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1 June 2018

Mr Robert Jeremenko
Division Head
Retirement Income Policy Division
The Treasury
Langton Crescent
PARKES ACT 2600

Via email: superannuation@treasury.gov.au

Dear Rob

Exposure draft: Taxation Laws Amendment (Protecting Superannuation) Bill 2018

CPA Australia represents the diverse interests of more than 163,000 members working in 125 countries and regions around the world. We make this submission on behalf of our members and in the broader public interest.

CPA Australia is supportive of and encourages measures that will reduce unnecessary costs to superannuation fund members and reduce duplicate accounts. In particular, we support the prohibition on exit fees.

While it could be argued that superannuation funds should be able to recover reasonable transaction costs when processing fund withdrawals, many superannuation policy holders are locked into older 'legacy' products due to the prohibitively high exit fees involved. These members are often unable to consolidate their superannuation into one fund, thus reducing their overall costs. An example provided by a CPA Australia member in Appendix 1 demonstrates how the excessive fees can erode fund earnings over time. Removing these high exit fees would provide the opportunity to rationalise and close many of these legacy products enabling further fund consolidation.

Many of these older products also continue to pay grandfathered trail commissions. Enabling the rationalisation of these products would also remove many of the conflicted remuneration structures that still exist in the industry. We also believe it would be prudent to require trustees to notify affected members of the removal of existing exit fees to further encourage fund rationalisation.

Although generally supportive of the proposed measures we do have concerns regarding a number of possible unintended consequences arising from these measures. We make the following observations:

- The introduction of the 1.5 per cent cap on administration and investment fees for balances below $6,000 may result in other members of the funds cross-subsidising the low balance members, which may make it difficult for trustees to treat all members fair and equitably

- The 1.5 per cent cap on low balance fees may provide an incentive for trustees to minimise fees and costs to these members - alternatively it may encourage trustees to maximise the fees to the cap.

- Preventing opt-out insurance for members aged under 25 and low balances may create dangerous levels of underinsurance in high-risk industries.

- Group life insurance cover relies on having sufficient lives insured to spread the risk and reduce premiums. Removing a group of lives from the larger pool of insured lives will result in increased premiums for the remaining insured members, and may make group insurance arrangements untenable for some superannuation funds.

- Requiring superannuation funds to transfer all inactive funds below $6,000 to the Australian Taxation Office for account consolidation may create unnecessary red-tape and additional administration for funds and the ATO. We instead encourage the consideration of a technological solution which would enable the ATO to advise funds with inactive accounts of an active account and enable direct transfer and consolidation between funds.

If you require further information on the views expressed in this submission, please contact Michael Davison, Senior Policy Adviser – Superannuation on +61 2 6267 8552 or at michael.davison@cpaaustralia.com.au.

Yours faithfully

Paul Drum FCPA

Head of Policy

Appendix 1: example of excessive exit fees

One of our members commenced work as a management consultant in July 1993 and was directed by his employer to take out a superannuation policy with Prudential (now Colonial), in order to meet the employer's SG obligations. The policy was sold through a life insurance agent who had a long-standing relationship with the employer.

On changing jobs in 1997, our member sought to transfer his superannuation savings to another fund, but was informed of the substantial exit fees involved.

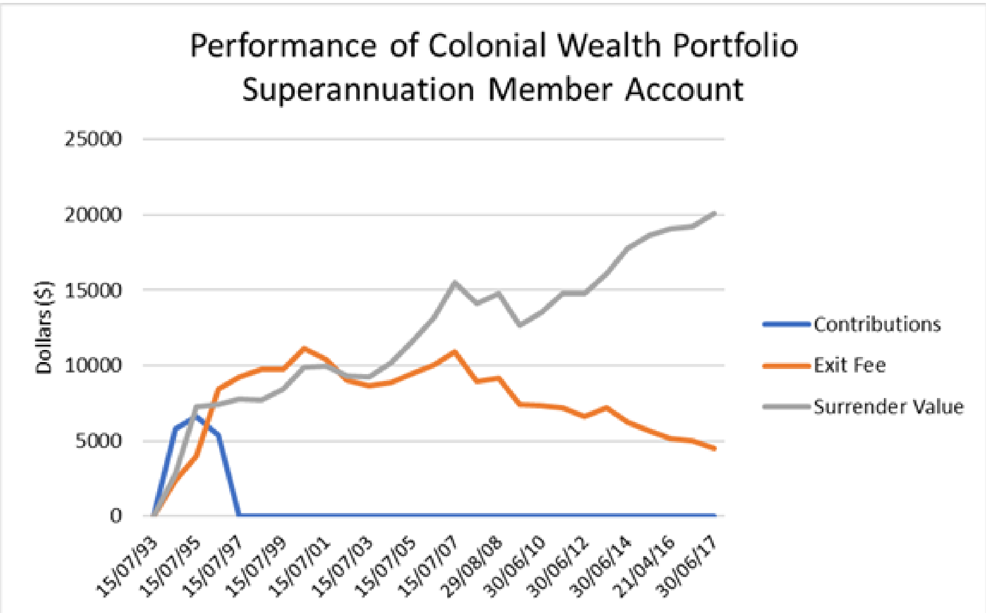
Our member stopped contributing to the policy from 1997, having contributed $17,800 over the three years since policy commencement.

In 2016, the member wrote to the fund seeking to have the exit fees waived on the product unless it could explain how the fee represented a genuine estimate of the costs the fund would incur in processing his exit. The fund explained: "The early withdrawal fee represents a recovery of the outstanding costs incurred when the policy was purchased, rather than an administrative cost of withdrawing the policy ... (and) the cost recovery was set for a 30-year period" as set out in the Policy Document supplied at that time.

Since then, our member has been waiting for the government to ban exit fees on superannuation products so he can consolidate his superannuation and make plans for his retirement.

He turns 60 years of age this year, and is unable to move the Colonial money without penalty until 15 July 2023.

Below is a summary of the performance of that superannuation investment since commencement.



Key facts are:

- Total contributions to the fund = $17,800 (the member stopped contributing in 1997)
- Total investment earnings over 24 years to 30/6/17 = $2302.69, being a compound rate of return of 1% pa
- Exit fee at 30/6/17 = $4,489.43 (down from a maximum exit fee of $11,114.46 in 30 June 2000)

Furthermore, a large industry superannuation fund recently contacted our member offering to consolidate his Colonial account. However, the account balance shown on the consolidation offer was the surrender value (net of the exit fee) at 30 June 2017, and not the account balance. Had he acted on the industry fund's consolidation offer, he would have surrendered $4,489.43 in exit fees.