6 September 2017

Deputy Chair
Productivity Commission
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**By email**: super@pc.gov.au

**Productivity Commission Inquiry in the Superannuation System**

The Financial Services Council (FSC) welcomes the opportunity to make submissions to the third stage of the Productivity Commission's (the Commission) inquiry into the competitiveness and efficiency of the superannuation system.

The 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 more than $2.7 trillion on behalf of 13 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 is a strong proponent of reforms that would enhance competition in the superannuation system. Theory and practice have demonstrated that competition policy delivers major benefits to consumers and this proposition holds true in the superannuation context.

Please contact me with any questions in relation to this submission on (02) 9299 3022.

Yours sincerely,

Blake Briggs
Senior Policy Manager

# Contents

# Introduction

The major barrier to a competitive superannuation industry is the industrial relations overlay that prevents consumers from choosing their own superannuation fund, and employers choosing the best default fund for their employees.

Reform is required to:

1. Stop enterprise agreements from preventing choice of fund; and
2. Remove superannuation from the modern award system and abolish the Fair Work Commission (FWC) process for allocating default funds to awards.

Previous FSC submissions have covered in detail how the industrial system stifles market contestability, by restricting default status to only those funds owned by industrial parties, and the barrier to entry this imposes.

This submission provides new analysis of APRA and FWC data to demonstrate the material, negative impact on the retirement savings of members that hold 1.7 million superannuation accounts as a result of the industrial system.

The FSC submits that the Productivity Commission (the Commission) must prioritise recommendations to reform the default superannuation system to make it genuinely contestable and to remove the political ideology that underpins the superannuation system.

This submission also provides new data relating to insurance in superannuation to underpin a recommendations that the Commission allows the cross-industry insurance in superannuation work group to complete its development of an industry code.

## Summary of Recommendations

**Recommendation**: The Commission conclude that the industrial default model is delivering poor outcomes for consumers and recommend to the Government an allocation model that allows consumers to switch to better performing funds.

**Recommendation**: The Commission consider how the competition and efficiency objectives, including a refinement of the population of MySuper products and a higher overall standard of product, can be achieved through a hybrid model of the employee and employer choice models.

**Recommendation**: The Commission recognise that the proposal for a central clearing house is unnecessary as the objectives underpinning the proposal are achieved through SuperStream.

**Recommendation**: The Commission recognise that it is not possible to establish a Government body to shortlist funds in a manner that would be free of the conflicts of interest as a result of the partisan nature of the superannuation industry.

**Recommendation**: The Commission allows the Insurance in Super Working Group Code currently under development to take effect before considering what further improvements, if any, are needed to automatic insurance in super.

# The industrial system leaves consumers worse off

Stage three of the Commission's inquiry will determine whether one or more of the alternate default models the Commission has developed should be recommended to the Government.

The Commission posed the question; how do the existing default arrangements mitigate the paramount risk of a consumer defaulting to a long-term underperforming default product?

The FSC submits that the current FWC default model does not mitigate this risk. To support this conclusion this section provides new analysis of APRA and FWC data to demonstrate that the FWC model entrenches a process where consumers are defaulted into subscale funds with systemically low returns.

The FSC submits that reform of the default system is necessary to protect consumers and the status quo is not sustainable. The current FWC model for allocating default contributions results in demonstrably poor outcomes for consumers.

It is more important for consumers to be empowered to leave an underperforming, subscale fund and join a better performing fund, than for the industry to continue the ideological battle over 'retail' or 'industry' status. The FSC supports a consumer being able to join any fund they choose, and recognises there are a number of strongly performing industry funds in the market, as there are strongly performing retail funds.

FSC analysis demonstrates that a more important issue facing consumers is the significant market presence of subscale and underperforming funds that are protected by the current default system:[1]

- There are 33 subscale funds listed in modern awards[2];
- On average these funds manage $3.3 billion, although 10 manage a very small amount, less than $650 million each; and
- The subscale funds make up 153 modern award superannuation listings, which equate to 30.2% of all the award listings.

