

SUBMISSION TO THE RETIREMENT INCOME REVIEW

Proposed Legislative Amendment

Consultation Reference:

Question 13: What should the Panel consider when assessing the equity of the retirement income system?

Submitted by:

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BACKGROUND

This submission has been prepared by Mr Peter Lawlor who is a parent of a child with cerebral palsy and the director of CDI Consulting Pty Ltd (CDI). CDI is a consulting firm which advocates for improved financial support to families who provide care to a dependant with a disability or serious illness.

The submission refers to an income protection insurance benefit for people who cease work to provide full-time care to a dependant with a profound disability or serious illness. The benefit is typically offered as an optional feature of a standard income protection policy. Since its inception, a range of insurers have released versions of the product into the retail insurance market. However, an amendment to the superannuation Sole Purpose Test is required for the product to be offered at scale within superannuation via group insurance.

Notably, the Sole Purpose Test in its current form provides superannuants on Sick Leave with access to income protection insurance payments but denies access to superannuants on Carer's Leave. As such, the purpose of this submission is to recommend a legislative amendment to the Sole Purpose Test to provide carers with **equality of access** to income protection insurance inside superannuation. Inclusion of this measure within Australia's superannuation system will significantly reduce the impact of disruptive work patterns on carers' retirement savings and ensure the system's compliance with the Carer Recognition Act 2010.

PROPOSED LEGISLATIVE AMENDMENT

The proposed legislative amendment relates to Section 62(1)(b)(ii) of the Superannuation Industry (Supervision) Act 1993 (SIS Act) which describes an "ancillary purpose" for which a superannuation fund may be maintained in conjunction with at least one of the core purposes

set out in Section 62(1)(a). This ancillary purpose is shown below in its current and proposed forms.

SIS Act 1993 Section 62(1)(b)(ii) - Current:

"the provision of benefits for each member of the fund on or after the member's cessation of work, if the work was for gain or reward in any business, trade, profession, vocation, calling, occupation or employment in which the member was engaged and the cessation is on account of ill-health (whether physical or mental)."

As shown, the current legislation provides a benefit to fund members who experience disruptive work patterns due to Sick Leave but denies access to fund members who experience disruptive work patterns due to Carer's Leave.

SIS Act 1993 Section 62(1)(b)(ii) - Proposed:

*"the provision of benefits for each member of the fund on or after the member's cessation of work, if the work was for gain or reward in any business, trade, profession, vocation, calling, occupation or employment in which the member was engaged and the cessation is on account of the member's ill-health (whether physical or mental) **or their provision of care to a dependant who requires such care due to ill-health (whether physical or mental).**"*

As shown, the proposed amendment provides parity of treatment between fund members who experience disruptive work patterns due to personal illness and fund members who experience disruptive work patterns due to their carer responsibilities.

CASE FOR CHANGE

An examination of Section 62(1)(b)(ii) of the Sole Purpose Test in its current form reveals that it fails to provide equal treatment to superannuants who experience disruptive work patterns due to Carer's Leave. The impact of this inequality is that fund members on Carer's Leave are unable to maintain contributions to their retirement savings accounts during their absence from work via the use of income protection insurance - an outcome which is contrary to the goal of maximising fund member retirement savings.

Importantly, this conflicts with the Carer Recognition Act which aims to ensure that carers are not unnecessarily disadvantaged and *"have access to the same rights, choices and opportunities as other Australians"*.

The provision of income protection insurance payments to superannuants who experience disruptive work patterns due to Carer's Leave will serve to safeguard the source of funds which underpin an individual's capacity to make ongoing contributions to their retirement savings accounts during their absence from work.

Critically, this safeguard is currently available to superannuants who experience extended periods of Sick Leave. Hence, the proposed measure is simply an extension of this benefit to superannuants who experience extended Carer's Leave.

i *The proposed amendment to the Sole Purpose Test recognises that working life disruptions can diminish superannuation contribution rates thereby resulting in poor retirement outcomes for affected fund members. To address this inadequacy, the proposed amendment allows carers to offset such disruptions through the use of income protection insurance thus enabling their superannuation contributions to remain ongoing during their absence from work.*

COST IMPACT

CDI recognises the need to ensure that insurance premiums associated with the proposed measure do not unduly impact upon projected superannuation retirement benefits. Financial modelling prepared in consultation with industry experts indicates that the proposed insurance can be offered at less than 5% of the base premium cost of a typical income protection policy.

Consequently, the benefit can be offered at excellent value for money with negligible impact upon superannuation retirement benefits.

Full details pertaining to the above-mentioned financial modelling are available upon request.

INDUSTRY CONSULTATION

Evaluations of the proposed measure have been undertaken by the following organisations:

- (i) Carers Australia
- (ii) Financial Services Council
- (iii) Association of Superannuation Funds Australia
- (iv) MLC Insurance

Please contact CDI for further details.

BENEFITS

Benefits associated with the proposed equity measure are:

- (i) Equality of access to the superannuation system for fund members who experience disruptive work patterns due to Carer's Leave.
- (ii) The opportunity for carers to make uninterrupted contributions to their superannuation savings via the use of income protection insurance.
- (iii) Compliance with the Carer Recognition Act which seeks to ensure that "all carers have the same rights, choices and opportunities as other Australians".

SUMMARY

In order to assure the integrity of Australia's superannuation system, it is critical that the SIS Act supports the primary purpose of the system.

An assessment of the SIS Act reveals that the Sole Purpose Test in its current form fails to provide fund members who experience disruptive work patterns due to carer responsibilities with equal access to income protection insurance. This inequality is producing poor retirement outcomes for affected fund members and conflicts with the intent of the Carer Recognition Act.

To address this inequality, the proposed amendment to the Sole Purpose Test allows carers to offset such disruptions through the use of income protection insurance thus enabling their superannuation contributions to remain ongoing during their absence from work. A financial assessment of the proposed insurance shows that it can be offered to superannuants at excellent value whilst ensuring retirement benefits are not unduly affected by annual premium costs.

Passage of the proposed amendment will support the development of a superannuation system which is fair and fit for purpose in a modern and socially inclusive Australia.

Thank you for your consideration of this submission.