introduce more multimedia content, as well as reduce the environmental impact of paper-waste.

Our new digital publication will be launched in July this year and will replace both the print magazine and the flip-book-style interactive magazine. This means that the June edition will be the final edition produced in print and interactive magazine formats.

For ASFA, this is not simply a case of ceasing the production of the print and interactive versions of the magazine. Our goal is to deliver members with the best reading experience we can.

RESPONDING TO MEMBER FEEDBACK

In order to meet our goal of providing members with a great online reading experience, it was clear that improvements needed to be made to our existing *Superfunds* website. Despite 92 per cent of respondents rating the quality and relevance of content highly in our 2018 Reader Survey, only 64 per cent rated the navigation of the current website highly.

The top three features that respondents wanted to see introduced to the *Superfunds* website were:

- articles grouped by category rather than by issue (51.6 per cent of responses)
- suggested reading recommendations (48.4 per cent of responses)
- instant polls (35.5 per cent of responses).

So, we set out to improve the *Superfunds* website and we're excited to let you know that an entirely new stand-alone website is being developed to deliver the features and functionality requested by our members.

A BETTER WAY TO READ

The new, improved *Superfunds* website will make it easier for readers to find the content they want, with a simple menu structure, articles grouped by category rather than issue, and suggested reading recommendations at the end of each article. The website's responsive design will also improve the reading experience across mobile devices, making it easy to read articles on the go.

To provide a more interactive experience, we are also incorporating instant polls that will allow readers to get a sense of how others feel about significant events taking place across our industry.

Further information about your new *Superfunds* website will be provided next month, so keep an eye out for it in next months' magazine. Finally, we'd like to thank those who have been loyal readers of our print and interactive magazines and assure you that *Superfunds* will continue to provide the quality content you've come to expect. SF

Sara Fox is the Superfunds Editor at ASFA

Orange is the new Mission Brown

Ross Clare
Fellow of ASFA

ASFA Director of Research

The Grattan Institute has recently published what it describes as a Commonwealth Orange Book, a not very helpful guide for an incoming government on policy reforms. A lack of any national mood for adopting the types of policies they are advocating is seen as something that should be defied, with opposition to be stared down.

They might be doing a lot of staring in terms of superannuation policy as both the Coalition and Labor have made it clear that they are not interested in making any adverse changes to superannuation tax and like arrangements other than those already announced or in train.

Grattan in a number of ways has come up with a vision for superannuation which is very Mission Brown in colour. Used extensively in the 1970s, this muted, semi-chocolatey stain touched a huge number of homes; generally in ways that make us feel a little icky.

Mission Brown did not work then, and their Orange does not work now. Dull and unattractive are not adjectives you really want associated with anything. Their policies are also like a return to the 1970s in several other ways, including a greater reliance for retirement incomes on the Age Pension, and with good superannuation balances being the right of only a relative few.

The international scorecard which they have compiled for the document actually rates the Australian retirement income system quite well relative to other countries, at least in regard to the limited metrics that they put forward. We spend a relatively small percentage of GDP on the government provided Age Pension and replacement rates of income in retirement are relatively good for low to middle income earners. While the cost of tax concessions for retirement savings are a bit higher than in some countries because of greater reliance in Australia on private saving for retirement, the combined cost of the Age Pension and tax concessions—both now and projected into the future—is lower than the cost of government payments to the aged in just about every other developed country.

While Australia may appear less favourable when comparing the running costs of private pension schemes, the data used by Grattan are quite flawed and do not take into account the relatively strong investment returns achieved in Australia. Bonds are cheap to invest in compared to infrastructure and private equity but in a low interest rate environment they do not deliver the investment returns needed to drive good outcomes in defined contribution superannuation plans.

Compulsory superannuation in Australia is still a maturing system but it is really starting to deliver for retirees.

Recently published ATO figures indicate that for individuals aged 60 to 64, who are retired or approaching retirement, superannuation balances were quite substantial in 2016-17. For those with super, the average for males was $336,360 with a median of $154,453 and for females the average was $277,880 with a median of $122,848. These figures are well up on just two years earlier, when the median for males was $138,337 and $107,897 for females.

The data indicate that average and median balances actually increase after age 65. This somewhat surprising outcome appears to be driven by a significant number of low account balance individuals cashing out their superannuation after age 65. The data indicate that there were 565,400 males with superannuation aged 60 to 64 but only 400,936 with superannuation aged 65 to 69. For females the equivalent figures were 523,676 and 358,582.

However, the number of people aged 65 plus with superannuation was large, with 857,864 males and 722,538 females falling within that category. These numbers are well up on just two years earlier, when there were 745,693 males with superannuation and 599,519 females.

The Australian superannuation system is delivering substantial outcomes for Australians. Australians know this, with the great majority of Australians supporting the compulsory system and the move to 12 per cent Superannuation Guarantee contributions.

However, there remains considerable scope to further improve the system. ASFA's proposals for an incoming government include the following:

- moving the SG rate to 12 per cent as soon as possible
- stabilising the tax settings for super over the course of the next Parliament
- boosting balances for women and low-income earners
- lifting the bar for MySuper
- providing SG for gig economy workers.

Australia needs to look forward and plan for even better outcomes, rather than looking back and replicating the shortcomings of our past. SF

Jane Dharam and Neville Kitchin

Dawn Garrett and Reece Saywell

ASFA 2019 Budget Briefing

Adelaide

9 April

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Budget 2019-20, the Royal Commission and the regulators

JULIA STANNARD reports on recent legislative and regulatory news and developments affecting the superannuation industry.

The last month has been a hectic one for the industry, with a pre election Budget, further progress on implementation of the Royal Commission recommendations, and a spate of releases from the regulators before the move into caretaker government.

2019-20 BUDGET

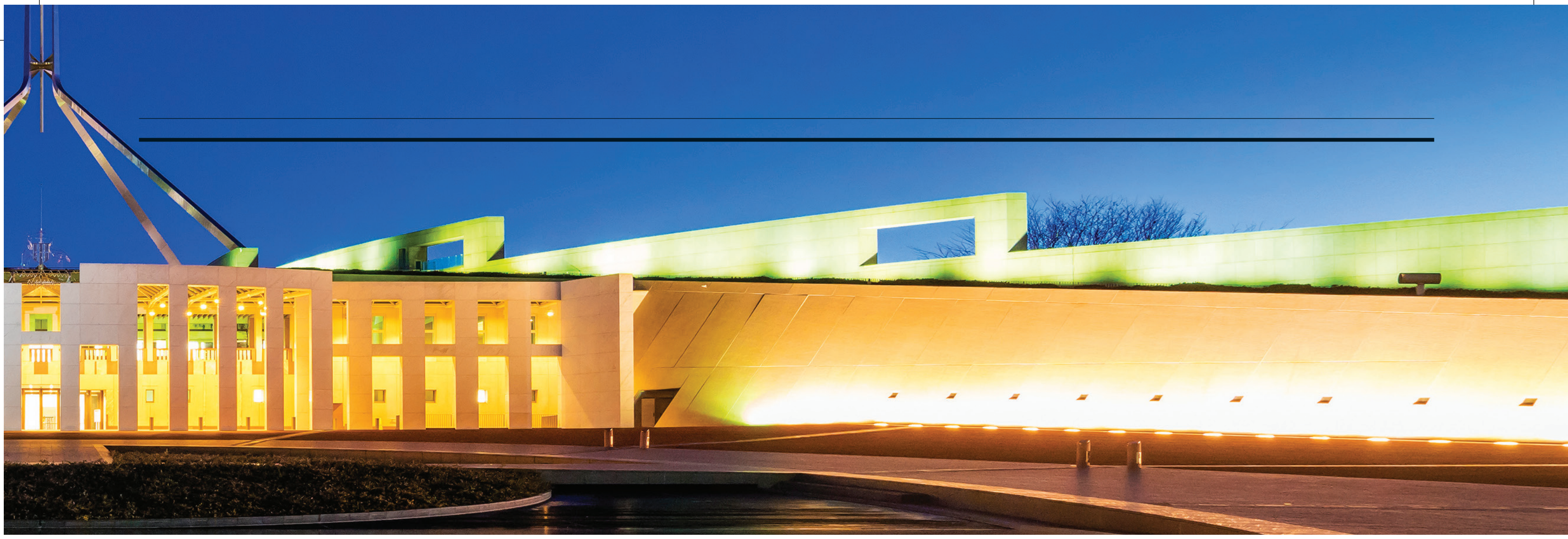
The Budget delivered on 2 April contained a few measures targeted specifically at superannuation, but no sweeping reforms. The most significant of these measures include:

1. **fund tax rules:** the current tax relief for merging superannuation funds (due to expire on 1 July 2020) will be made permanent and the requirements for the calculation of exempt current pension income will be simplified from 1 July 2020.
2. **contributions:** from 1 July 2020, individuals aged 65 and 66 will be permitted to make voluntary contributions (concessional and non-concessional) without meeting the work test, and will be eligible for the 'bring forward' arrangements which effectively allow access to a higher non-concessional contributions cap
3. **SuperStream:** the application of the SuperStream rollover standard to SMSF rollovers (due to take effect from 30 November 2019) will be deferred until 31 March 2021, and the rollover standard will be expanded from the same date to allow the ATO to send 'release authorities' to funds in electronic form
4. **Superannuation Consumer Advocate:** funding will be provided to identify options to support the establishment of a Superannuation Consumer Advocate, to provide input on behalf of consumers in policy discussions and provide information to educate and assist consumers navigate the superannuation system
5. **Superannuation Complaints Tribunal:** the SCT will be provided with additional funding to resolve outstanding complaints and cease operations by 31 December 2020 (previously the SCT was funded only until 30 June 2020). The additional funding will be recouped via funds' APRA levies.
6. **unpaid superannuation liabilities** — the ATO will receive additional funding to increase activities to recover unpaid tax and superannuation liabilities from larger businesses and high wealth individuals.

The Budget also recognised the delayed commencement date—1 October 2019—for the elements of the Protecting Your Superannuation (PYS) reforms that will require superannuation fund trustees to offer insurance to members on an opt-in (rather than opt-out) basis for accounts with balances under $6,000 and new accounts belonging to members under age 25. The commencement of these measures was deferred from 1 July 2019 when they were transferred from the PYS legislation in February, prior to its passage by Parliament, to the Treasury Laws Amendment (Putting Members' Interests First) Bill 2019. The Budget also recognised and accounted for other amendments that were made to the remaining aspects of the PYS legislation, but did not contain any new announcements in relation to PYS.

As expected, the Government's focus was directed more toward implementation of its response to the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, with in excess of $600 million in funding allocated over five years for measures including:

- designing and implementing an industry funded compensation scheme of last resort for consumers and small business
- providing the Australian Financial Complaints Authority with additional funding to help establish a historical redress scheme to consider eligible financial complaints dating back to 1 January 2008
- paying compensation owed to consumers from legacy unpaid external dispute resolution determinations
- resourcing ASIC to implement its new enforcement strategy and expand its capabilities and roles
- resourcing APRA to strengthen its supervisory and



- enforcement activities, including with respect to governance, culture and remuneration and supporting the extension of the Banking Executive Accountability Regime to all APRA-regulated entities, including superannuation funds
- establishing an independent financial regulator oversight authority, to assess and report on the effectiveness of ASIC and APRA in discharging their functions and meeting their statutory objectives
- undertaking a capability review of APRA
- establishing a Financial Services Reform Implementation Taskforce within the Treasury
- funding additional judges for the Federal Court of Australia, for the expansion of its jurisdiction to include financial sector criminal misconduct.