**Collectively subscale funds manage $94 billion within 1.7 million consumer accounts. Subscale funds have a significant market presence, and present a major risk for superannuation consumers.**

FSC analysis also shows the negative impact that subscale fund underperformance has on consumers.

**The average performance of the default 33 subscale funds is 4.50% per annum over ten years.[3]**

The poor performance of subscale funds is clear when compared to other funds in the sector:

- Their performance is 0.64% lower than the average performance advertised by ISA funds;[4]

[1] FSC analysis of FWC modern award data and APRA superannuation performance data.
[2] Subscale funds are defined for this analysis as those that manage less than $10 billion, the level that industry researcher Chant West has used to demonstrate that, on average, smaller not-for-profit funds charge higher fees and produce lower returns than larger not-for-profit funds. It also excludes funds that are not members of Industry Super Australia (ISA) to demonstrate the significant underperformance of subscale funds that are hidden by the use of industry average figures.
[3] APRA's ten year, whole of fund, performance data.
[4] Industry Super Australia published performance data, July 2017.

- Their performance is 0.80% lower than average 5.30% performance of all ‘Growth’ options in the market, including both industry and retail funds;[5] and
- Their performance is 1.4% per annum lower than the performance of the best performing MySuper products.[6]

The scope of underperformance is magnified when analysis focuses on the worst performing funds.

**The weakest performing fund returned only 2.7% per annum over ten years, and whilst it manages less than $1 billion, it is listed in two modern awards.**

Whilst it is sometimes unhelpful to use comparisons of default performance, given the relative recent implementation of the MySuper framework, this analysis demonstrates the scale of the underperformance issue concerning default products in the industrial system.

The FSC submits that it is more important for consumers to be empowered to leave underperforming, subscale funds and join a better performing fund, than for policy to be based on whether a fund is ‘retail’ or ‘industry’.

**The performance gap between subscale funds and the best performing funds shows that a consumer could be over $170 000 worse off by retirement as a result of the current industrial system.[7]**

For the 1.7 million consumer accounts that may be worse off in retirement as a result of the protection of subscale funds, those consumers would likely have little concern for whether their funds is retail or industry fund.

The FSC is concerned that proponents of the industrial model for superannuation are putting the interests of industrial parties over consumers as the model they support retains the protection from competition of these subscale funds.

The FSC submits that the Commission should recommend a model that allows consumers to exit underperforming, subscale funds and switch to a fund, regardless of whether it is retail or industry funds, which delivers consumers stronger returns and a more comfortable retirement.

**Recommendation**: The Commission conclude that the industrial default model is delivering poor outcomes for consumers and recommend to the Government an allocation model that allows consumers to switch to better performing funds.

## Legislative barriers to competition

The Commission should specifically have regard to the complexity of Division 4A of the *Fair Work Act 2009* (Cth) (the FW Act) and in particular, section 156T of the FW Act.

Section 156T of the FW Act only provides industrial parties the opportunity to make submissions in the second stage of the FWC default superannuation reviews. This provision:

1. Excludes funds from competing with industry superannuation funds for default listings; and

[5] Chant West ‘Growth’ category, ten year returns.
[6] The FSC used the average performance of the best three MySuper products.
[7] Analysis of the projected returns of a 31 year old with an income of $80 000, net of fees, using ASIC’s Money Smart Superannuation Calculator.

2. Excludes one industry funds from competing with another if the former's sponsoring union or employer does not have industrial coverage of a specific industry.

The FWC process is therefore specifically designed to stifle competition between industrial parties, consistent with the demarcation rules that protect union coverage, and also protect industry funds from competing retail funds.

These statutory arrangements are evidence of the anti-competitive nature of the default system.

