

9 July 2018



Law Council
OF AUSTRALIA

Legal Practice Section

Senate Standing Committees on Economics
PO Box 6100
Parliament House
Canberra ACT 2600

By email: economics.sen@aph.gov.au

Dear Sir/Madam

BILL: PROTECTING YOUR SUPER PACKAGE

1. I am pleased to enclose a submission prepared by the Superannuation Committee of the Legal Practice Section of the Law Council of Australia (**the Committee**)¹ regarding the Treasury Laws Amendment (Protecting Your Superannuation Package) Bill 2018.
2. This submission does not seek to raise issues concerning matters of practice or policy. Rather, the Committee has responded to specific questions and makes some general observations relating to the Committee's objective of ensuring that the law relating to superannuation in Australia is sound, equitable and demonstrably clear.

Comments applying to all Schedules

3. *Overriding terms of trust deeds:* It is possible that some superannuation fund trust deeds may contain provisions which are inconsistent with the highly specific legislative scheme proposed in Schedules 1 to 3 (for example, as to member notifications, fees and insurance coverage). Accordingly, the Committee suggests that consideration be given to including a new provision similar to:
 - existing s 29VQ of the *Superannuation Industry (Supervision) Act 1993 (SIS Act)* which states that a provision of the governing rules of a superannuation fund is void to the extent that it is inconsistent with certain statutory obligations; and/or
 - existing s 29XB of the SIS Act which states that a trustee is not subject to any liability to a member of a fund for an action taken to give effect to certain statutory obligations.
4. *Carve-out for retirement phase account:* The Committee notes that all the proposed reforms in Schedules 1 to 3 appear to apply to accumulation accounts in the retirement phase (such as account-based pensions), and queries whether some carve-outs should be drafted in. For example, the definition of 'inactive' applies to accounts which have not had contributions made or rollovers received, but this is exactly what would happen to an account-based pension account because the law

¹ The Law Council of Australia is a peak national representative body of the Australian legal profession. It represents the Australian legal profession on national and international issues, on federal law and the operation of federal courts and tribunals. The Law Council represents 60,000 Australian lawyers through state and territory bar associations and law societies, as well as Law Firms Australia.

does not permit contributions to be made to a pension.² Likewise, the Committee queries whether there might be other exceptions needed from the inactive account provisions where a member is invested in a temporarily suspended or frozen investment fund.

Schedule 1 - Fees charged to Superannuation members

Implementing the fee cap

5. The Committee notes that it is unclear from the Exposure Draft whether the \$6,000 threshold for the purposes of the fee cap applies to: (a) the total value of a member's interest in a fund; or, (b) the amount within *each* MySuper product or choice product. On one reading, it would be possible, for example, for a member to have \$5,000 in six different choice products (representing a total balance of \$30,000) and still have the amount of their fees capped. This would not appear to be the policy intent but arises from the wording of proposed s 99G. This is because s 99G applies if a fund were to 'offer a choice product or MySuper product' and the member 'has an account balance with the fund that relates to the product that is less than \$6,000'. If each investment option is a separate product (as seems to be the schema of the section) then the fee cap applies for every investment option that has less than \$6,000 invested in it. Although para 2.18 of the Explanatory Memorandum now makes it clear that the \$6,000 threshold is applied to each account that a member has with a particular fund, in cases where the member has multiple accounts with a particular superannuation fund (which would typically be designated with separate membership or account numbers). However, it is still ambiguous what happens where a member has a single account (i.e. with just one membership or account number) with the superannuation fund, but has different amounts invested in different investment options.
6. With regard to choice products, it should also be borne in mind that the cap applies to the aggregate of administration fees and investment fees. It is unclear whether the concept of 'investment fees' for the purpose of the SIS Act is the same as the concept of 'investment fees' for disclosure purposes under the *Corporations Act 2001* (Cth), as modified by ASIC's Regulatory Guide 97 (Disclosing fees and costs in PDSs and periodic statements). However, the Committee notes that proposed section 99G(3)(C) indicates that indirect costs may be captured (subject to regulations). Accordingly, especially where unlisted property is involved, this may mean that much of the per cent cap (or possibly even more than the 3 per cent cap) could be consumed by indirect costs incurred by entities other than the fund itself (i.e. interposed vehicles) as a result of the member's investment choices, which could diminish the amount which a fund can actually recover for administering the account and for its own investment expertise. The Committee makes this observation in passing so that the implications of the proposals are fully understood in the context of other reforms. If the intention is for a fund to retain up to 3 per cent of a low account balance as a contribution towards the actual costs of maintaining the account, that may not be the actual outworking of the proposals.
7. The Committee is also concerned that there is the potential for arbitrage insofar as a member who temporarily rolls out most of their account balance immediately prior to the balance test day, leaving less than \$6,000, and then rolls a substantial amount back in immediately afterwards, would be entitled to have their combined administration fees and investment fees capped at 3 per cent of whatever immaterial residual balance was left in the account on the balance test day. This could be open to abuse and we suggest that some modification be made to address such a situation.

