



## **Submission – Treasury Laws Amendment (Protecting Your Superannuation Package) Bill 2018**

**Financial Counselling Australia (FCA)**  
is the peak body for financial counsellors in Australia.

July 2018

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## About Financial Counselling

Financial counsellors assist people experiencing financial difficulty. Working in community organisations, they provide advice to help people deal with their immediate financial situation and minimise the risk of future financial problems. Their services are free, confidential and independent.

Financial counsellors need an in-depth knowledge of credit law, bankruptcy law, debt collection law and practices, industry hardship processes and government concession frameworks.

## Financial Counselling Australia

FCA is the peak body for financial counsellors in Australia. FCA's member groups are the State and Territory financial counselling associations. FCA provides a voice for the financial counselling profession and advocates for a fairer marketplace for the clients of financial counsellors.

## Contact Person for this Supplementary Submission

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## 1 GENERAL COMMENTS

Financial Counselling Australia (FCA) supports the protecting your superannuation package in principle. FCA considers that these reforms should be a first step of a continuing process to ensure that superannuation grows for all people.

Financial counsellors assist people with issues regarding superannuation which includes:

- Early access to superannuation for financial hardship and compassionate grounds;
- Accessing superannuation when eligible;
- Claims on insurance in superannuation including death benefits and temporary and permanent disability (TPD); and
- Finding lost superannuation and rolling superannuation to other funds.

Financial counsellors see people experiencing financial difficulty and many of those people are on low incomes, have a disability and/or have sporadic work. This means that many people who see financial counsellors have low balances in their superannuation fund and often have multiple funds due to changes of employer.

FCA strongly supports the intention of this legislation to protect low balances in superannuation from erosion by fees. FCA also supports making insurance opt-in for balances under \$6,000 (for inactive accounts only) and for people under 25 years of age.

FCA has had the opportunity to review the previous submissions of Choice and Consumer Action Law Centre on this topic and we support the recommendations made in those submissions. FCA does wish to add further comments as set out below.

### **Recommendations:**

- 1. That this reform package is the start of a process of monitoring and reviewing to ensure that super grows for all Australians and the legislative intent is met.**
- 2. This reform package should be reviewed a year after implementation**

## 2 SCHEDULE 1: FEES ON LOW BALANCE SUPERANNUATION ACCOUNTS

FCA supports the cap of 3% per year (or 1.5% per 6 months) on fees for low balance superannuation funds. The legislative intent of the superannuation system is for people to grow their retirement savings over time. Superannuation that is eroded by fees defeats that legislative intent.

FCA also contends that it is worth considering a cap on fees for higher balances. If the introduction of a cap is effective in arresting the erosion of low balance superannuation funds then the cap should also apply to higher balances, for example, up to \$10,000.

FCA also contends that the cap should be applied yearly and not on a six-monthly basis. The calculation of the cap should not be over complicated and should be easy to understand and audit. More importantly, having a low balance in any particular year should trigger the cap.

FCA also supports the ban on exit fees. Exit fees stop people from rolling over their superannuation to a better performing superannuation fund and therefore reduce competition. Exit fees stop people from effectively managing their superannuation and improving financial literacy by being able to shop around without penalty.

### **Recommendations:**

- 1. The cap should be calculated on a yearly basis to ensure the calculation is easy to understand and audit.**
- 2. If the cap is effective in the first year of operation, consideration should be given to increasing the cap for balances up to \$10,000.**

### 3 SCHEDULE 2: INSURANCE FOR SUPERANNUATION MEMBERS

FCA acknowledges that insurance in superannuation can be a low-cost way for people to get access to life insurance, TPD and income protection insurance. However, there is no doubt that insurance premiums erode low balances in superannuation accounts. This means that it is essential that insurance is only sold that is suitable for the member.

FCA is concerned that many people may be paying insurance premiums for insurance that they can never claim on, or is of little, or no value. It is also possible because of lost super and external insurance sales that many people are double insured.

In our experience, many members of superannuation funds have very little understanding about:

- whether they have insurance;
- what the insurance covers;
- what insurance they need in their individual circumstances;
- when they don't need insurance; and
- whether the premiums are competitive.

We appreciate that superannuation funds provide insurance as a safety net for their members but it should not be at the cost of people having suitable insurance or significantly impacting their retirement savings.

FCA supports insurance being opt-in for people under the age of 25, although we would argue that the reasoning for insurance being of little use for people in this age group would equally apply to many young people who are older than 25. For instance, there are many people who have no dependents and no major debts so their insurance needs are very limited. FCA contends that it would be useful to provide information to all people (as part of standard disclosure) on when a person may not need insurance or only limited insurance.

FCA supports the cancellation of insurance for inactive accounts subject to notice being provided to the member. This gives the person an opportunity to consider their insurance needs which may be covered adequately in another fund or with insurance obtained externally.

FCA therefore supports the decision to offer insurance on balances under \$6,000 on an opt-in basis only. However, we remain concerned about possible unintended consequences for people, for example for those in transient work or with carer responsibilities. We agree with Consumer Action Law Centre that the account must be *inactive* for this provision to apply. If that option does not proceed then we contend that the opt-in notice needs to provide information

about the benefits of opting in, if this is the only insurance that a person may have.