The APRA and ASIC funding components of this package are substantial and will be partially offset by revenue received through ASIC's industry funding model and increases in the financial institutions supervisory levies collected by APRA.

Additional details about the Budget announcements can be found in the Budget night ASFA Action, available in the member section of the ASFA website.

The outcome of the election on 18 May will determine if the Budget measures go ahead, or if the industry will instead be faced with implementation of an incoming Labor government's superannuation reforms.

IMPLEMENTING THE ROYAL COMMISSION

Prior to the calling of the election, the Government released consultation papers on it proposed response to two of the recommendations from the Royal Commission, following on from the series of consultations released during March.

Default MySuper group life cover

The Royal Commission recommended that Treasury determine, in consultation with industry, the practicability and likely pricing effects of legislating key definitions, terms and exclusions for default MySuper group life policies. Commissioner Hayne also recommended that this review should consider the merits of prescribing:

- higher minimum coverage for life insurance than is currently provided for by the Superannuation Guarantee (Administration) Regulations 2018
- minimum coverage for permanent incapacity insurance
- maximum coverage for life and/or permanent incapacity insurance
- a fixed level of coverage for life and/or permanent incapacity insurance so as to set a standard amount of default insurance across all MySuper products.

The Government agreed to this recommendation in its initial response to the Commission's report. On 28 March Treasury released an issues paper, Universal terms for insurance within MySuper, addressing the Commission's recommendations. Submissions closed on 26 April.

Superannuation binding death benefit nominations and kinship structures

During the Royal Commission evidence was heard about the Lockhart River community and the difficulties that some Aboriginal and Torres Strait Islander people faced when accessing their superannuation entitlements due to complexities associated with Indigenous kinship structures. While not making any specific recommendation, Commissioner Hayne urged "consultation with relevant Aboriginal and Torres Strait Islander people about whether they, as the relevant users of the system, see difficulties about binding death benefit nominations that should be met".

On 29 March Treasury released a discussion paper exploring the law surrounding the distribution of superannuation death benefits, Aboriginal and Torres Strait Islander peoples' kinship

structures and how these kinship structures are accommodated elsewhere in the law. The consultation process aims to identify if any law changes are required to address how the kinship structures of Aboriginal and Torres Strait Islander communities are treated by laws applying to superannuation death benefits. Submissions close on 24 May.

PROTECTING YOUR SUPER

The Government has finalised the Treasury Laws Amendment (Protecting Your Superannuation Package) Regulations 2019, to implement its Protecting Your Superannuation (PYS) package. The PYS package prevents trustees from providing insurance by default when an account has been inactive for more than 16 months. It also imposes caps and a prohibition on the charging of certain fees and expands the circumstances in which inactive, low-balance accounts must be transferred to the ATO for consolidation.

The regulations, which commenced on 6 April, address:

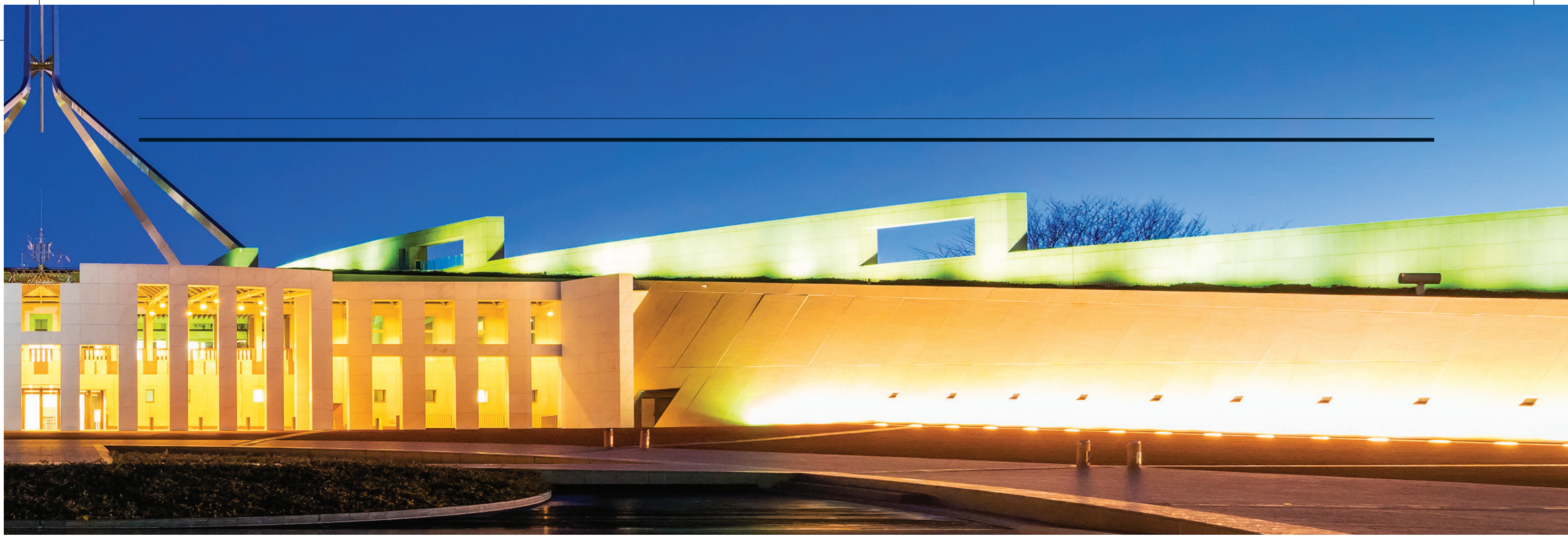
- further detail on when a trustee must notify members about certain matters, including:
  - where an account has been inactive and insurance may no longer be offered or maintained without a direction from the member
  - how a member who has directed the trustee to take out or maintain their insurance coverage can later cancel their insurance
  - the information that must be included in those notices
- additional detail needed to administer the fee cap including the percentage of the cap
- rules to direct the ATO as to which fund an amount should be paid to when consolidating amounts held by the ATO and the member has more than one active fund.

Separately, ASIC has outlined its expectations on superannuation fund trustees when communicating with members in relation to PYS. In particular, ASIC has emphasised that all notices/communications issued to members (and any other information published by trustees in respect of the changes introduced by the PYS legislation) should provide information in a balanced and factual way, that is not misleading and/or deceptive.

STATUS OF SUPERANNUATION BILLS

Parliament was prorogued on 11 April ahead of the election on 18 May. A number of Bills relevant to superannuation were finalised before Parliament rose and subsequently received Royal Assent, including:

- The Treasury Laws Amendment (Improving Accountability and Member Outcomes in Superannuation Measures No.1) Act 2019 – this Bill includes amendments to strengthen APRA's powers in relation to registrable superannuation entity (RSE) licensees and provide APRA with the ability to obtain information on expenses incurred by RSEs and RSE licensees in managing or operating the RSE. It also introduces an annual 'member outcomes' test for MySuper products, strengthens the prohibition on trustees incentivising employers, requires RSE licensees to hold annual members' meetings, and amends the portfolio holdings disclosure rules.
- The Treasury Laws Amendment (2019 Measures No. 1) Act 2019 – this was significantly amended prior to its passage, to remove provisions that would have increased the maximum number of members for a self-managed superannuation fund or small APRA fund from four to six. As passed, the Act still includes provisions bringing forward the time that an individual can enter into a contract to purchase or construct their first home under the First Home Super Saver Scheme, and repealing redundant rules that related to the transition of funds to the Superannuation Industry (Supervision) Act 1993.
- The Treasury Laws Amendment (Design and Distribution Obligations and Product Intervention Powers) Act 2019 – this Bill seeks to impose design and distribution obligations



on issuers of financial products and provide ASIC with a product intervention power.

- The Corporations Amendment (Strengthening Protections for Employee Entitlements) Act 2019 – this proposes amendments to the Corporations Act 2001 to deter behaviours that prevent, avoid or significantly reduce the recovery of employment entitlements—including superannuation contributions—in insolvency.

All Bills that had not been passed when Parliament was prorogued have now lapsed.

UPDATES FROM THE REGULATORS

APRA and ASIC have jointly written to all registrable superannuation entity licensees to reinforce the importance of trustees undertaking appropriate oversight of fee deductions from members' superannuation accounts for payment to third parties such as financial advisers. The letter follows the identification, during the Royal Commission, of cases of financial advice fees being charged without the provision of the relevant services.

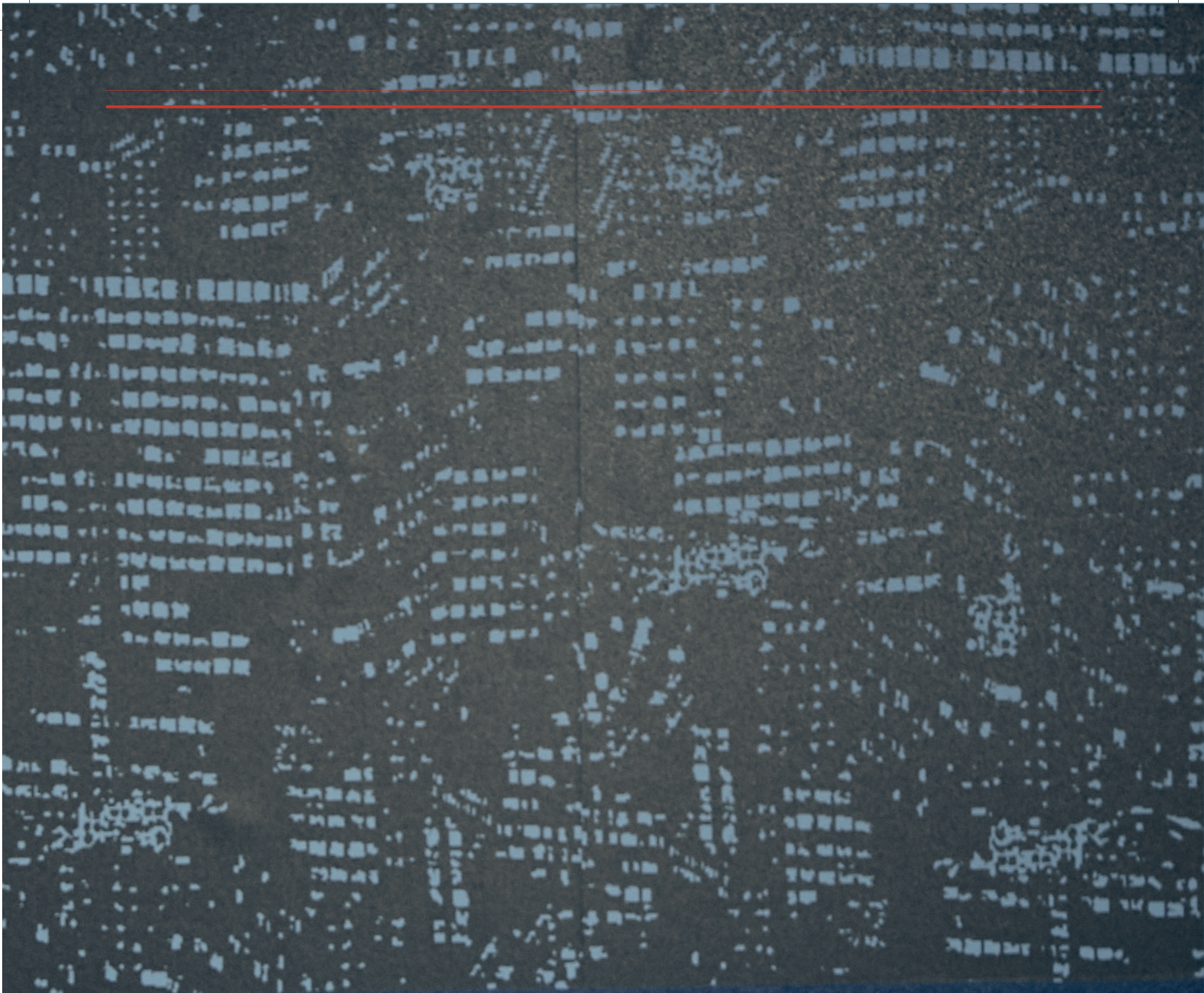
The letter states an expectation that all trustees will review the robustness of their existing governance and assurance arrangements for fees charged to members' superannuation accounts, address any identified areas for improvement in a timely manner, and consider whether any reportable breaches have occurred. It also highlights questions that are to be considered by trustees in their oversight practices in relation to the deduction of financial advice fees, as well as the regulators' concerns regarding the remediation arrangements adopted by trustees in some circumstances.

