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Manager, Regulatory Framework Unit
Retirement Income Policy Division
The Treasury
Langton Crescent
Parkes ACT 2600

Dear Sir/Madam

Protecting Your Super Package Consultation

MetLife is pleased to respond to the Treasury Consultation on consultation draft of the *Treasury Laws Amendment (Protecting Superannuation) Bill 2018*, as announced in the Federal Budget on 8 May 2018.

MetLife Insurance Limited (**MetLife**) first entered the Australian life insurance market in 2005 through the acquisition of Citigroup's life insurance business. We are the 10th largest life insurance provider in Australia[1] with headquarters in New South Wales and an office in Victoria. MetLife employs over 300 professionals. MetLife's primary business in Australia is in group insurance, that is insurance provided via a superannuation fund or employer. We are the third largest provider of group insurance in the Australian market[2]

MetLife is ultimately owned by MetLife, Inc., which is listed on the New York Stock Exchange. MetLife, Inc., through its subsidiaries and affiliates, is one of the world's leading financial services companies. Founded in 1868, MetLife, Inc. has operations in more than 40 countries and holds leading market positions in the United States, Japan, Latin America, Asia, Europe and the Middle East.

We are proud of our ability to support Australians whose lives are disrupted by death or disability, and our success in this area speaks for itself. Last year, we disbursed approximately $485 million in claims and provided protection to approximately 2.6 million Australians. Over the last five years, we paid over 95% of all finalised group insurance claims.

Our submission is attached. We would be happy to expand on these comments or meet with Treasury officials to discuss further. Please contact Cathy Duloy, Head of Public Policy for further information.

Yours sincerely

V. Watt

Vince Watt

Acting Chief Executive Officer

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[1] Strategic Insight, June 2017
[2] Strategic Insight, June 2017

METLIFE SUBMISSION TO PROTECTING YOUR SUPER PACKAGE CONSULTATION

Introduction

MetLife supports the general intent of the Protecting Your Super Package (**PYS Package**) and draft *Treasury Laws Amendment (Protecting Superannuation) Bill 2018* (**Bill**).

MetLife was part of the Insurance in Superannuation Working Group which put forward the following measures in relation to mitigating the risk of account erosion for automatic insurance members[3]:

- Death and total permanent disability cover would cease if there has been no contribution to an account for more than 13 months; and
- Temporary disability cover would cease if there has been no contribution to the account for more than 13 months and the account balance is less than $6000.

MetLife supports these measures, however, the PYS Package goes further than this as it proposes that:

- All insurance cover in superannuation will cease if there has been no contribution for more than 13 months unless the member has elected to continue it;
- All insurance cover in superannuation will cease if there is an account balance of less than $6000 unless the member has continued it; and
- For members under the age of 25 years, insurance will be provided only on an opt-in basis to new members from 1 July 2019.

One of the key attributes of group insurance under the current regime is that the power of the many supports the needs of the few when their lives are critically disrupted. The current arrangements mean that insurance through superannuation is generally more affordable for members than other forms of insurance. This is because group insurance is based on large risk pools. We are concerned that the proposed arrangements will introduce instability into the current group insurance system due to:

- Disruption of the risk pools on which group insurance relies for its pricing;
- Group insurance in superannuation being the primary source of protection for families. Approximately 80% of Australian workers receive protection from group insurance and for many workers, including those in more hazardous occupations, there is effectively no affordably priced alternative[4];
- The increase in the number of accounts that will be transferred to the Australian Tax Office;
- Increased anti-selection risk from cohorts of members who have to opt-in to receive or maintain cover; and
- The need for superannuation funds to devote increased marketing and administration resources to encourage member engagement and take-up of insurance.

These factors will lead to increase in administrative costs and premiums for remaining members in the group insurance system, potentially leading to greater erosion of their retirement savings.

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[3] Insurance in Superannuation Voluntary Code of Practice, para 4.27.

[4] See Australian Council of Trade Unions submission to the Productivity Commission Draft Report into Superannuation Alternative Default Models, 28 April 2017

Recommendation: That the Government consider more flexibility in the legislation to enable members with inactive accounts to continue to receive opt-out disability insurance, as proposed by the ISWG.

Younger members

We have concerns about the unintended consequences for younger members. Life insurance provides cover for younger people who have accidents, even if the accident is unrelated to the workplace. People under the age of 25 are known to engage in more risk-taking behaviours than older adults. This has been attributed to continuing brain development into the twenties, in particular the process of synaptic pruning[5]. Risk-taking behaviour in younger people partly accounts for the greater proportion of people under age 25 who are involved in fatal motor vehicle accidents[6]. While some may argue that younger people are less likely to need cover in the event of death, they are more likely to need cover due to accidents. The workers compensation regimes in Australia only provide support if the worker suffers a workplace-related injury, while life insurance based disability cover provides support if the event occurs outside the workplace, including sporting injuries and motor vehicle accidents that occur outside of work time.

The current MySuper regime requires trustees to offer death and permanent incapacity insurance on an opt-out basis, and they may offer income protection. An alternative solution to protect younger members' accounts would be for trustees to be able to offer disability insurance on an opt-out basis, but not death cover.

> ***Case Study***
> *Paul[7] is a 23 year old who sustained a fracture and dislocation of his shoulder while playing football. This required surgery to stabilise the fracture and 6 weeks in a sling and a further recovery time to regain his strength. He works in a heavy manual industry. Light duties were not available at his workplace, so he needed to regain most of his function prior to returning to work. This claim is still ongoing and Paul has so far been paid four months of payments as he rehabilitates to get back to work. Without his insurance he may have had to return to work prematurely to support himself, carrying the risk of prolonged recovery from his injury. With the support of his insurance he is able to fully rehabilitate while being paid during this period.*

Recommendation: MetLife recommends that the Government consider more flexibility in the legislation to enable members under the age of 25 to receive opt-out disability insurance, rather than being obliged to offer death cover (as is currently the case).