## Case Studies

The Commission should examine situations where:

1. Industrial parties have supported the industry fund they own being listed in modern awards, even where the fund was poorly performing, thereby resulting in avoidable, poor retirement outcomes for future default members;
2. Industrial parties have opposed application to the FWC by competing funds to be listed in modern awards in order to avoid the funds they own being required to compete;
3. Industrial parties using enterprise agreements to remove a consumer's right to choose their own fund, even where the fund named in the enterprise agreement was poorly performing, or had conflicts of interest related to financial transactions with the industrial party.

Each of these case studies would provide evidence of barriers to entry that have a dampening effect on competition. They also expose how industrial laws interact with entrenched conflicts of interest to prevent new entrants from competing with incumbents.

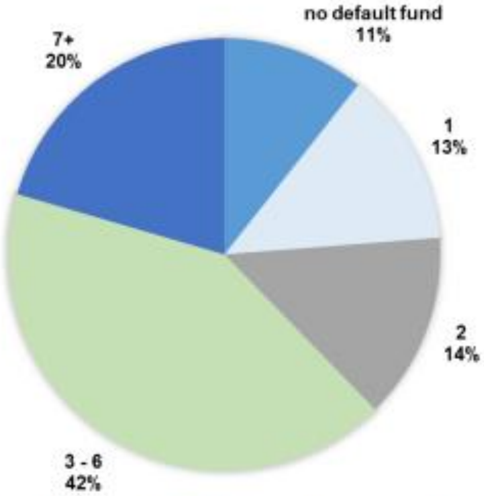
## Analysis

Deloitte Access Economics (DAE) recently conducted analysis into the default superannuation system for the FSC. New data in their report is relevant to the Commission's analysis, and the submission is attached for reference.

In particular, DAE demonstrated the extent to which options for employers and employees are reduced as a result of the award system.

A quarter of all industries covered by awards are only afforded a choice of two MySuper products, or no choice of fund at all. Over two thirds of industries have their options limited to six or less MySuper products.