Separately, APRA has also:

- written to registrable superannuation entity licensees to outline its expectations on superannuation trustees and its areas of focus for the year ahead. In particular, the letter notes that APRA's focus will continue to be on ensuring that all trustees are putting their members first and meeting their responsibilities under the Superannuation Industry (Supervision) Act 1993
- indicated it will increase its scrutiny of how regulated entities—including superannuation trustees—are managing the financial risks of climate change to their businesses
- released for consultation an updated version of cross-industry on information security risks, following the recent finalisation of its cross-industry CPS 234 Information Security, which comes into effect from 1 July. Prudential Practice Guide 234 Information Security will replace the existing CPG 234 Management of Security Risk in Information and Information Technology. Submissions close on 17 May and APRA is aiming to finalise CPG 234 before CPS 234 comes into force on 1 July
- released details on the future role and use of enforcement activities in achieving its prudential objectives, as well as the final report from its recent Enforcement Strategy Review.

Since the last Superfunds, ASIC has:

- released Report 614 Financial advice: Mind the gap, confirming that many consumers are confused about the distinction between 'general' and 'personal' advice
- issued ASIC Corporations (Amendment) Instrument 2019/240, extending to 1 July 2023 the date from which choice product dashboards must be published. The instrument also extends interim relief from the requirement that dashboards must be included as part of a periodic statement given to members, allowing a trustee to instead include a website address for the latest product dashboard either in, or in a document accompanying, the periodic statement for reporting periods ending before 1 July 2023. SF



A simple equation

Rice Warner's new CEO Andrew Boal says customer focus is the answer to restoring trust and driving growth. By BEN POWER

Many funds in recent years have had a mantra of putting their members first, truly understanding what they want, and then delivering solutions to meet those needs.

But recent reviews and challenges facing the industry suggest that superannuation in Australia still has a way to go before it really becomes customer focused.

The Chair of ASFA's 2019 Conference Committee, Andrew Boal sees the Conference, to be held in Melbourne from November 13 to 15, as an exciting opportunity to collectively move superannuation and retirement closer towards the ideal of being truly customer focused.

"Maybe it's time for us at the Conference to sit back and really think about what our customers expect from us as an industry and how each individual fund can make a difference," he says. "We want to put lots of new ideas on the table so that attendees can go away after the Conference and improve the outcomes for their customers."

Boal, recently appointed as the new CEO of Rice Warner, sees a customer focus as a key, not only to restoring trust in financial services and superannuation, but also to driving growth at his new firm Rice Warner. "If you put the customer first, you're pretty hard pushed to go wrong," he says.

Boal began understanding the needs of his customers early in life. He was born in Daylesford in country Victoria, then grew up in small towns around Ballarat. At his one-teacher primary school in Glen Park, which had less than 20 students, he quickly became a maths prodigy. In the first week of year two he finished the entire year's book. So his teacher handed him the year three book to go on with.

By year four, he was helping the teacher with the younger students: Boal often taught years one to three while the teacher taught the older students. He quickly learnt to listen to the students—his customers—and adapt his teaching approach when they didn't grasp concepts. "It helped me learn to listen and understand when someone was struggling with a concept, so I could then find a different way to help them understand," he says.

His parents, who ran small potato farming operations, also instilled deep values. His father was the eldest of 13 and was forced to leave school during the "great depression" in the 1930's to help look after his family. "Dad was very smart," Boal says. "He wanted to be a doctor but never got the opportunity to finish his schooling. Mum and dad made a lot of sacrifices to give us all a good education. Knowing that, I never wanted to let them down. So when I got opportunities, I made sure I worked hard to make the most of it."

In year six he moved with his family into Ballarat and Boal won a scholarship to Ballarat Clarendon College in year seven.

In year 10 his brother, a nuclear physicist who recently retired from the World Health Organisation in Vienna, suggested he would suit an actuarial career given his strength in maths. Boal announced to his school's career counsellor that he wanted to become an actuary, and he was true to his word, completing a science degree with a double major in maths statistics at The University of Melbourne.

At University he played AFL for the University Blues and volleyball for the university team. But that focus on sports, as well as the fun of college ball season, saw him awarded a lowly F in one subject in the second semester of his second year.

Ironically, Boal believes that F helped him land his first job in January 1984 as an actuarial analyst at Palmer Trahair Owen & Whittle (PTOW, later becoming Towers Perrin). "The partner who interviewed me wanted someone who was not only bright and good at maths, but someone who had other interests," Boal says.

Boal then began a series of moves which put him in contact with influential mentors who helped him develop his career philosophy and values. At PTOW, senior partner Chris White instilled in him the importance of integrity and respect.

It was at Sedgwick Noble Lowndes, now part of Mercer, where senior consultant Geoff Duncan helped him understand how to build relationships with clients, to listen to customers and understand how you can help them. "He wasn't an actuary, but he was great at managing client relationships."

Boal joined The Wyatt Company in 1991, where then managing director Andrew Dillon taught him the importance of doing excellent work. "He said to me at the time, 'the client won't remember how much they paid for your advice, but they will always remember its quality,'" Boal says.

> "If you put the customer first, you're pretty hard pushed to go wrong."

Boal took those values of integrity, respect, excellence and listening to the customer into his leadership role when he became managing director of Watson Wyatt's Australian business in 2004. After a global merger with Towers Perrin in 2010, he then became managing director for Towers Watson in Australia.

Looking back, Boal says he is particularly proud of his work around the Ansett airlines collapse in 2001. The airline foundered after the September 11 terrorist attacks in the US.

With financial markets also crashing, the financial position of its defined benefits super funds also suffered. Boal was appointed actuary for one of the funds and he successfully worked with the trustees to find a way to fairly distribute the assets of the fund between workers who had just lost their job. "It was a very complex situation, with not all workers losing their job at the same time. I am very proud of the way we handled that, to find a great solution in difficult circumstances," he says.

During his 27 years at the various incarnations of what became Willis Towers Watson, Boal says he is also proud of the team that was built. "We managed to develop and retain a lot of very good staff that we had recruited over the decades. I am particularly proud of my role in helping to assemble a really good team of people and keeping them together for a long period of time, which I think is key to running a very successful consulting business."

Boal left Willis Towers Watson in January this year. When considering his next step, he reflected on what he wanted to achieve in the remainder of his career. "I started to think about my own purpose."

Photography: Lisa Saad

Throughout his career he had always been involved with superannuation and retirement. "Super and retirement have always been a core part of my career, especially as an actuary," he says. "My purpose really has always been to try and help our clients to improve the financial outcomes of their members. Whether that be through financial controls, risk management, investing, insurance, product design, or communications and education."

As part of that focus and purpose, Boal has sat on various committees at both ASFA and the Actuaries Institute, working on public policy to improve retirement outcomes.

From 2015 to recently, he sat on the ASFA board. Boal says that working with ASFA's Independent Chair, Dr Michael Easson, was very instructive, "watching and learning how he chaired the meeting". "That time on the board also demonstrated to me the wide variety of opinions in the industry, and the importance of listening to all the different stakeholders to understand what's driving them," he says.

After leaving Willis Towers Watson earlier this year, Boal considered becoming an independent consultant and board director. But, after speaking with Rice Warner CEO, Michael Rice, and a number of its board members, Boal decided to take on the CEO role at Rice Warner in early April.

He joins as the superannuation industry faces the results of a raft of reviews and impending changes. "We [Rice Warner] want to help our clients manage their way through that change and continue to focus on improving the outcomes for their members."

But Boal is also focused on growing the business. "As I have already discovered, we already do great work at Rice Warner and the firm is highly respected in the industry. I am looking forward to growing the business so we can help even more clients using the vast industry data and knowledge we have to create meaningful insights for our clients," he says.

Throughout his career Boal says he has managed to strike a good work life balance. "One key factor in being able to continue to work hard and have work life balance is to exercise and keep fit."

After suffering a knee injury, Boal had to give away tennis, but he now hits the gym three to four times a week. He also remains an avid AFL fan, attending St Kilda games, though he has also adopted the Melbourne Storm as his NRL team.

Boal says leaders have an important role in helping staff achieve work life balance too. When he coached his son's football and his daughter's netball teams, he had to leave work early to get to training sessions. He initially didn't tell people where he was going. "When I left the office early, people probably assumed I was going to a client meeting. If I was a woman, maybe they'd have assumed I was going to pick up the children or something."

Boal realised the mistake and made sure he let colleagues know his whereabouts. "If you're going to have work life balance as a key objective, leaders have to walk the talk and make it obvious so others feel they can do it too," he says.

That ability to manage life and work successfully has meant Boal can take on yet another challenge: chairing ASFA's 2019 Conference Committee.

In recent months Boal has been crafting five key conference themes: culture, customer, compliance, competition and change.

Boal says he began to think about what was going on in the whole financial services sector, but the super industry specifically. The first two Cs – culture and customer – emerged from the Royal Commission.

He says the superannuation industry has for years been trying to understand how to truly help customers with their retirement. The industry has lots of ideas, but "we need to make sure we really do put ourselves in the shoes of all the different types of members of the fund", he says. "Not all members are the same in their outlook and needs. We need to make sure we do think about the different expectations of our end customers."

"The culture and customer lens really jumped out at me," he adds. And, as an actuary trained to find patterns, Boal noticed that all the major forces impacting the industry began with the letter C.

The next C was competition. The industry is facing a number of changes, including how employers choose default funds, and new laws to prevent "hawking" and "treating". "All these things go to competition and what the industry will look like going forward," Boal says. "Competition runs to the heart of a lot of those things."

Compliance then followed. Boal notes that post-Hayne, both ASIC and APRA are re-energised and emboldened. "Compliance is going to be a huge issue as well," he says. "It also includes the sole purpose test and conflicts of interest, including how funds can help members through the maze that is financial advice and at the same time comply with all the laws and regulations."

The final C is change. Boal says all funds should regularly revisit their value proposition: how do they add value for their customers? "They have to have a very clear understanding of that," he says. "In some cases, funds may decide that, through the member outcomes test being introduced, they no longer have a sustainable value proposition for members and will decide to merge with another fund."

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we need to make sure we really do put ourselves in
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As a result, Boal says we are likely to see a lot more mergers happening. But there is also significant change in the investment world, including a greater focus on sustainability and climate change, as well as increased shareholder activism. "There is a whole lot of change happening in how we invest and in the landscape itself around mergers."

Boal says the five Cs "really jumped out at me and cover off on most things happening in the industry at the moment."

But if he could have conference attendees walk away with one key message it would be to focus on the customer. "How do you add value for your customer?"

From that, he wants funds to look at their own culture to make sure all staff inside the business have that frame of mind. "It also means that when you look at things around advice and helping members, they understand what community expectations are and comply with not only the letter of the law but also the spirit of the law."

