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MEDIA RELEASE: FSC WELCOMES STEPS TO PREVENT EROSION OF SUPERANNUATION BALANCES, BUT THE DEVIL WILL BE IN THE DETAIL

Group insurance

The FSC welcomes the Government's package of reforms to reduce the erosion of Australian's superannuation balances as well as promoting consolidation of super accounts as a positive policy step that will lead to better retirement outcomes.

The FSC cautions, however, the proposal to change arrangements for insurance in superannuation from opt-out to opt-in for under 25s could lead to some younger Australians who need insurance, especially those in high risk jobs or those with young families, slipping through the safety net.

It will be incumbent on superannuation fund trustees, particularly those in the default system, to engage and communicate more effectively with their under 25 year old members to ensure they understand the implications of the policy change.

The majority of working Australians receive insurance cover through their super fund, including many who cannot or would not get cover elsewhere. The FSC has long advocated the social and economic benefits of opt-out insurance cover in superannuation where cover is provided for all members without a medical assessment or underwriting.

FSC CEO Sally Loane said: "Superannuation fund trustees must carefully consider how they communicate this policy change to members to ensure those who need cover, particularly young people working in high risk occupations, get it. This is an opportunity for super funds to start a conversation with their younger members about all aspects of their superannuation savings. Greater engagement leads to better outcomes in retirement."

"Younger Australians impacted by this policy should think hard about what insurance they need and make sure they are covered appropriately," Ms Loane added.

The proposal will need to be carefully worked through to protect against unintended consequences and set appropriate transition arrangements. The FSC looks forward to consulting with the government on the policy. Time for industry consultation will be tight, with Treasury indicating that only three weeks will be allocated for these complex changes.

Other superannuation proposals

Super guarantee

The FSC is pleased the government has not signalled further delays to the increase in the superannuation guarantee. However, the rise in SG should be brought forward to address the nation's urgent needs of an ageing population and not enough money to fund it.

Banning exit fees and cap on passive fees

The FSC supports the ban on superannuation exit fees. Engaged consumers deserve to be able to move freely to the superannuation fund that is right for them without being sluggish for exercising choice.

Consolidation of super accounts

The mandatory transfer of balances under \$6,000 to the ATO to help consolidate multiple super accounts is a positive measure but its interaction with insurance in super will need to be worked through.

Retirement incomes

Means testing of lifetime annuities

The FSC welcomes the Government's efforts to reform the pensions test for lifetime annuities. This change should provide certainty to the industry to facilitate the development of these products to meet the needs of retirees.

The FSC supports the concept for the requirement of Trustees to formulate a retirement plan for its members.

Product rationalisation

Despite promises given three years ago, the industry is still waiting for the government to remove barriers preventing the rationalisation of legacy insurance products.

Withholding tax

The FSC is disappointed the government has not yet reformed non-resident withholding tax for managed funds.

For Australia to receive the substantial economic benefits flowing on from the establishment of the Asia Region Funds Passport, the government must keep its commitment to address our uncompetitive non-resident withholding tax on equity and bond funds.

It raises little money, but harms our competitiveness within the scheme. If withholding taxes are not reformed Australia's fund managers will be at a major disadvantage in the Passport.

Mental health

We are encouraged to see the government commit \$34 million to Lifeline to help those Australians who need somebody to talk to in hard times. Each year approximately one in five Australians will experience a mental illness. Every day at least six Australians die from suicide and a further 30 people will attempt to take their own life. It is also the leading cause of death for Australians between the ages of 25 and 44.

ENDS

For further information please contact FSC Media Manager Mark Smith on 0434 566 764 or msmith@fsc.org.au.

About the Financial Services Council

The Financial Services Council (FSC) has over 100 members representing Australia's retail and wholesale funds management businesses, superannuation funds, life insurers, financial advisory networks and licensed trustee companies. The industry is responsible for investing almost \$3 trillion on behalf of more than 14.8 million Australians. The pool of funds under management is larger than Australia's GDP and the capitalisation of the Australian Securities Exchange and is the fourth largest pool of managed funds in the world. The FSC promotes best practice for the financial services industry by setting mandatory Standards for its members and providing Guidance Notes to assist in operational efficiency.