**Figure 1. Number of default MySuper products listed in modern awards**

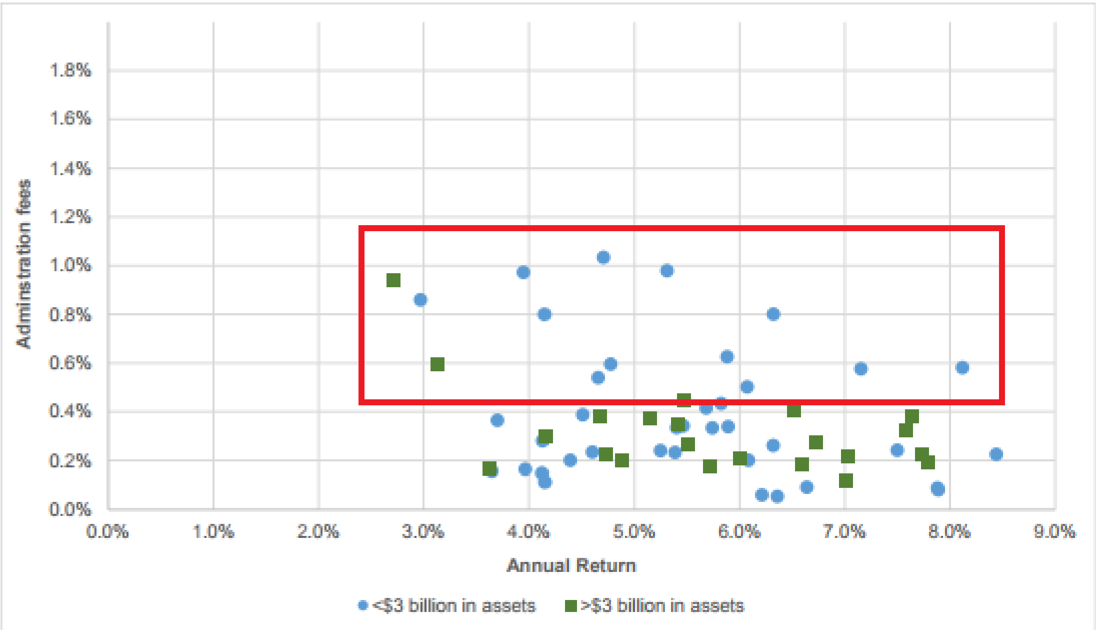



*Source: DAE analysis of FSC Audit of Modern Awards 14 January 2015*

DAE's research also examined the cost and returns of funds listed in modern awards since the commencement of MySuper.

DAE concluded that smaller funds, under $3 billion in assets, were more likely to have substantially higher administration fees, and were more likely to have below average returns.

**Figure 1. Fees and returns of award listed MySuper products**




DAE's analysis led it to conclude that if increased competition in the superannuation system were to narrow the difference between the highest and lowest administrative fees applying to MySuper products, a reduction of at least $292 million in administration fees paid per year across over 14 million MySuper product accounts could be realised.

This would represent a significant decrease (13%) in administration fees across these products.

# Competitive default model

The FSC submits that the key elements of a competitive market design are found in the employee and employer choice models in the Commission's interim report. This has formed the basis for the hybrid model outlined in this submission.

The MySuper regime is only three years old, and as such there is not a long history of performance for most MySuper products. This prevents meaningful comparison for tender or auction purposes, but favours a model where consumers, on an ongoing basis, are able to switch to highly performing funds.

The FSC submits that elements of the other options proposed by the Commission would introduce significant, 'heavy handed' regulatory interventions that are unnecessary to achieve the objectives of a competitive market. They also introduce considerable risk of unintended outcomes, such as potential gaming by participants and politicisation of the superannuation industry.

The FSC's proposed hybrid model is designed to avoid the risk of unintended outcomes inherent in Government intervention and provide a greater role for the markets in delivering efficient outcomes.

The proposed model would also prioritise encouraging consumer engagement. It would place consumers at the centre of the process for selecting a fund, and provide more information to assist consumer decision-making.

The key features of the hybrid model proposed by the FSC are:

1. Consumers have a universal right to choose their own fund:
    - Subject to APRA's Member Outcomes Test, which will provide consistently higher quality MySuper products;
    - A significantly smaller population (in the range of 20-30) of MySuper products to choose from within the next decade, removing the need for a 'shortlist';
    - Consumers would be nudged towards this smaller set of high-quality MySuper products; and
    - Improved data presentation by APRA to help consumers make comparisons.

2. Employer choice of any MySuper product for a workplace is retained in circumstances where a consumer does not choose their own fund, however:
    - The MySuper population to choose from is significantly smaller and of a higher quality due to APRA's enhanced approval process;
    - Penalties on funds and related parties for offering inducements to employers are stronger (a financial penalty, enforceable by ASIC, should be introduced); and
    - Mechanisms for unions and employers to restrict fund choice through enterprise bargaining is removed by abolition of such terms in agreements.

3. The 'default once' proposal is also achieved through:
    - Removing default super from modern awards and agreements, which is a major cause of the proliferation of multiple accounts; and
    - Using Single Touch Payroll (STP) to automatically pre-populate the Choice form with a consumer's existing default account, preventing duplication without onerous regulatory requirement for employers.

**Recommendation**: The Commission consider how the competition and efficiency objectives, including a refinement of the population of MySuper products and a higher overall standard of product, can be achieved through a hybrid model of the employee and employer choice models.

## Transitional arrangements

There would be no material transitional costs arising from this model as an employer or consumer can remain a consumer of their existing default fund indefinitely.

The proposed model puts the onus on providers to demonstrate value to consumers of switching to a competing fund, inherently creating a situation where the benefits to the consumer must outweigh any potential costs.