Boal says that putting the customer first and really understanding them is obviously one of the core values he adopted early in his career, and the value harks back to his early days as a preternatural maths teacher as a young student in rural Victoria. "Like any business, superannuation should really be focused around its customers, understanding their needs, and working out how we help them," he says. SF

A new era of member engagement

The recently concluded Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry did not present a balanced view of the successes and failures of Australian life insurance, says **TYSON JOHNSTON**. However, it has given the industry a renewed focus on customer expectations.

While the full impact of the Royal Commission is not yet known, the perceived value of insurance products and the negative portrayal of insurers has the potential to further erode customer trust. Although many insurers genuinely continue to strive to be customer centric, the renewed focus on customer expectations means the industry will need to embrace this emerging challenge so as to better invest and re-engage with current and future customers.

What is abundantly clear is that there is a new era of community expectations and focusing on customer expectations should take priority over any incremental margin increases or competitive positioning. It must also be acknowledged however, that it would not be a good outcome if the pressure of customer expectations should result in illegitimate claims being paid. While this may be in the individual member's best interests, it is likely not in members' best interests as it will result in price increases for the whole member base.

ENGAGING THROUGH THE RELEVANT CHANNELS

Customer engagement has always been a challenge for superannuation, and it is no surprise why. The incoming Protecting Your Super package is going to give cohorts of members a choice about whether to retain life insurance cover or not. Trustees who can engage with their members will mitigate against the risk of deteriorating the integrity of the risk profile of their insurance pool. A more engaged membership would lead to higher opt in rates and what would likely result in more favourable pricing outcomes.

Life insurers will need to promote the benefits of insurance protection, tell the good news stories and reassure a market that is increasingly looking the other way. All trustees and insurers have success stories the industry can be proud of. It's time to tell the stories about returning members to work or to wellness, or how families have been provided for after the loss or impairment of a loved one. These marketing strategies are regularly employed by other industries.

As well as earning trust back from existing customers, better engagement is needed with new customers and younger audiences, for whom retirement and insurance is a so far out of sight and mind. Social Media News' November 2018 report, 'Social Media Statistics Australia', shows that 96 per cent of superannuation funds across the industry were using LinkedIn for marketing, while on average less than 10 per cent had a presence on significantly more popular forms of social media such as Instagram and Snapchat. While the move to use social media channels to engage is positive, directing to other forms of social media could be more effective.

EMBRACING TECHNOLOGY FOR CLAIMS

Members need to be at the core of all decisions, particularly the claims decisions. Harnessing new practises and technologies can reinvigorate the claims function, and allow assessors to focus on the member, rather than just completing process driven tasks.

Customers are increasingly demanding and make decisions not only based on price, but also convenience, a trustworthy brand and good customer service. As many companies are now learning, customers take their best digital experience and expect this to apply to every situation. Despite this, the ability to benefit from automation or self-service functionality remains uncommon across the life insurance market. A greater use of automation and self-service technology could better connect customers with an insurer's brand and ensure their engagement is deeper and more valuable as a result.

To build customer confidence, it is paramount that future technologies also support the consistent and transparent delivery of claims management outcomes. Best practice will demand that claims assessment and philosophies are embedded in technology to standardise the way claims are managed. This would ensure that desired outcomes for each customer are aligned with the stated claims philosophy, for all relevant conditions.

Using technology, insurers and their partners can collaborate and define claims assessment rules that are reflexive and identify opportunities for streamlined assessment and early engagement with specialist care. This optimal solution could also manage and track a member's claim journey in a way that is fast, tailored and keeps the member informed from end to end.

Pacific Life Re recently commissioned a consumer research project to help understand the preferences of Australians when engaging with their life insurance. Unsurprisingly, this research identified that the majority of people (66 per cent) would prefer to lodge an insurance claim online instead of using the traditional methods of telephone calls and mailing paper claims forms. This demand was higher for younger age groups as outlined below.

This research also identified that most people, if they were unable to continue working, would prefer their claim be paid out in regular instalments (instead of a lump sum payment), more conveniently correlating with ongoing rehabilitation treatment expenses. This would encourage people to commit to an ongoing rehabilitation program, increasing the likelihood of them returning to wellness.

RETURNING MEMBERS TO WORK AND WELLNESS THROUGH REHABILITATION

Too often, rehabilitation is utilised on an ad hoc basis. Having a responsive identifier in place that consistently flags rehabilitation opportunities early, would allow insurers to prevent claims sitting dormant while a customer's health deteriorates, leading to more extreme healthcare measures and higher costs in the long run. Product limitations such as waiting periods should also be reviewed as they often delay a claim or assessment which could hinder early engagement and rehabilitation opportunities. Success for a rehabilitation function should not only be measured in return to work outcomes. Returning members to wellness should be just as important.

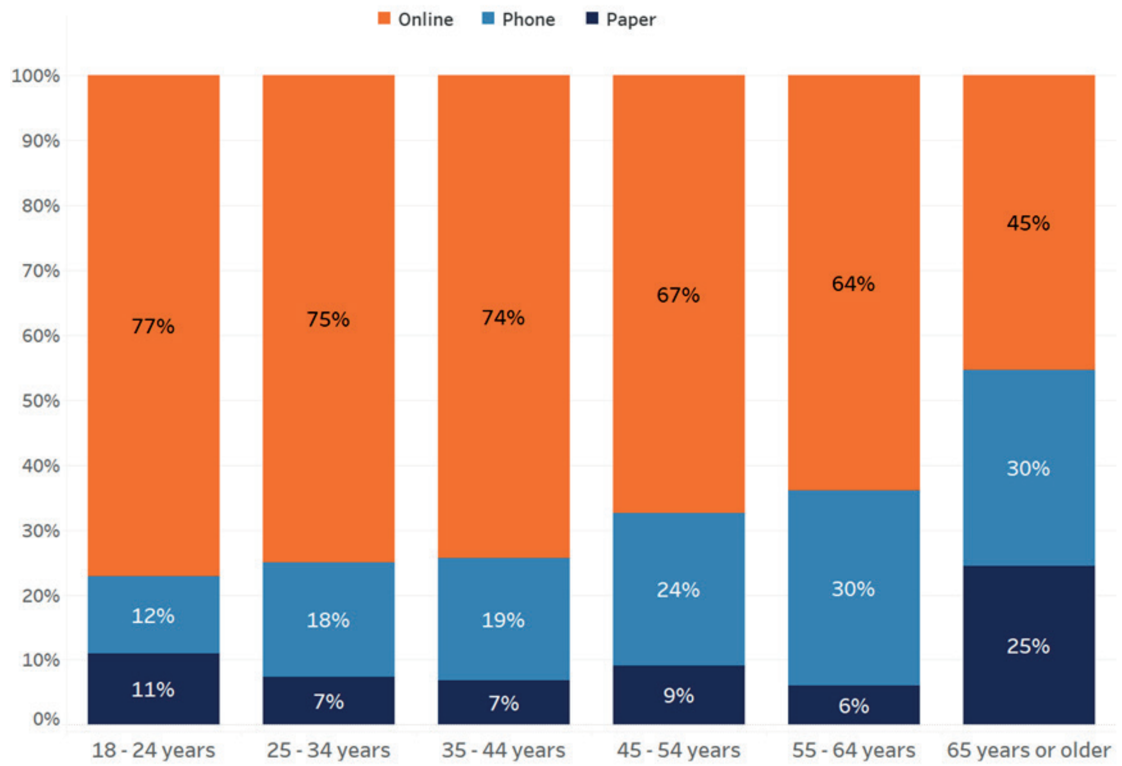
Looking to the future, there is a powerful opportunity where big data, wearables and automation intersect to enable early identification of deterioration in health. Capturing and analysing data on sleeping patterns, fitness and general health would allow the insurer to identify opportunities to contact members before a potential claim. This also represents another powerful opportunity for engagement. The health insurance sector demonstrates that this is possible, as it already utilises real time data integration, connecting digital services to optimise health coaching.

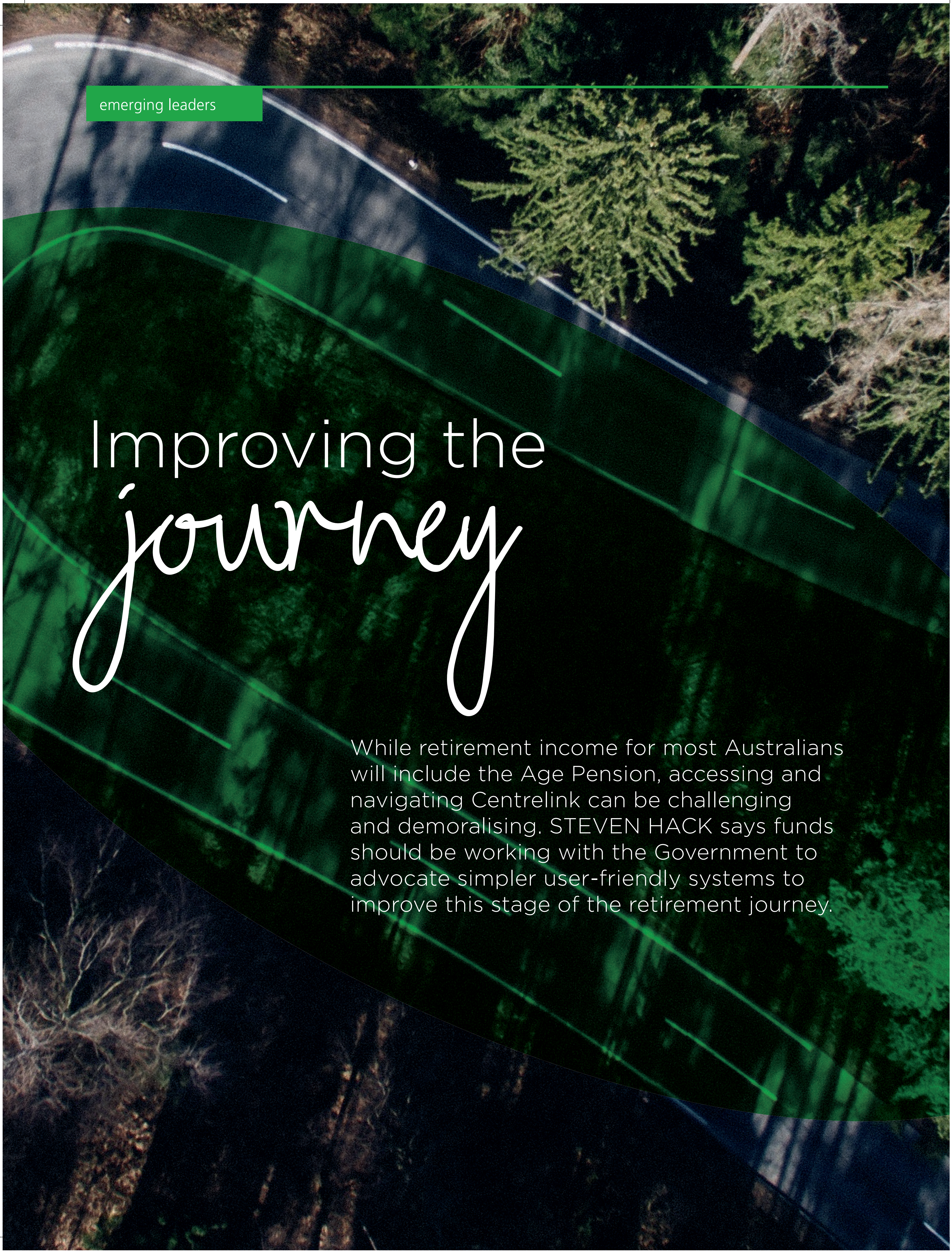
WHAT NEXT?

