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17 August 2012

Attention: Cambeez Yazdan-Parast
The Manager, Contributions and Accumulations Unit
Personal and Retirement Income Division
The Treasury
Langton Crescent
PARKES ACT 2600

Dear Sir

Re: Exposure Draft - Intra Fund Consolidation of Interests

We enclose submission by various interested consumer representatives in relation to the above Exposure Draft.

If you need any further information, please contact the writer.

Yours faithfully



John Berrill (Enquiries: Julie McIntyre - 03 9605 2677)
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EXPOSURE DRAFT – INTRA FUND CONSOLIDATION OF INTERESTS

Submission by

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EXPOSURE DRAFT – INTRA FUND CONSOLIDATION OF INTERESTS

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Exposure Draft and Explanatory Memorandum – Intra-Fund Consolidation of Interests

1. Introduction

This Exposure Draft dated August 2012 follows on from and in effect replaces the Exposure Draft dated March 2012.

The key differences in the Exposure Drafts are:

- The first Exposure Draft limited the consolidation to inactive accounts within a fund with withdrawal accounts under \$1,000.00; the second Exposure Draft has no such limit.
- The first Exposure Draft specified that the intra-fund accounts must have the same “rights and benefits” (although without defining this phrase); the second Exposure Draft simply refers to “superannuation interests” (other than defined benefit interests) being consolidated without any mutuality requirement.
- The second Exposure Draft replaces the presumption detailed above in the Exposure Draft with a general obligation on trustees to consolidate multiple superannuation interests within the one fund if in the best interests of the member.

2. Explanatory Memorandum

The Explanatory Memorandum notes that many Australians:

- Have multiple superannuation interests
- Are paying unnecessary multiple sets of fees and charges.
- Are paying multiple sets of insurance premiums when not eligible for a pay-out – as it was common for group insurance policies to specify that they will not pay more than once.

The Explanatory Memorandum asserts that the above undermines retirement benefits and is not in the public interest. The Explanatory Memorandum asserts that this situation will be addressed by placing a general duty on trustees to consider consolidating or merging multiple accounts/interests, regardless of the size of the balances. The obligation on trustees is to decide whether it is in the member’s best interests to merge interests taking into account possible savings in fees, charges and insurance premiums.

There is guidance in the Explanatory Memorandum as to the rules for the implementation of the duty, including aggregating insurance cover. It also specifies that whilst a member's consent is not required an opt out model may be appropriate with significant interests.

3. **Submissions**

Although there are significant differences between the first and second Exposure Drafts, some of the policy issues raised in our submission in April 2012 remain relevant, namely:

- We support the policy of reducing the number of superannuation accounts, particularly those that have small account balances and are inactive.
- On balance, we support mandating consolidation if it is coupled with safeguards such as a ban on fees for consolidation and the trustee's duty to act in the member's best interests.

However, the second Exposure Draft removes the protection of the \$1,000.00 cap on consolidation of accounts, as well as the limitation on consolidating only inactive accounts. As our previous submission stated, those limitations provided a hedge against the loss of valuable death and total and permanent disability (TPD) insurance cover which many employment superannuation funds provide.

The Explanatory Memorandum asserts that such insurance cover is often of no value because of group insurance policy terms that limit multiple payments across different accounts within the one fund. However, a check of the group insurance policies of some of the largest industry and other superannuation funds reveals that whilst offsetting terms are standard for income protection benefits, they are not common regarding death and TPD benefits. A table of relevant funds is attached.

Nevertheless, it is acknowledged that some group insurance policies do only allow for one death and TPD lump sum payment from the one fund and to that extent, together with multiple income protection benefits which are invariably offset, we support consolidation of such accounts.

However, we remain concerned about the loss of death and TPD insurance cover which can be invaluable for people with disabilities whose working lives are cut short and for whom such extra insurance benefits may make the difference between having an adequate retirement income and being dependant on government welfare. These products are highly beneficial for our client base (socially and economically disadvantaged people) who have very few options apart from group life insurance policies to ever recover financially in a time of crisis.

The Explanatory Memorandum attempts to address this by allowing trustees to develop rules to aggregate insurance cover within the consolidated account. Such aggregation would be subject to the Automatic Acceptance Limits of the relevant group life policy but this may be negotiable given that it is the same trustee and the same life insurer and the one group life policy.

This contrasts with inter-fund consolidation which would involve multiple trustees and multiple insurers and deals with multiple group life policies with different terms and conditions.

It is noted that the above rule and the other rules set out in paragraph 1.13 of the Explanatory Memorandum are not replicated in the Exposure Draft. It is submitted that Section 108A(2) should be amended to include the potential for aggregation, and if not the loss of insurance cover, in the trustee's considerations.

Further, we believe that it should be incumbent on trustees to provide a plain language statement as to the fact of consolidation and as to how it is in the member's best interests

4. Summary

The existence of multiple accounts/interests within the one fund is usually because of administrative or applicant error or inadequate fund systems to identify and match individual members with the one account/interest. It is rarely a deliberate action to set up multiple accounts. Accordingly, incurring multiple fees, charges and insurance

premiums is invariably an unintended consequence that does not value add to the member's retirement income.

We agree that this situation undermines the efficient operation of the Australian superannuation system and, on balance, we support the intra-fund consolidation Exposure Draft, with the above modifications

5. Inter Fund Consolidation

As we have previously stated, whilst much of the policy reasoning on intra-fund consolidation will have broader application, there are specific issues relating to inter-

fund consolidation that we have concerns about, particularly in relation to insurance cover.

We will welcome the opportunity to make submissions on inter-fund consolidation at the appropriate time.

INTRA FUND DEATH AND TPD INSURANCE ARRANGEMENTS OF RELEVANT SUPERANNUATION FUNDS

Name of Fund	Excludes Multiple Payouts?
Retail Employees' Superannuation Trust (REST)	No
Australian Super	No
Construction and Building Union Superannuation (CBUS)	No
First State Super	No
Sun Super	No
Vic Super	No
Labour Union Credit Retirement Fund (LUCRF)	No
Health Employees' Superannuation Trust of Australia (HESTA)	No
Australian Government Employees' Superannuation Trust (AGEST)	No
Public Sector Superannuation Accumulation Plan (PSSAP)	No
Catholic Super Fund	No
Transport Workers' Union (TWU) Super	No
Legal Super	No
Unisuper	No
Maritime Super	No
Non-Government Schools (NGS) Super	No
Furniture Industries Retail Superannuation Trust (FIRST)	No
Host Plus Super	Yes
Motor Trades' Association of Australia (MTAA) Super	Yes
Media Super	Yes
Clerical & Related Employees' (CARE) Super	Yes
Recruitment Super	Yes