Members with lower economic status

The Government's proposal refers to members who have multiple accounts. In relation to insurance, having multiple covers is most problematic in relation to income protection insurance. This is because most income protection policies provide that if a benefit is available under another policy, the income from that policy will be offset. This effectively means that it is not possible to obtain benefits from two income protection policies, despite having paid premiums.

Lump sum benefits (death and total and permanent disability benefits) generally do not have this restriction. Multiple lump sum benefits can be paid to, or on behalf of, a member. These benefits can be sizable amounts. The value of the insurance protection is much greater than the account balance. For a member with low

[5] https://www.newscientist.com/article/dn20803-brains-synaptic-pruning-continues-into-your-20s/
[6] https://www.youngdriverfactbase.com/key-statistics/
[7] Name changed to protect privacy

socioeconomic status, the insured benefit is of heightened value. It is for this reason that the ISWG proposed that cover for income protection cease after a period of 13 months of contribution inactivity.

Recommendation: MetLife recommends that the Government consider the distinction between lump sum cover and income protection cover in the design of the PYS Package.

New Members

For people entering the workforce, or starting a new role, their account balance will start at nil and may take some time to build up to a balance of $6000, especially if their employers are not meeting their superannuation guarantee obligations in a timely manner or they have an intermittent work pattern.

In the previous Member Protection Standards in the *Supervision Industry (Supervision) Regulations 1994* (**SIS Regulations**), members were not treated as protected members if the trustee 'reasonably expected' the account balance to reach $1500 by the end of the next reporting period[8].

Due to the potential impact on new members of both the insurance rules and the revised ATO transfer rules, we recommend that the Government consider introducing a mechanism similar to that which applied under the previous member protection standards.

Recommendation: MetLife recommends that the Government consider introducing a mechanism similar to that which applied under the previous member protection standards to allow account balances to build before making them subject to the new rules.

Effect of the PYS Package on women

MetLife is concerned that the 13 month inactivity rule could have a discriminatory effect on women. One of the reasons that contributions cease is that an employee has an extended period of parental leave. It is usually women who bear the bulk of parenting responsibility and who would be most affected by this change. This problem will be particularly acute for women who have casual or part-time roles and are more likely to have interrupted work patterns, such as those who work in the retail industry[9].

The proposed timeline of 13 months does not fit with the obligations under the Fair Work Act to provide employees who have more than 12 months service with up to 24 months of parental leave following the birth or adoption of a child[10].

MetLife is of the view that employers should be obliged to continue to make contributions to superannuation during a parental leave. This would also help to address the gender gap in retirement savings.

Recommendation: MetLife recommends that the Government consider requiring superannuation guarantee contributions during employer approved parental leave

[8] Former SIS Regulation 5.15 (now repealed)

[9] See for example the submission of the Shop Distributive and Allied Employees' Association to the ISWG Consultation Paper – Insurance in Super Code of Practice 20 October 2017

[10] *Fair Work Act 2009* s70 and s76

Regulatory impact statement

The Budget papers projections of the expected revenue to Government of the proposed changes with an estimated revenue benefit of approximately $250-300m per annum. The Budget papers do not appear to include consideration of:

- Reduction in revenue to state and territory governments due to the decrease in stamp duty receipts;
- The cost to government at all levels of supporting people who have suffered a disability, or family members who have undergone the early loss of an income earner, who would otherwise have received an insurance benefit.

In addition, the Government should consider the costs to the superannuation industry of administering the proposed changes, which will be substantial.

Recommendation: MetLife recommends that a regulatory impact statement is prepared which takes into account the full costs of the changes, including cost to the public purse of uninsured members and their families, impact on stamp duty revenue for state and territory governments and the administrative burden to the industry of transitioning to the new changes.

Effective date

The changes are proposed to take effect on 1 July 2019. As trustees are obliged to provide members with prior notice of the changes to their insurance arrangements, the period to build system and process changes will be effectively less than set out in the draft Bill. As the legislation and associated regulations will not be finalised until later this year, and they will require considerable investment by superannuation funds, administrators and insurers, we recommended a phased transitional approach where the obligation to provide insurance on an opt-out basis in s68AA of the *Superannuation Industry (Supervision) Act 1993* is modified from 1 July 2019 however the restrictions on providing opt-out insurance to protected cohorts come into effect at a later date (eg 1 July 2020). Alternatively, the Government should consider a later effective date.

Recommendation: MetLife recommends a staged implementation process or alternatively a later transition date.

Employer-funded insurance

There are corporate schemes in Australia that provide insurance to employees via superannuation where the premium is paid by the employer. The majority of the benefits provided through these schemes are income protection. As the premiums are paid by the employer, they do not affect the superannuation balance of members in the scheme. There should be an exemption in the legislation for insurance that is funded by an employer for as long as the employer-funding continues.

Recommendation: MetLife recommends that the Government consider an exemption for employer-funded insurance as it does not present a risk of account erosion.

Summary

In summary, MetLife is of the view that trustees are better placed than the Government to think holistically about the balance between providing cover and protecting employees' retirement savings. Government intervention in this area may lead to risks of disruption in the industry and higher costs for members who continue to be insured. The Government should consider making the proposals more consistent with those proposed by the industry.