Community expectations have well and truly shifted, and this is a crucial time in which the industry must work hard to win back the trust of its customers – and a big part of this means genuinely engaging with customers. Insurers that harness new technologies to reach, service and meaningfully engage with their members, to track and ensure their optimum health at all stages, will truly implement effective change in their claims function. SF

Tyson Johnston is head of client solutions at Pacific Life Re

How would you prefer to lodge a life insurance claim?





Improving the journey

While retirement income for most Australians will include the Age Pension, accessing and navigating Centrelink can be challenging and demoralising. STEVEN HACK says funds should be working with the Government to advocate simpler user-friendly systems to improve this stage of the retirement journey.

In the age of the customer, as super funds strive to be at the centre of any and all financial decisions, how funds assist and advise members in retirement falls woefully short. Most retirement plans are carefully calculated with income stream drawdowns, matching asset allocations, longevity projections; coupled with dedicated implementation and ongoing support. Yet when it comes to applying for and maintaining the Age Pension members are often sent a balance letter and wished the best of luck.

A couple with enough superannuation assets for a comfortable retirement standard, as defined by ASFA, will still receive approximately $14,000 per annum via the Age Pension. 63 per cent of all seniors receive either a full or part pension in retirement. It is a crucial cornerstone of retirement income.

Many members find the Centrelink and Age Pension experience daunting, demoralising and demeaning. In a comprehensive study (The Centrelink Experience: From 'waiting, frustrating, hopeless' to 'helpful, friendly, positive') conducted by National Seniors Australia and Retirement Essentials in June 2018, 61.5 per cent of people who had applied for an age pension since 2016 were left dissatisfied or ambivalent with their experience. 82 per cent of all respondents identified that they sought help and assistance with the process.

However, funds assisting members with their superannuation retirement income needs have limited scope to help them in their interactions with Centrelink, being at odds with the sole purpose test. In fact, APRA and ASIC recently wrote to trustees, including in their correspondence the following:

3. Is the deduction consistent with the sole purpose test? The sole purpose test (section 62 of the Superannuation Industry (Supervision) Act 1993) means that only costs associated with advice that relates to the member's superannuation and insurance obtained through superannuation may be deducted from the member's superannuation account. Advice that relates to investments outside of superannuation, for instance, cannot be funded from superannuation account deductions. There is a range of data points accessible to trustees that would suggest the deductions made may be inconsistent with the sole purpose test (for instance, the value or frequency of the deduction for the fee).

In this context an option for a fund might be for advice about Centrelink to be provided by a related entity and be charged for directly rather than a deduction being made from a member's account.

APPLYING FOR PAYMENT

Looking at most funds' forms and guides for their account-based pension products, members are required to complete 10 to 15 questions and supply proof of identification. Funds would normally then set up this ongoing income stream within 5 to 10 working days. All in all, a fairly easy set up compared to applying for the Age Pension.

To apply for Age Pension you are required to answer up to 90 questions on eligibility and 59 questions on assets and income. You must provide evidence of every bank account you own as at the application date, provide evidence of assets and superannuation, prove your identity by presenting at a Centrelink office. And that's if your situation is simple.

If you or your partner are still working, you are required to report fortnightly and provide them with your last year's tax return, which may have nothing to do with your future income.

If you owned a business that is another 24 questions plus providing complete evidence of the business including tax returns, even if you are winding down the business.

Own an investment property and that's another 45 questions plus proof. And if any of these assets, business or income are part of a trust there is a supplementary 97 questions about that ownership structure.

All these additional questions and documentation may not even be used in your assessment as they may only reflect the past scenario and not the current situation as it is common for people to wind down businesses or sell assets prior to retirement.

CENTRELINK TECHNOLOGY DRIVE

In 2015 Centrelink started receiving funding for its Welfare Payment Infrastructure Transformation (WPIT) project. This project is described as such on the Centrelink website:

"WPIT will change the way we service the community. It will help us modernise our processes and technology to better meet the needs of all customers.

Transforming welfare service delivery will make it easier for people to interact with government. It also means people will have a seamless experience across face-to-face, phone and digital channels."

On face value this digital overhaul is perhaps long awaited and if Centrelink can deliver on this promise that would be a great outcome for everyone. The project is entering the third tranche now which is focused on jobseekers, older Australians, carers and those with disabilities. This tranche will cost the Australian Government $600 million over four years. The total project is expected to cost $1.5 billion over its life.

CENTRELINK OUTCOMES

Centrelink is currently driving everyone to set up, use and apply for their entitlements via the myGov platform. Many clients report the experience of walking into a Centrelink office for the first time as quite confronting; being greeted at the triage desk and then told to go use the bank of computers where there is very little personal assistance. Many may never have used myGov before, or the last time they did was so long ago they have forgotten all their passwords.

Clients have also reported incorrect information being given to them by staff, especially where they appear to have too many assets to receive any benefit. They describe being 'laughed out of the office' after being told they ineligible for anything because they have too much money, or too high an income but in reality, can often be eligible for a small Age Pension or the Commonwealth Seniors Health Card (CSHC). A couple can have income of just under $110,000 per annum and still qualify. If they are both not working, they can have superannuation assets of over $3.2 million and still receive this card, as superannuation and account-based pensions are deemed under the income test.

Centrelink has a Key Performance Measurement of processing 80 per cent of all age pension claims within 49 days. However, in the senate estimates a response given to a question on notice from Centrelink showed that 48.5 percent of the 61,460 applications fell outside of that service standard. 9,899 of those claims were older than 26 weeks.

In a perfect world every one of our members would be able to simply set up a myGov account and log in to complete their Age Pension application. However, the difficulties that the elderly and remote face with technology are well documented.

Even if our members have access to the internet, they may not have the comprehension, literacy and numeracy required to adequately complete the process.

DIGITAL INCLUSION

Telstra with the assistance of Roy Morgan, RMIT University and the Centre for Social Impact at Swinburne University, publish and measure digital inclusion in a report that measures the Australian Digital Inclusion Index (ADII). In 2018 their third iteration of the report found that digital inclusion for the majority of Australians is improving but the divide is widening in certain cohorts.

The index measures such things as access, affordability and internet ability to create a rating out of 100. The average for all Australians is 60.2.

Their work also focuses on the divide between various cohorts. Unsurprising is the divide between rich and poor Australians. The richest household income cohort has an average of 72.1 versus 41.3 for those with the lowest household income. This divide has been widening since 2014.

The 'Capital – Country gap' between rural and capital city Australia has improved over the last three years but remains at 8.5 points higher in capital cities (62.4) than in country areas (53.9).

Rank	Select Demographic	ADII Score	Points change since 2017	Ranking change since 2017
1	Household Income Q5 (Under $35k)	41.3	+1.3	-
2	Mobile Only	42.7	+1.2	-
3	Aged 65+	46.0	+2.3	-
4	Less than secondary education	47.4	+2.0	-
5	Disability	49.2	+1.2	-
6	Household Income Q4 ($35k-60k)	51.3	+1.6	-
7	Not in labour force	52.0	+2.1	-
8	Indigenous Australians	54.4	+3.4	-
9	Age 50-64 years	58.1	+2.7	-
10	Completed Secondary	58.3	+2.9	-
Australia		60.2	+2.2	-

> Those Australians who most require the assistance of Centrelink are being excluded through low digital inclusion.

As you can see the top groups of people with low digital inclusion scores are those with the lowest household income, people who only have mobile access, people over the age of 65, people with low levels of education and those with a disability.

These are the exact cohorts of people that require the most assistance with Centrelink and the Age Pension, yet they are being driven to a digital only solution.

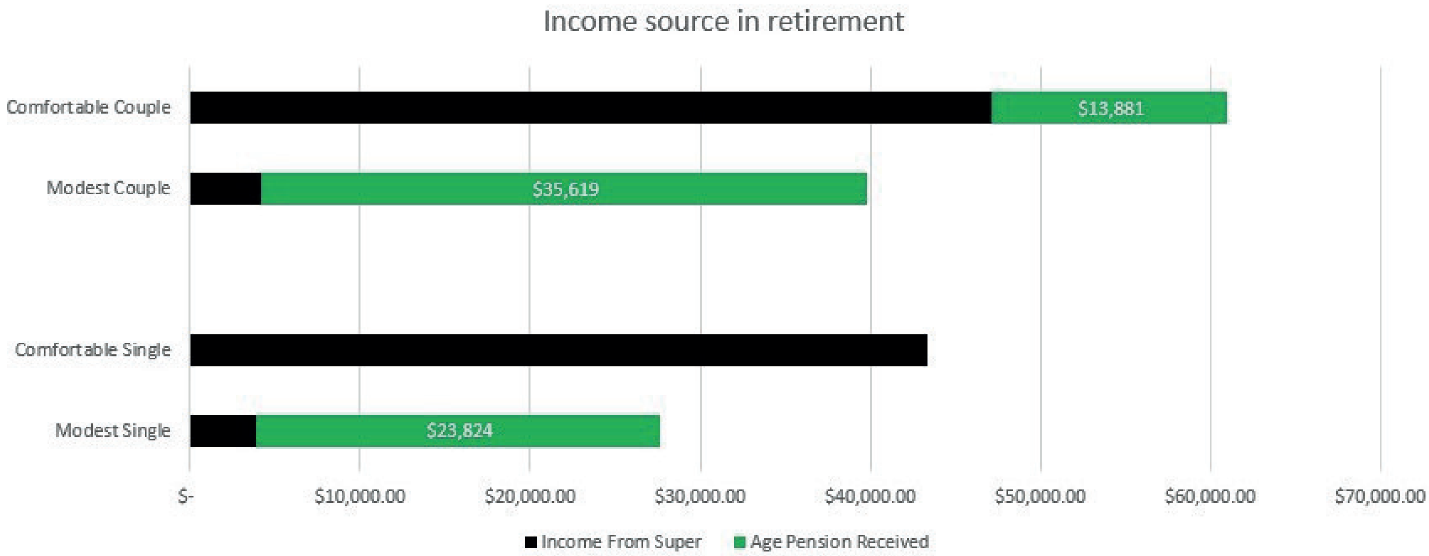
INDUSTRY LEADERSHIP

Australia's superannuation industry continues to demonstrate its ability to innovate solutions, processes and services that improve the member experience. The super industry must work with the Government and Centrelink to advocate for change to their technology and service programs to improve and simplify member access to the Age Pension, the backbone of the Australian retirement system.

These solutions cannot just be an elegant digital design but must focus on the real needs of their customers, our members. Those Australians who most require the assistance of Centrelink are being excluded through low digital inclusion. While it's possible to build the most elegant solution, it's worthless if no one uses it or understands it.