A final concern is that because of recent increased claims on TPD that this insurance is now much harder to successfully claim on. This needs to be monitored closely by ASIC. If members of super are paying for insurance it is essential that it is suitable and meets minimum standards. This issue is of even more importance when it is known that people do not get advice and rarely read the PDS for group insurance.

**Recommendations:**

- 1. There should be further work on making sure insurance is suitable for members as unneeded and low-value insurance may significantly lower retirement balances over time.**
- 2. People under 30 should be provided with basic information about what type of insurance is necessary when a person has no dependents and no significant debts, including that no insurance is a valid option.**
- 3. Insurance should still be available for *active* accounts under \$6,000 or at least a notice should be provided to affected members describing why they should consider opting-in as this may be their only access to insurance.**
- 4. ASIC should review the efficacy of the above reforms to report on any issues that arise.**
- 5. The Government should review group insurance policies to ensure they meet minimum standards for cover. If minimum standards are not being met then these standards should be legislated.**

#### **4 SCHEDULE 3: CONSOLIDATION OF LOW BALANCE INACTIVE ACCOUNTS**

FCA strongly supports a move to consolidate inactive accounts with active accounts. We support Choice's recommendation that people have access to the Australian Financial Complaints Authority to resolve any disputes with the Australian Taxation Office regarding the transfer of funds.

#### **5 ABORIGINAL AND TORRES STRAIT ISLANDER PEOPLE**

Financial counsellors and financial capability workers spend a lot of time assisting Aboriginal and Torres Strait Islander people in regional and remote communities with superannuation issues. There are a number of factors that contribute to this including:

- Low numeracy and literacy levels – many Aboriginal and Torres Strait Islander people do not understand how superannuation works and cannot interact with the superannuation system without assistance;
- There are problems proving identity because of a lack of identity documents, different spellings on different identity documents, using skin/clan name rather than the name on their birth certificate, identity documents kept with a family member in a different community and lack of access to services due to living in remote communities.

Aboriginal and Torres Strait Islander people have told financial counsellors that they have problems with:

- low balance superannuation funds being eroded to nil by fees and insurance premiums;
- delays and administrative difficulty when dealing with superannuation funds. This includes requests for information they cannot get, difficulty proving identity, contacting the superannuation funds and getting forms processed.
- Getting early access to super on compassionate and hardship grounds. Each super fund has different administrative processes and some funds will not assist at all.

Aboriginal and Torres Strait Islander people are particularly affected by lower retirement income and lower superannuation balances. Aboriginal and Torres Strait Islander people will retire with 27% less income than non-indigenous Australians.<sup>1</sup> Aboriginal and Torres Strait Islander people also earn considerably less income on average.<sup>2</sup> Although exact data is not held on this issue it is reasonable to conclude that Aboriginal and Torres Strait Islander people are disproportionately affected by low superannuation balances. Accordingly, it is expected that the proposed reforms will have a significant effect on Aboriginal and Torres Strait Islanders.

Superannuation funds should be providing culturally appropriate services to Aboriginal and Torres Strait Islander people to meet their needs. This is particularly important with these reforms as it is likely that these changes may cause particular problems for Aboriginal and Torres Strait Islander people. These can include:

- language and literacy issues communicating with superannuation fund staff;

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<sup>1</sup> See *Indigenous Australians retire with 27% less savings* The Conversation 11/2/16 at <http://theconversation.com/indigenous-australians-retire-with-27-less-savings-50840>

<sup>2</sup> See *The \$450 monthly super threshold hurts indigenous workers: experts* The New Daily 28/7/17 at <https://thenewdaily.com.au/money/superannuation/2017/07/28/scrap-needs-450-threshold-close-indigenous-super-gap/>

- difficulty understanding complex superannuation rules and forms;
- difficulty calling superannuation funds and/or sending information due to living in a remote area;
- understanding that Aboriginal and Torres Strait Islander people have cultural obligations (for example Sorry Business) that may mean delays in sending information or responding.

FCA contends that superannuation funds should provide culturally and appropriate services which includes:

- asking people if they identify as Aboriginal and Torres Strait Islander when first joining a fund;
- reducing problems and streamlining identification processes particularly to assist with combining superannuation;
- providing a culturally sensitive and dedicated phone number for Aboriginal and Torres Strait Islander people or their representative;
- offering interpreters when possible;
- referring to financial counsellors and financial capability workers when assistance is required;
- providing culturally sensitive and tailored disclosure materials.

We would also contend that early access to super should be handled by the Government through one access point instead of the different requirements of each super fund.

In relation to the proposed reforms FCA contends that all superannuation funds should be monitoring the effects of the proposed reforms closely to ensure that lower balances are increasing and not eroding.

**Recommendations:**

- 1. Superannuation funds provide a dedicated phone line for Aboriginal and Torres Strait Islander people to access help with managing their superannuation with their superannuation fund**
- 2. Superannuation funds resolve identification issues by using the Austrac guidance**
- 3. Referring to financial counsellors and financial capability workers for Aboriginal and Torres Strait Islanders who need more assistance with superannuation issues.**