This model is superior to Government intervention in the default market, through a tender or an auction, as such intervention would require all funds that attempt to secure default status to not only develop new products to compete based on the criteria used, but also develop strategies to survive in the event they are not successful in a tender.

The FSC is not aware of how the transition cost of a tender or auction could be effectively mitigated.

## Politicisation of Government body

The FSC is concerned that a common feature of the options proposed by the Commission is the establishment of a Government body to select a shortlist of MySuper products from which either a consumer or an employer can choose.

The FSC is concerned that the highly partisan superannuation industry would result in the politicisation of any Government body that the Commission may recommend be established to carry out the shortlisting process.

### Lessons from the Fair Work Commission process

The existing FWC process is an important example of how the nexus between the superannuation industry and political appointments are impacted by actual or perceived conflicts of interest.

The Federal Court has provided useful commentary on the currently legislated process, which requires an 'Expert Panel' to review MySuper products. Of the three 'Expert Panel' members on the FWC, the FWC President stood down two Panel members as a result of potential conflicts of interest, which gave rise to legal action before the Federal Court.

The Full Federal Court was scathing in its assessment of the current default allocation model and provides an important lesson to the Commission for any attempts to design a future Government body. Justice Perram observed that "the qualification provisions are likely to generate problems of the very kind which have arisen. Most of the people who are qualified will also be disqualified."[8]

The FSC submits that the Commission should heed the advice of the Federal Court in considering whether any 'expert panel' can be adequately quarantined from the politics inherent in the industry.

[8] Transcript of *Financial Services Council v Industry Super Australia* [2014] and Another at 36

### Politicisation of a Government body is inevitable in superannuation

The FSC submits that it would be poor public policy for the Commission to recommend the creation of a new Government body that, in our view, would inevitably become politicised through potential conflicted appointments.

The power to appoint individuals, be they domestic or international experts, inevitably rests with the Commonwealth Government of the day, who itself may have conflicts of interest or an ideological position on superannuation issues.

It would not be appropriate for the Commission to base policy recommendations on how the Commission may wish for the industry to operate in an ideal world, rather than its actual operation. The FSC submits that it is not possible to structure a Government body so as to remain independent and free of conflicts given the current partisan state of the superannuation industry.

The Federal Court counselled in relation to the FWC process that “it’s obvious that this legislation has not been thought through in its practical operation. I’m just not sure that it’s the role of this court to try and bend it back into the shape of something which works.”[9]

**Recommendation**: The Commission recognise that it is not possible to establish a Government body to shortlist funds in a manner that would be free of the conflicts of interest as a result of the partisan nature of the superannuation industry.

# Centralised clearing house

The FSC submits that major reform to the network of clearing houses in the Superannuation Transaction Network (STN) is unnecessary as the implementation of SuperStream achieves the objectives that the Commission seeks to achieve through a central clearing house.

The FSC is a co-sponsor of the Gateway Network Governance Body Limited (GNGB), which was established in September 2016 as an industry-owned organisation to manage the integrity of the STN. The STN is the network created by the Gateway Operators who transact superannuation data under the SuperStream Data and Payments Standards.

The GNGB manages the governance of the STN by the operation of a Memorandum of Understanding between the Gateway Operators and the GNGB, which requires compliance with Gateway Standards and associated requirements concerning information security, service level standards, amongst others.

As a result of the implementation of SuperStream mandatory Data and Payment Standards across employers and the superannuation industry, most entities engaged Gateway Operators to meet certain obligations under those requirements. The Gateway Operators comprise a range of different types of organisations, including clearing houses, payroll services, specialist data management providers and self-administered superannuation funds, serving a range of client types.

Gateway Operators offer clearing services, integration into registry systems, data transformation into a standards-compliant format, data integrity screening services, integration into payroll systems, reconciliation services and transaction reporting and monitoring, to meet their various client needs.