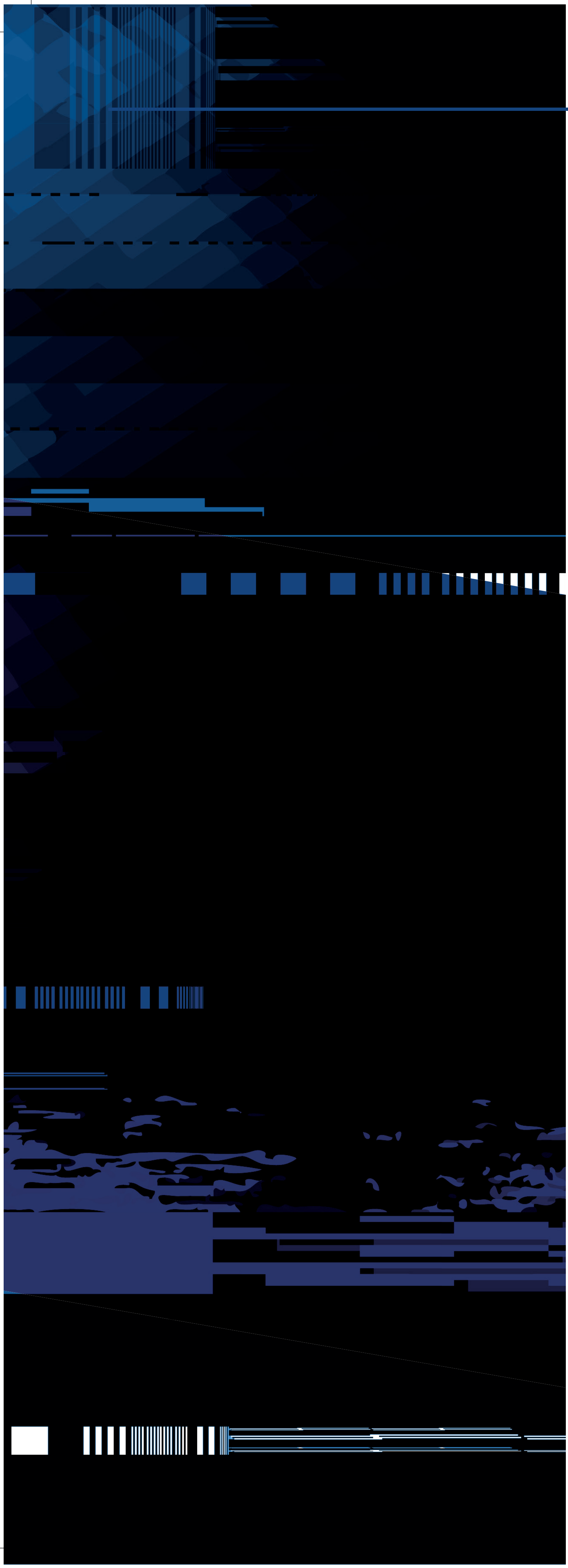
As the largest generation enters into retirement, we owe it to our members, clients and customers to assist them in all areas of their retirement journey. SF

Steven Hack is manager, product and advice at BUSSQ



EXPECTATIONS vs reality

While it seems Australians may not spend as much in retirement as they expect, uncertainty about having enough money in retirement may cause them to be overly frugal. A new report from Mercer Australia says retirees' great expectations do not mirror reality. MEREDITH BOOTH.



The good news for Australians is they may not spend as much in retirement as they expect. The bad news, however, is retirees are uncertain of what they actually can afford and if they have enough savings or not, leading them to being frugal for fear of running out of money.

Mercer recently surveyed 1000 Australians aged 55 and older, with at least $50,000 in their super accounts, how long they thought they would live, how much money they expected to spend in retirement and what their concerns were about aged care costs.

The first in a three-part series called *Great Expectations: Attitudes and Behaviours amongst Australian Retirees Part 1: Spending Preferences*, shows where pre- and post-retirees expect to get their income once they retire, how much they expect to spend and whether this aligns to current retiree experiences.

Co-author Will Burkitt, Mercer Australia's post-retirement innovation leader, says expectations differ greatly from reality.

While the survey found most retirees (81 per cent) will source their retirement income from either superannuation or the Age Pension, many are spending significantly less in retirement than they expected.

RETIREES SPENDING LESS THAN THEY EXPECTED

Mercer found 44 per cent of people surveyed, with less than $100,000 in their super accounts, thought they would need more income at retirement than they were currently receiving but the reality was only 10 per cent of people with these balances, spent more in retirement.

"The amount of money people think they will need in retirement does not align to what retired people are actually spending. If we assume this is because people do not have the savings they need and are forced to spend less in retirement, it demonstrates a clear need for better communication and engagement," Mr Burkitt says.

"For example, super members' annual statements have historically only included their balance but this is very difficult to convert into an income. You can see how someone with $100,000 in their super could think this will be enough because it's a lot of money. However, in reality, this balance is only likely to achieve $4400 a year."

He says many Australians reaching pension access age today will spend 20 years or more in retirement which puts significant pressure on their personal retirement savings and future Government budgets from expenditure on the Aged Pension, aged care and health support.

"From a pure economics perspective, every dollar saved now needs to work harder to maintain our standard of living," he says.

	EXPECTATION		REALITY
MORE	44 per cent of pre-retirees with less than $100K in super thought they'd need more income in retirement than they were currently receiving.	→	Only 10 per cent with balances of this magnitude spent more in retirement than before they retired.
	Only 5 per cent of those with more than $750K thought they'd need more in retirement.	→	25 per cent of people with balances over $750K actually spent more in retirement.
SAME	60 per cent expected to need about the same or slightly less money in retirement. This expectation was the most common among those with large balances.	→	55 per cent of retirees spent about the same or slightly less in retirement. Interestingly this was fairly consistent across all people in the survey regardless of the size of their balance.
LESS	The biggest differential was for those expecting to need a lot less income in retirement, only 9 per cent in total.	→	This was a lot lower than the 34 per cent who spent significantly less in retirement. This was consistent for all respondent with balances of less than $750K. However, only 15 per cent of those with more than $750K spent significantly less.

AUSTRALIANS UNDERESTIMATE HOW LONG THEY WILL LIVE

In line with similar research, Mercer found young people are underestimating their life expectancy, currently at 80.5 years for men born in 2017 and 84.6 years for women, yet older people are the opposite by overestimating their life expectancy.

In reality, the Mercer report shows for Australian retirees on a traditional account-based pension, this could mean initially withdrawing too much, depleting balance levels and then psychologically wrestling with the concern in later life of living longer, than average life expectancy, however without the necessary savings to support them.

"Most people don't have an accurate enough understanding of their future life expectancy and needs. There are two gaps for Australian retirees currently; firstly, there remains a lack of cohesive information provided to them, in a format which is easy to access and understand. Secondly, not enough Australians proactively create a retirement plan," Burkitt says.

"Australian's leading into retirement are underestimating how long they're going to live, which may lead them to spend too much or misalign their expenditure in the earlier years of retirement. Only to then become concerned about not having enough savings left, particularly for unforeseen health or aged care costs which can lead to people underspending in the middle and later years of their retirement. This is exacerbated by their developing concern about the possibility of living longer than they initially expected. This is depriving Australians of living a quality of life which maximises their potential throughout retirement," Burkitt says.

"It also speaks to those potential gaps that people fear around large amounts for aged care and other unknowns."

Burkitt says longevity products, such as annuities, are popular in other countries, and can ensure an income for the whole of life, but Australians have seen "a few false starts".

"The longevity product market is really at its infancy and has had a couple of false starts previously … the problems include the complexity of these products for people to understand, inadequate product structuring, concerns of foregoing hard-earned savings now for a potential future benefit and locking in low-income distributions because of the low return environment that we're in," he says.

"The prolonged low-interest rate environment has favoured home-owners with debt during their accumulation working phase but the opposite for Australians' in their retirement

> While funds are finding ways to engage with members as early as possible, the optimal time seems to be around the age of 50

who no longer work to receive income and instead rely on investment returns to preserve their savings levels whilst drawing on them for day to day consumption needs."

Annuities are products acquired at the start of retirement which can quarantine a recommended 20 to 30 per cent of balances to deliver long term income distributions.

"If you have say $500,000 at retirement, this could mean putting away one to two hundred thousand dollars into a product which has the benefit of providing comfort that you have a certainty of receiving income to use in your later years, rather than running out," he said.

Burkitt says Mercer's report was designed to tap into a normal Australian perspective on retirement and to understand retiree behaviour and expectations.

Mercer's sequel report, *Part 2: The Ideal Retirement Solution*, explores desired retirement income solution features and how these might impact on Australian retiree behaviour. The final report in the three part series will look at retiree awareness of existing options as well as views on financial advice.

It comes as former Liberal treasurer Peter Costello said Australia's $2.7 trillion superannuation system has focused for too long on the accumulation phase without planning for how Australians will spend it in retirement.

"The Government concentrated on getting money into superannuation but didn't show much interest in what happened to it," he told ABC's 7.30 program recently.

LOW CONCERN ABOUT AGED CARE COSTS – A BLINDSPOT

Stories emerging from the current Royal Commission into Aged Care are likely promoting Australians' awareness of the need for quality ageing care and living, but most early retirees are not immediately concerned with the costs, and of finding it, Mercer says.

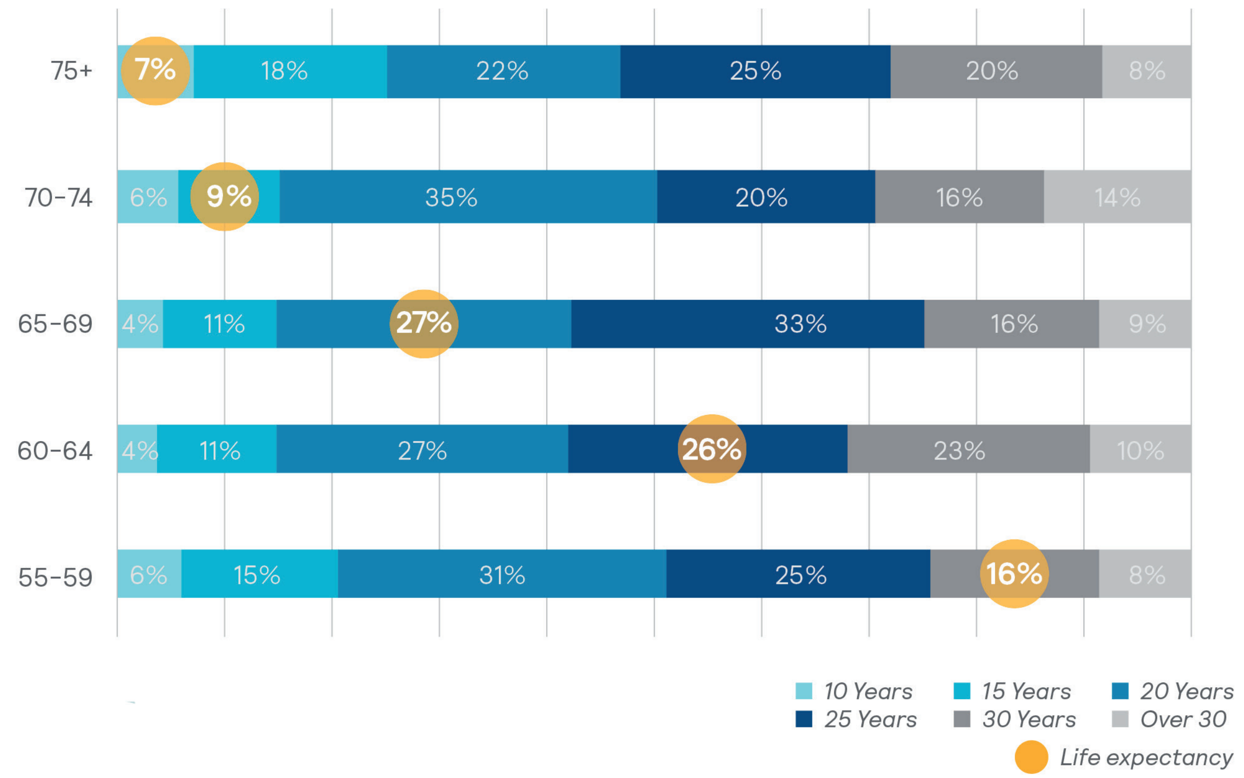
Almost half (49 per cent) of pre-retiree men were not concerned about aged care costs, suggesting this issue was not at the forefront of people's minds even as they age, Burkitt says.

