INDUSTRY NEWS

Senate Committee recommends no changes to group insurance budget proposals

The Senate Economics Legislation Committee (the Committee) handed down its report on the *Treasury Laws Amendment (Protecting Your Superannuation Package) Bill 2018* (the Bill) on 14 August 2018.

The Bill gives effect to the budget changes. In broad terms, the budget changes as outlined in the Bill will prevent trustees from providing default cover to:

- New members from 1 July 2019 who are under the age of 25;
- Members who have an account balance of less than $6000 and have not been $6000 or more on or after 1 April 2019;
- all inactive accounts after a period of 13 months.

The impacted members will still be able to opt-in to group insurance cover.

The Committee has recommended that the Bill be passed.

There were broadly four key concerns with the Bill raised in submissions to the Committee:

1. The under 25 proposals;
2. Treatment of *active* accounts less than $6,000;
3. Impact on members in high risk occupations; and
4. The proposed start date of 1 July 2019.

The Committee's reasoning on key concerns was:

- The Bill is an important first step in ensuring Australians' superannuation balances are preserved for retirement;
- In terms of the definition of "inactive" account, the Committee argues the more rigorous definition is consistent with the fundamental purpose of the reform to consolidate low-balance accounts;
- In relation to the impact of the bill on insurance premiums, the Committee recognises the changes may result in increased premiums for members who continue to hold default cover. However, the Committee felt this demonstrates the substantial cross-subsidies inherent in the current system; and
- In terms of concerns regarding the removal of default insurance coverage for some cohorts, especially those employed in high-risk occupations, the Committee stated it agreed with the principle highlighted in the Grattan Institute submission that defaults should be set so that they are appropriate for the most people. Plus, the Committee noted impacted members can still opt in; and
- According to the Committee the proposed commencement date of 1 July 2019 is manageable as renegotiating contracts is not an unfamiliar process to superannuation funds.

Overall, the Committee does not appear to have placed enough weight on submissions which demonstrated through case studies and statistics the value of insurance payouts to impacted cohorts as against the balance erosion impact. It is surprising that at the very least there was not a recommendation to introduce a carve out for superannuation funds who could demonstrate the importance of retaining group insurance cover for impacted members on an opt out basis given their demographic composition.

The Committee also appears to have not placed much emphasis on submissions which noted that a longer transition period would benefit members by allowing them further time to consider and address their insurance needs.

The Senate Committee report includes additional comments from Labor Senators in a separate section of the report. Here it is noted that the Labor Senators will continue to evaluate possible amendments to improve the legislation. The Labor Senators have stated that they are "very cognisant" of the following concerns:

(a) Proposed start date for the insurance arrangements

(b) Potential impacts on high risk occupations

(c) The 13-month definition of inactivity

(d) Insurance cover for people with active accounts with a balance of less than $6000

(e) The age threshold of 25 years

(f) The anti-selection problem raised by opt in arrangements.

Of course, there are also quirks in the Bill which should be ironed out, such as references to the changes not affecting the rights of a member if "the right is a right to insurance cover for a *fixed term*, subject only to the payment of insurance premiums" and the fixed term begins for the changes (see, for example, proposed section 68AAA(8)).

The reference to a member's "fixed term" does not sit easily with how most group insurance contracts are structured. There are a number of possible readings of 'fixed term' including that it means existing members are essentially grandfathered from the changes until their cover expires under relevant end of cover provisions. However, that reading would appear inconsistent with the transitional provisions more generally. Overall, clarity on how such references to "fixed term" should be interpreted would be beneficial.

As it stands, the Bill is currently listed as number 25 in Bills to be voted on by the Senate. The Senate is up to Bill number 5 with their next sitting commencing in the week of 10 September.