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[9] Transcript of *Financial Services Council v Industry Super Australia* [2014] and Another at 50

These services, in a digitised transaction environment, provide vital structures to manage data integrity and payment reconciliation, and support efficient, straight-through processing. The transaction services provided are therefore a part of a broader landscape of electronic and data services, and meets already many of the objectives sought by centralising a clearing house.

The industry has made significant investment in electronic transaction capability, and the associated commitment to more efficient processes. The services the Gateway Operators provide have assisted and supported these improvements. The management of data, and at times payment, by these providers is part of the landscape of the superannuation industry, and is well-integrated into vital processes within the industry.

A consequence of the development of solutions available is that employers have access through a range of options, to low cost and no cost services that ensure that contributions can be sent compliant with the SuperStream mandatory Data and Payment Standards, and delivered by Gateway Operators across the STN to destination superannuation funds.

**Recommendation**: The Commission recognise that the proposal for a central clearing house is unnecessary as the objectives underpinning the proposal are achieved through SuperStream.

# Insurance

## Summary

FSC believes strongly in the value of having automatic (opt-out) insurance in super. That is not to say that the system cannot be improved but, without it, the primary losers would be the individuals and their families who receive the benefits paid out, who would not otherwise have insurance. In this paper we explore who these people typically are, how many of them there are, and how much they would lose if automatic insurance were not available.

There are various benefit types held in super – life cover, total permanent disability and income protection. Of these, the most commonly held insurance benefit in super is life cover which also accounts for the highest value of claims paid.

As life cover pays a lump sum on death, the recipients of payouts are typically the surviving partners and families. Given that rates of both participation and mortality are materially higher for men than women, the “typical” recipient (mode) is a woman. She is aged under 40, has children, and gets an average payout of $125,000[10] following the death of her partner.

Every year, life cover in super pays out over $2.2 billion to over 17,500 surviving partners, mostly women, and their families. [11] Together with other benefits, every year automatic insurance in super pays out around $4.5 billion to around 67,500 Australians and their families at times when they are ill, injured or have lost a loved one. Times when people most need financial support.

The group nature of automatic insurance in super means that some groups get better value for money than others. In this paper we explore which groups benefit the most.

Group insurance in super provides excellent value for money with around 81 cents paid out in benefits for every $1 in premiums, and is excellent value for taxpayers and government. It provides cover for people who would otherwise not choose, or not be able, to take out life insurance.

## Background

The FSC is of the view that the provision of automatic life cover and disability insurance to Australians through super on an opt-out basis is a critical component of the superannuation system.

Insurance in super provides over 9 million Australians with a foundation of life insurance cover – an estimated 92% of the workforce[12]. The provision of these benefits is a complementary feature of the superannuation system. It provides a safety net to those who would have otherwise not chosen, or not been able, to take out life insurance individually. It therefore plays a pivotal role in providing economic and social benefits to Australians.

It provides financial protection from being unable to work, either temporarily or permanently, due to illness or injury and, in the case of life cover, provides financial support on death. Many income protection schemes also cover Superannuation Guarantee contributions so that the member’s

10 ISWG/KPMG Review of Default Group Insurance in Superannuation – September 2017

11 This based on the Australian Census data 2016 and insurance data

12 Rice Warner – Underinsurance in Australia – published in August 2016

retirement benefits are not reduced. The high take up rate means that these benefits are available without individual assessment.

## Opt-out Vs Opt-in

A recent research report commissioned by the Insurance in Superannuation Working Group (ISWG) found that in the context of disengaged super members, if the system were changed to an opt-in system, as few as 2-10% of super members would take up insurance.[13] For the remaining members, this would result in higher costs, reduced coverage and between 4-5 million Australians being unable to obtain insurance, either at all, or at a reasonable premium rates.[14] This is because, at these reduced levels of take up, applicants are likely to be subject to underwriting, with acceptance and premiums being subject to the type of work people do, and their health.