"The main difference we saw was between men and women with 35 per cent of women saying they were concerned compared to just 18 per cent of men," he says.

"That's not surprising. Women live longer than men on average and secondly, women are more likely to be the primary carer within the family. Carers Australia found that 70 per cent of primary carers are women."

"I'm concerned that not enough people understand ageing

HOW LONG DOES YOUR RETIREMENT SAVINGS NEED TO LAST?



care and living needs for themselves, or in many cases for their parents; this forces them into the horrible situation of reactively finding care for home or moving to a residential aged care home whilst under emotional duress, taking large amounts of time to navigate the complexities of the aged care system and having to make one of the most important and financially large decisions of their lives," Burkitt says.

"Most people prefer not to talk with friends and family about ageing and the connotation of deterioration in life leading to death.

"Fear drives people not to address it and that is the worst thing someone, and a family, can do.

"It may be they already have plans in place for ageing care and living arrangements or perhaps, more likely, there is a lack of understanding of the cost, time and emotion involved."

Burkitt says super funds are one of the most trusted institutions within an Australian's life and hence they are in an enviable position to help members navigate the complex issue of aged care by educating retirees and directing them towards suitable solutions.

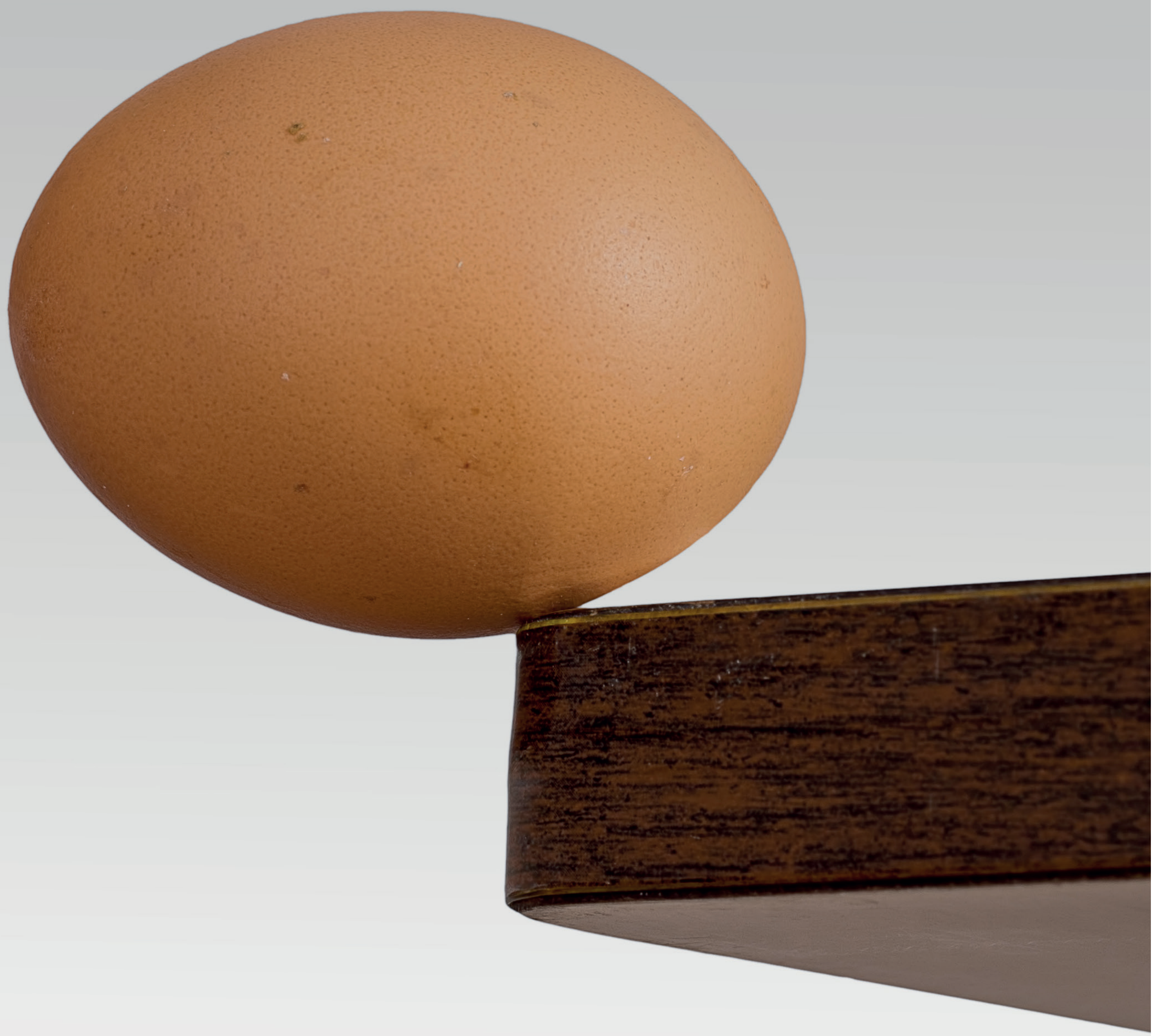
While funds are finding ways to engage with members as early as possible, the optimal time seems to be around the age of 50, when members have almost paid off their mortgage, school fees are coming to a close and they begin to focus on planning for retirement, Burkitt says.

Mercer is in discussions with some of Australia's largest superannuation funds on helping them design fit-for-purpose solutions for their members and customers based on the report's findings.

"Super funds have a unique opportunity to extend the strong foundation developed over the past 27 years since compulsory super was introduced to now serve their members in a much more holistic and integrated manner as they enter into and within their retirement. Serve them for their real-life retirement needs across wealth, health and career," Burkitt concludes. SF

Meredith Booth is a finance journalist

retirement



Tipping point

Transitions to retirement will soon exceed the total amount of mandatory contributions. Speaking recently at the *2019 ASFA NSW Conference*, **ASHTON JONES** explores what will happen when the retirement tipping point is reached, and retirement flows begin to outstrip mandatory contributions.

Almost 20 years ago, Malcolm Gladwell popularised the theory that rapid change is always preceded by seismic shifts in orthodoxy, in his book *The Tipping Point: How Little Things Can Make a Big Difference*. These tipping points can be identified throughout modern history – everything from the fall in New York crime rates, to the dominance of the iPhone, to the rise of political populism (think Trump and Brexit).

Many speculate that, in years to come, 2019 in Australian financial services will be most remembered for the release of the Royal Commission report. However, there is a tipping point that will change the superannuation industry even more profoundly.

Within the next few years, it is possible that transitions to retirement (assets flowing from accumulation into pension phase) will exceed the total amount of mandatory contributions into APRA-regulated funds. Once this retirement tipping point is reached, retirement flows will begin to outstrip mandatory contributions in an exponential fashion.

This trend will accelerate most funds moving into net outflow position (paying more money out than they are receiving in). Eventually, some funds will be pumping out as much money as banks' daily payments processes. Superannuation funds will bear an even heavier societal burden once this retirement tipping point is reached. Millions of Australians will be reliant on them for their weekly paycheck, paying the rent, putting food on the table.

How can funds live up to this lofty position? Largely, it will come back to familiar fundamentals – risk, insurance and performance. But, it's up to funds to confront the reality that their current retirement propositions are not fit-for-purpose to service retirees with a range of different needs and preferences. Funds will need to evolve their account-based pension retirement proposition to factor in more retiree-appropriate fundamentals.

> We need to find new long-term performance measures that allow members to compare which funds are most likely to maximise their retirement outcome and deliver the highest total income for life.

RISK

Our traditional risk models have largely centred on the risk/return trade-off – managing unproductive volatility through diversification. In recent times, some funds have sought to use their muscle and scale to boost member returns by accessing asset classes that are largely unavailable to retail investors (private equity, infrastructure and unlisted alternatives). However, as funds move into net outflow they will need to be more conscious of sequencing and liquidity risk as more retirees draw down on their pension accounts. In particular, funds should not sacrifice appropriate access to liquidity (such as through cash and defensive allocations) in pursuit of a few extra basis points of expected returns.

INSURANCE

Despite recent regulatory pressure and industry commentary, group insurance is still the most efficient method of delivering protection to Australians at scale. Group insurers, in the main, pay out the majority of premiums collected through claims (80 per cent to 85 per cent loss ratio). However, this won't be enough in future as cross subsidies between young and old become more apparent and retirees start to wake up to the fact that Death, TPD and IP are less relevant forms of cover the older they get. The solution for insurers? Take the best parts of the insurance through super framework and apply it to managing the most important protection need for retirees—insuring against the risk of living longer than your savings. There's a lesson here for government as well—mortality pooling benefits only arise at scale; we must leverage the scale of our existing group insurance framework in the development of the Comprehensive Income Product for Retirement (CIPR) legislation.

PERFORMANCE

For an industry that should have a very long-term focus, we can be extraordinarily short-term in our thinking. Nothing illustrates this better than monthly performance league tables for investment returns. This short-termism fosters an unhelpful member mentality around the sustainability of returns and hinders a sensible philosophy of staying the course over the long term. Fund performance evaluations need to go back-to-basics and re-examine the very purpose of our industry – to provide sustainable and adequate retirement income. We need to find new long-term performance measures that allow members to compare which funds are most likely to maximise their retirement outcome and deliver the highest total income for life.

The development of CIPRs cannot just be another compliance exercise for the industry – there are sure to be more than enough of them in the years to come. Instead, funds should view this as an opportunity to invest in their most important emerging cohort and realise the overall retirement income objective of the system. If funds can do this, they will provide members with a purposeful and dignified retirement that will last long until the future. **SF**

Ashton Jones is head of investments, retirement and new propositions at TAL

A more precise way to measure after-tax performance: FTSE ASFA Australia Index

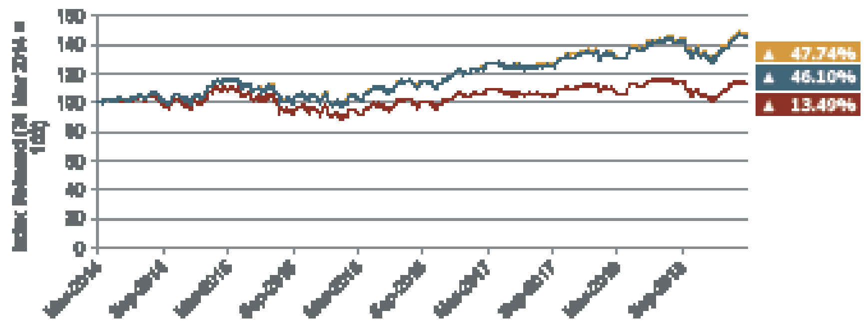
Data as at: 29 March 2019

The FTSE ASFA partnership is focused on providing Australian superannuation funds, fund managers and other stakeholders with industry standard after-tax benchmarks developed specifically to assist the transition to after-tax performance measurement and reporting. The FTSE ASFA Australia Index Series provides superannuation funds with a range of after-tax benchmarking options to make tax efficient investing a focus in every portfolio, whether it's optimising value from franking credits, participating in off-market buy-backs, managing capital gains tax more efficiently or all three.

