Manager
Superannuation Tax Reform
Retirement Income Policy Division
The Treasury
Langton Crescent
PARKES ACT 2600

29 May 2018

Email: superannuation@treasury.gov.au

Dear Manager

#### Exposure draft – Protecting your superannuation package

IOOF Investment Management Limited (ABN 53 006 695 021 AFS Licence No. 230524) welcomes the opportunity to provide feedback to the Government on the exposure draft of *protecting your superannuation package* reform bills.

IOOF generally supports the concept that members aged under 25 are over insured and that insurance needs to be removed from inactive low balance accounts to prevent erosion. However there are some aspects of the draft legislation that we believe may not be in members’ best interests

Our submission is attached,

Yours sincerely



Frank Lombardo

**General Manager – Client & Process**

# Submission to Treasury: Protecting your superannuation package

This submission has been prepared in response to exposure draft legislation released on 8 May 2018.

The package of exposure draft legislation released on 8 May 2018 comprises:

1. Schedule 1 – Fees charged.
	* We support the changes to exit fees and the caps on administration and investment charges for accounts under $6000.
	* However we suggest that the explanatory memorandum clarify that the value of an account for the purpose of the legislation is the same as will apply to a low balance account (currently called a small account) under the Superannuation (Unclaimed Moneys and Lost Members) Act 1999.
2. Schedule 2 – Insurance for superannuation members

Our submission set out below largely relates to issues proposed in Schedule 2. These are:

* 1. Members under age 25 are not to be provided default insurance
	2. Members with account balances under $6,000 at 1 July 2019 are to have all insurance removed
	3. New members who join post 1 July 2018 are not to be provided with default insurance until they have an account balance of at least $6,000
	4. Members who have not contributed for 13 months are to have all insurance removed at 30 June 2019
	5. Members are able to instruct the Trustee to not cancel their cover and this instruction is enduring until another period of inactivity elapses.

3. Schedule 3 – Inactive low balance account and consolidation into active accounts.

Although we have no problems with policy intent of the draft legislation, we suggest that it be clear that this does not apply to pension accounts or other accounts where the member cannot make contributions (if over age 65 and not working).

**IOOF’s response - Proposed changes to Insurance**

## **Members under 25 default insurance**

IOOF supports the policy and concept behind members under 25 not being provided default insurance cover. However we are concerned that the legislation as drafted does not allow for circumstances where the member has an employment agreement with their employer that stipulates that cover is provided via a Superannuation Fund.

Further, the employer may have agreed to pay the insurance premiums for all members. We have many members in these exact circumstances.

We suggest that the legislation provide an exception for arrangements where some or all of the member’s insurance premium is met by the employer and where insurance has been provided as part of an employment agreement.

## **Members under $6,000**

IOOF supports the policy and concept behind inactive members with low account balances having default insurance removed. However we are concerned that the legislation as drafted does not provide for:

* Member requested additional life cover (in addition to default cover) - especially where the member has been medically assessed and underwritten for that additional cover.
* Members who choose to make regular contributions to provide for the insurance cover.
* Members whose cover has been provided under an employment agreement (refer 1. above).
* Members whose employer has agreed to pay the insurance premium (refer 1. above).

We suggest that the legislation be drafted to cancel insurance for members **with** **default cover only**:

* with under $6,000 AND
* without a contribution for 13 months AND
* have not received cover as part of an employment agreement AND
* are not in an arrangements where some or all of the member’s insurance premium is met by the employer

## **New members under $6,000**

IOOF does not support the policy and concept new members not being provided with default cover until they have an account balance of $6,000.

We believe that this will create gaps in members’ insurance as it will take too long for members to get to this point and in that time the insurance from their previous default superannuation will have been removed after 13 months without a contribution.

We suggest that legislation be drafted to allow default insurance be provided to all new members over age 25 as erosion will be prevented by the legislation removing default insurance from members where a contribution has not been received for 13 months.

## **Members not contributing**

IOOF supports the policy and concept behind inactive members having default insurance removed. However we are concerned that the legislation as drafted does not allow for Member requested additional cover especially where the member has been medically assessed and underwritten.

We suggest that the legislation be drafted to cancel insurance for members **with default cover** **only** where a contribution has not been received for 13 months.

## **Member’s instructions**

IOOF supports the policy and concept behind being able to instruct the Trustee to not cancel their cover. However we are concerned that the legislation as drafted stipulates that the member’s instruction is superseded 13 months after the next contribution is received. This will result in the member having to provide the same instruction again and again plus they may not do so thinking they had already done so.

By way of example.

* John leaves $5,000 in his IOOF Super account to fund his insurance premiums
* John has directed his contributions to his DIY fund.
* As a result of inactivity IOOF writes to John advising that regulations require IOOF to cancel his insurance unless he is contributing or he instructs IOOF to not cancel his insurance.
* This instruction holds despite no contributions from John
* 4 years later John contributes $5,000 to his IOOF account to fund his insurance for the next few years.
* 13 months after this deposit as a result of inactivity IOOF writes to John advising that regulations require IOOF to cancel his insurance unless he is contributing or instructs IOOF to not cancel his insurance.
* John ignores this letter as he remembers previously providing this instruction.

We suggest that the legislation be drafted to classify the member instruction as enduring.

It has been prepared on behalf of IOOF Investment Management Limited (ABN 53 006 695 021, AFSL 230524) based on information that is believed to be accurate and reliable at the time of publication.