That is not to say that the current system cannot be improved. Indeed, the ISWG is looking at ways to address some points that have been raised, such as duplicate accounts, low member engagement, inappropriate erosion of super balances, and disproportionate impacts on particular groups.

## Who would lose out?

There are different life insurance benefits provided through super. These are Life Cover (also called Term Life), Total Permanent Disability (TPD) and, increasingly, Income Protection (IP). Without automatic insurance in super, the primary losers would be the people and their families who currently receive the money that is paid out. People who, mostly, would have no other insurance.

There are some interesting conclusions that can be drawn from the recently published Census data that allows us to deduce who benefits from automatic insurance in super. In other words, to understand who would lose out if it was not there. Some of these are explored in this submission where we consider the characteristics of each benefit, who typically receives the money, how many of people benefit, and how much they would lose without automatic insurance in super.

## Life Cover (also called Term Life)

Pays a lump sum on death or diagnosis of a terminal illness. The money helps families support each other at a time of tragic loss, rather than worrying about financial commitments that don't go away, such as mortgage repayments, rent and looking after children.

The recipients of the money from life cover are the surviving partners and families after the person who was covered has passed away. Both participation and mortality rates[15] are materially higher for men than women, which means the "typical" recipient (mode) is a woman:

- She is aged 35 to 40
- She has children
- She gets an average payout of around $125,000

**Hannah's story** – *a case study of a typical scenario*

13 ISWG/KPMG Review of Default Group Insurance in Superannuation – September 2017 – pg. 42-43.

14 Ibid.

15 This based on the Australian Census data 2016 and insurance data

*Hannah lost her husband Jeremy when she was 38. He died in an accident at age 42, leaving her with two young children in primary school to look after on her own.*

*Although she did not know it at the time, thankfully Jeremy had automatic life cover in super of $254,285 and an account balance of $39,685. Together this paid her $293,970 which allowed her to support her children and maintain her household expenses.*

Without automatic insurance in super, the surviving partners and their families are unlikely to benefit from any life cover. In Australia today, couples increasingly rely on dual incomes to meet their household financial commitments. Many would struggle to meet their ongoing financial commitments such as mortgage repayments or rent and, at best, would face significant financial hardship at a time of having to cope with the enormous grief of coming to terms with their loss.

*Every year, life cover in super pays out over $2.2 billion to over 17,500 surviving partners, mostly women, and their families.*[16]

## Total Permanent Disability

Pays a lump sum if you are not expected to be able to work ever again due to an illness or injury. The money can be used for any purpose, such as home adaptations, everyday expenses, medical costs, or invested to provide a regular income.

The recipients of total permanent disability payouts are the members themselves. Participation rates in the census and life insurance data suggest that the "typical" recipient (mode) is a male:

- He is aged 45 to 50
- He gets an average payout of over $103,000
- He typically has a partner and children

*Every year, total permanent disability in super pays out over $1.6 billion to over 16,000 people at a time when, together with their family, they face never being able to work again.*[17]

**See Bill's story below for case study**

Without insurance in super, these 16,000 disabled people are unlikely to have total permanent disability cover. They, with their families, are likely to suffer significant financial hardship as a result of being unable to work ever again. Many would become dependent on the Disability Support Pension, at considerable cost to the taxpayer.

16 This based on the Australian Census data 2016 and insurance data

17 Ibid.

## Income Protection

Provides a replacement income of up to 75% of the person's earnings during periods when they are unable to work due to illness or injury. Depending on the scheme, after a waiting period, the replacement income continues for a maximum number of years, or in some cases to age 65.

The recipients of the income protection payouts are the member themselves and the beneficiaries include their partner and family if they have one.

Participation rates in the census and life insurance data suggest that the "typical" recipient (mode) of income protection is male:

- He receives over $20,000 in replacement income for each claim
- He typically has a partner and children.