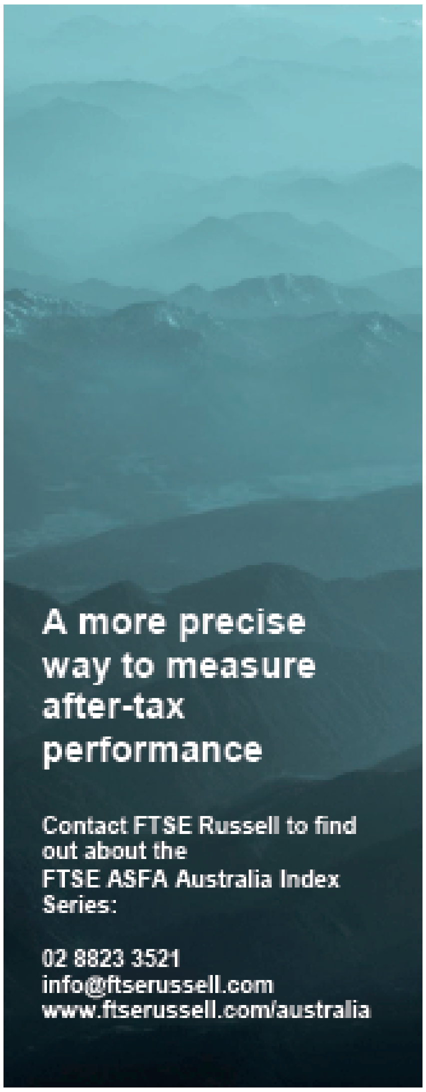
Performance highlights

- The FTSE ASFA Australia 200 Index finished the month up 0.78 per cent
- Price returns contributed -0.61 per cent to the FTSE ASFA Australia 200 Index return financial year to date
- Pre-tax income returns contributed 4.11 per cent to the Index
- The Index has realised 0.01 per cent of capital gains tax financial year to date, and is sitting on unrealised CGT liability of 3.58 per cent as at the end of March

FTSE ASFA Australia 200 Index 5-year performance - price / total return (AUD)



- FTSE ASFA Australia 200 Index - Price Index
- FTSE ASFA Australia 200 Index - Superannuation*
- FTSE ASFA Australia 200 Index - Superannuation - Realised CGT-Adjusted*



Attribution of FTSE ASFA Australia 200 Index - superannuation CGT by financial year

	2013-2014 %	2014-2015 %	2015-2016 %	2016-2017 %	2017-2018 %	2018-2019# %
Price Return	12.18	0.90	-4.49	9.30	8.28	-0.61
Income Return	5.19	4.61	4.76	4.82	4.85	4.11
Franking Credits Contribution	1.88	1.53	1.66	1.64	1.57	1.51
Off-Market Buy-Back (Net of Tax)	-	0.02	0.00	0.02	0.01	0.20
Tax on Grossed Up Dividends	[illegible]	-0.96	-0.99	-0.98	-1.00	-0.86
Realised Capital Gains Tax (CGT)	-	-	-0.23	-0.03	-0.54	-0.01
Realised CGT-Adjusted Total Return	[illegible]	[illegible]	0.71	14.74	13.27	4.33
Unrealised CGT / DTA at Financial Year End	-3.03	-2.89	-0.88	-2.15	-3.65	-3.58
2-way Review Turnover	3.02	5.16	5.91	3.58	2.71	2.52
2-way Forced Turnover	38.25	37.57	37.82	38.94	38.88	-

* Superannuation Indexes incorporate franking credits and the after-tax effects of off-market buy-backs in the dividend performance calculation. # Financial year to date

Source: FTSE Russell

super verdict

Members don’t understand super – what can we do?

MATT DALEY, JANE PASKIN AND VANESSA PALLONE OF CLAYTON UTZ

Given the Australian Financial Complaints Authority (AFCA) has taken over from the Superannuation Complaints Tribunal for new complaints, we thought it timely to review some of its decisions. Of course, AFCA has commenced its role amidst the extensive media coverage of the Hayne Royal Commission and that has, of course, resulted in heightened awareness of members' superannuation experiences.

The following case reviews don't reveal interesting points of law, but they do indicate our superannuation industry must try harder to engage with members in a meaningful way. Put simply, members don't understand their superannuation, and this leads to complaints.

Maybe we need to start an industry conversation about the language we use in our communications with members. Let's face it - the word "preserved" is much more likely to be associated with food preparation than not being able to get access to your own savings. The word "premium" is probably much more likely to be associated with the concept of "going up a notch" to a "better class of product" than the "cost of insurance", and the word "cover" is more likely to be associated with the two words "cover up", a negative connotation.

CASE 1

This is a complaint from a fund member about the trustee opening a super account for him without his consent. The member wants a refund of all the money in his fund account and the trustee has refused to do so.

The trustee received superannuation guarantee (SG) contributions from the member's employer which were then credited to the fund's MySuper product. That product had been chosen by the employer as its default superannuation fund for when an employee had not provided a "choice of fund" form. At law, when a trustee receives such a contribution it must open an account in the employee's name and credit that account with the contributions. Further, the trustee must, under the MySuper rules, provide insurance cover for death and permanent incapacity, unless the member opts out of the cover. The trustee is entitled to deduct from the member's account administration fees and the insurance premiums referable to the member. Needless to say, the fund's trust deed reflected these legal obligations of the trustee when receiving SG contributions into the fund's MySuper product.

The member pointed out he had no idea he was a member until he was made aware of the account by the Australian Taxation Office. This occurred because the employer had advised the trustee of the wrong home address and the fund's welcome letter and product disclosure statement and, later, an annual statement and a significant event notice, had all been sent to the member's neighbour. These disclosures were compliant with the law and AFCA held that the trustee had no way of knowing that the address advised by the employer was wrong. It was noted, however, that the member's incorrect address was recorded in an email from the fund to the member.

The member also advised that the employer had knowledge of his preferred fund and should not have sent the SG contributions to the fund. Again, AFCA points out that the trustee had no way of knowing this and once it received the first SG contribution it had to open the account for the member.

Finally, the trustee was not entitled to refund the SG contributions to the member as they were preserved monies and the member had not provided the trustee with evidence of having satisfied a "condition of release". It was noted the member could transfer his account balance to another fund, if he so wished. It therefore followed that the trustee's decision to not refund the contributions was fair and reasonable in its operation.

Case number: 601200 (dated 30/1/2019)

CASE 2

In this case the member complained about the trustee's decision to not refund him the insurance premiums which were charged to his fund account from 14 May 2009 to 6 April 2018.

The member joined an employer sponsored superannuation plan (Plan 1) which was a sub-plan of a larger superannuation fund. As a member, he was provided with death and disablement insurance with the premiums deducted from his account balance. The insurance rates in Plan 1 were "group" rates.

In May 2009, the trustee was advised by the employer that the member had ceased being an employee back in 2007. It then took steps to transfer the member to another sub-plan of the fund that was suitable for non-employer sponsored members (Plan 2). Insurance cover continued in Plan 2, but the premium rates were now calculated on a personal basis and increased significantly.

The member said he was neither advised he would be automatically transferred to Plan 2 on ceasing employment, nor advised of the consequences of the transfer. Fundamentally, the member's complaint centred around him alleging he was not adequately informed about the increased cost of insurance in Plan 2 which was an increase from $63.68 a month to $119.32 a month. Was this complaint justified?

AFCA concluded the complaint was not justified and the trustee's decision to not refund the premiums charged was fair and reasonable. AFCA came to this view after carefully analysing the various disclosures given to the member by the trustee and concluding the disclosure contained sufficient information for the member to make an informed decision as to whether he wished to continue insurance cover in Plan 2.

The Employee Information Guide which was sent to the member when he first joined Plan 1, and the Plan 1 Annual Report for the year ending 30 June 2006, both advised that if a member ceased employment and their account balance was over $1,500, then membership would be automatically transferred to Plan 2. On page 36 of the later report it was clearly stated:

"Any insurance cover held will continue in [Plan 2] at the applicable personal premium rates for that personal insurance. These may be at significantly higher premium rates (in some cases up to 3 or 4 times more) than those that applied to your cover obtained in [Plan 1]."

Further, when the member was transferred to Plan 2 in 2009, the welcome letter showed the changes in fees and insurance premiums and provided a comparison to what they were in Plan 1. The trustee had also sent annual statements to the address on its records which fully disclosed the costs and no mail had ever been returned to sender.

The member advised he had changed his address in December 2013 and that his wife had phoned the trustee three times in April 2014 to arrange for the records to show the new address. The trustee had no record of these calls having been received and its normal practice would have been to advise the member's wife that he had to call the trustee himself due to privacy concerns. In this regard, the member's evidence lacked plausibility. Notwithstanding the change of address issue, the member would have received the Plan 2 welcome letter in 2009 and, overall, the disclosure was adequate.

Case 600807 (25 February 2019) SF

The unintended, serious and completely avoidable consequences of the Protecting Your Super Legislation

Angie Mastrippolito

Chief operating officer at NGS Super

The Treasury Laws Amendment (Protecting Your Superannuation Package) Act 2019 (PYSP) received royal assent in March 2019. The effect of the Act will be to cancel insurance from 1 July 2019 for all members who are classed as inactive. It defines an inactive member as simply one for whom an eligible contribution was not received into their account for 16 consecutive months.

Superannuation funds will scramble to implement the legislation in the limited time provided by the late passage of the legislation and write to all affected members by 1 May 2019, to let them know that their insurance will cease unless they opt-in. Due to their sustained efforts, funds will in most cases succeed in this requirement.

However, there are cohorts of members for whom the consequences will be dire if they do not opt in by 1 July 2019. We know that if a member is on claim for income protection, or they are sick or injured, that they have a much higher likelihood of becoming totally and permanently disabled or even dying. They will, in the majority of cases, be inactive members unless they are entitled to a superannuation guarantee component, while not at work, which is normally only payable in limited circumstances. Members who have been paid a TPD benefit may also have a residual death benefit component. Amidst the distraction of serious illness or injury, these members must now respond to a single communication required under the legislation in order to retain their insurance cover.

This is a consequence that could have been avoided by a simple and considered amendment to the definition of inactive member to exclude members who are on claim.

We know that there are other cohorts of members who have actively engaged in attaching insurance onto their inactive account. This includes members who have been through underwriting, members who have made a choice under various life events cover options and transfer-in provisions as well as members who have set up a pension account and chosen to keep an inactive accumulation account for insurance purposes.

The post 1 July 2019 communication requirements—which specify three notices to members prior to cancellation—should provide ample opportunity for members to opt-in to cover. However, while the one communication by 1 May 2019 will comply with the legislation, it may not fit well with a possible moral imperative to contact members who are most affected by a cancellation of cover, or who we know have actively sought insurance cover.

We are all aware of many cases where members have complained regarding the deduction of premiums from their account without their consent and have requested to be reimbursed for these premiums. These amounts are usually at the most in the thousands. Claims which will not be paid from 1 July 2019 as a result of the PYS legislation will in many cases be in the hundreds of thousands. The incentive to litigate will be much higher and funds will need to deal with members who are in dire financial difficulty due to illness or injury and who maintain they did not receive the communication or, as will be the case in some instances, they have changed address and have been uncontactable.

The intention of the legislation—to protect the retirement savings of members whose accounts are being eroded by unwanted insurance—is well understood. We also know that through other consolidation measures, the number of inactive accounts—and the level of duplicate insurance—will in the future reduce significantly.

The exclusion of members who are on claim or who have elected to increase their insurance cover (either through underwriting, life events cover options or a transfer-in of cover) in the definition of an inactive member would have taken the legislation from a blanket and indiscriminate cancellation of insurance cover at 1 July 2019, to a sensible plan of action that would have protected members who are in the most need. It would have also reduced the level of engagement that is now required by funds by 1 July 2019 and potentially also protected superannuation funds from entering into a costly and time consuming cycle of litigation. SF

Angie Mastrippolito is chief operating officer at NGS Super