*Every year, income protection in super pays out almost $700 million to over 34,000 people. It helps them continue to meet their financial and family commitments at times when they can't work.*

Without insurance in super, these 34,000 people are unlikely have any income protection. During periods without income, most would struggle to meet their ongoing financial commitments such as mortgage repayments or rent, and many would become dependent on the Disability Support Pension, at considerable cost to the tax payer.

## Other community groups

There is indicative evidence that certain groups in the community benefit from automatic insurance in super. These can be disadvantaged groups such as people who have English as a second language (ESL), low income families and indigenous Australians.

For example, First Nations Foundation has an outreach program helping indigenous Australians with enquiries about super. The FSC's work with First Nations Foundation has allowed us to better understand the specific needs of that community group with respect to superannuation and life insurance. Data from the program shows that 55.17% had insurance in super, but only 13.79% knew what insurance was. While inconsistent levels of financial literacy exist across Australia's general population, we see real risks in an opt-in system of insurance which will lead to greater levels of underinsurance.

**Bill's story** – *a case study*
Bill is an indigenous man who worked at a mining company in Perth. He had a stroke at age 43 which left him with permanent left-side brain damage affecting his speech and mobility. He needed a wheelchair and couldn't work any more.

Bill's partner, Jennifer, is also indigenous and is blind. After Bill's stroke, Jennifer became the primary carer for him and their five children. For two years they struggled on a disability and carer's pension. They lived in housing commission, had no car, no respite care, and they struggled with basic living expenses, let alone be able to modify their home.

An indigenous Elder with financial experience heard about Bill and Jennifer. He found that Bill had total permanent disability as part of his insurance in super. It paid out $600,000 which Bill and

Jennifer used to buy a car, modify their home, provide respite care, pay for medical treatment, and look after their children.

Without his automatic total permanent disability cover in super, Bill, Jennifer and their children would have faced years of financial hardship.

## Efficiency of the current system

Group insurance provides excellent value for money with around 81 cents paid out in benefits for every $1 in premiums.  It provides cover for around 9 million Australians, many of whom would otherwise not choose, or not be able, to take out life insurance.

## Government savings

Social security and welfare continue to be the largest source of federal government spending, budgeted at $164.1 billion in 2017-18, which is more than double the cost of health expenditure, and equating to 35% of total expenditure[18].

Recent KPMG modelling found that automatic insurance in super provides excellent value for taxpayers and the government.  The yearly savings to government from these benefit payments exceeded the value of the tax concessions on insurance in super premiums as follows[19]:

| | Yearly Amount ($ millions) |
|---|---|
| Cost of tax concessions | 300 – 420 |
| DSP savings that might otherwise be claimed | 550 – 640 |
| Estimated net savings to Government | 65 – 185 |

18 Budget 2017-18 Overview, Appendix B, Revenue and spending, May 2017, pg.32

19 ISWG/KPMG Review of Default Group Insurance in Superannuation – September 2017

## Conclusion

Automatic insurance in super delivers excellent value for money for taxpayers, and serves super members well. Every year it provides financial support of around $4.5 billion to around 67,500 Australians and their families at times when they are ill, injured or have lost a loved one. Times when people most need financial support.

That is not to say that automatic insurance in super cannot be improved. Indeed, the Insurance in Super Working Group is developing a Code to make many improvements. The ISWG is addressing some points that have been raised, such as duplicate accounts, low member engagement, erosion of super balances, and disproportionate impacts on particular groups of super members.

**Recommendation**: The Commission allows the Insurance in Super Working Group Code currently under development to take effect before considering what further improvements, if any, are needed to automatic insurance in super.

## Potential future work

The FSC is of the view that it is worth exploring how efficiencies could be made by mapping the different systems and services across sectors (that is, workers compensation, CTP, super, life insurance, disability support) at a high level, and the flow of people through the wider system in its entirety. This might identify gaps and overlaps to improve efficiency in the wider system.

We should also explore the possibility of increased engagement and some level of personalisation of automatic insurance, by capturing and using better system-wide data.