² *Superannuation Industry (Supervision) Regulations 1994* (Cth) reg 1.06(1)(a)(ii).

8. The Exposure Draft makes it clear that a fund will not breach the MySuper fee charging rules to the extent that some MySuper members pay different fees as a result of their fees being subject to the cap. However, it is unclear whether fees must otherwise be calculated in the same way for all members (subject to the cap) or whether it will be permissible for there to be an altogether different regime for members with low account balances that would be subject to the cap. For example, say that a fund charges a standard fee of \$180 per annum. For a member with a \$6,000 cap, this equates to 3 per cent. Is it the case that, for all members with account balances less than \$6,000, those remaining members must be charged precisely 3 per cent or would it be possible to charge those members a lower fee of, say, only 2 per cent?

Exit fees

9. *Exit costs charged by outsourced providers:* The Committee assumes that the intent of the legislative ban on exit fees is not intended to interfere with a trustee's right of indemnification from trust assets for actual costs incurred in the administration of the fund. With that assumption in mind, the Committee observes that if exit fees cannot be charged to members, actual costs incurred by superannuation fund trustees by way of charges imposed by their outsourced administrators to process benefit payments will need to be incorporated in other cost recovery methods. That is, under the current law, exit fees can only be charged on a cost recovery basis. So the actual costs incurred (and which are currently passed onto members) will need to be paid for by other means. It will not necessarily reduce the costs incurred by trustees through services provided by outsourced administrators. Because the definition of 'administration fee' in s 29V(2) includes 'costs incurred by the trustee', fees for processing benefit payments charged by administrators will need to be absorbed within the general administration costs charged to all members.

Schedule 2 - Insurance for Superannuation members

10. *Proposed date of effect:* The Committee queries whether the date of 1 July 2019 used in the application and transitional provisions is realistic, having regard to the renegotiation of group insurance arrangements that will inevitably be required across the industry as a consequence of these measures.
11. *Notice whether or not in writing:* In the application and transitional provisions for proposed s 68AAB, the Committee suggests that in sub-item (5)(a) the words '(whether or not in writing)' should be included immediately after the words 'the member has given the fund notice'. This would result in the adopted policy position appearing much more clearly on the face of the law.
12. *Telephone opt-in:* As a related comment, although strictly a matter of policy, the Committee is unsure why a member, particularly one aged under 25 or with an account balance under \$6,000, could not make a positive election verbally by telephone to have insurance coverage? Particularly, having regard to the way in which Australian laws generally now facilitate modern methodologies for business transactions.³
13. *Impact on automatic acceptance levels:* The Committee acknowledges that this legislative measure on insurance is policy driven, and it does not comment on matters of policy. However, the Committee queries whether the impact of this measure on automatic acceptance levels (**AAL**) provided by insurers (allowing new employees

³ See proposed ss 68AAA(2), 68AAB(2), 68AAC(2) and application provision 3 for s 68AAA in sub-item (6)(a).

joining a group insurance arrangement through superannuation to be insured without the provision of health evidence up to the AAL) has been considered given the changed risk profile for group arrangements with new and young members.

14. *Age 25 test day*: The Committee queries whether consideration has been given to stipulating a balance test day for determining whether a member is under or over the 25 year age threshold and whether there is a grace period following a member's 25th birthday in which insurance can be established (otherwise a fund may be in breach of the MySuper rules by not offering standard cover for a member from the day following their 25th birthday).
15. *Application opt-in*: The Committee queries whether a trustee can treat a member's application for additional units of insurance cover (including a historical application) as an opt-in.

Schedule 3 - Inactive low-balance accounts and consolidation into active accounts

16. *Death benefit to multiple beneficiaries*: In proposed s 29QF(2)(b)(ii) and (4), upon a member's death in the circumstances described, the Commissioner would pay the death benefit to each death beneficiary equally. This presupposes that the Commissioner will, like super fund trustees, gather information about the member's potential beneficiaries (which can be complex, particularly where the member has been in more than one de jure or de facto relationship with children from each, and particularly if there are questions about whether a de facto relationship had commenced or ended shortly prior to the member's death). Further, for small death benefits with multiple beneficiaries, the amounts distributed would be small.
17. The Committee suggests that the law would operate in a more straightforward manner if an order of priority were to be specified such as is set out in intestacy legislation (e.g. to the spouse first, etc.). To accommodate the possibility that a member could have more than one spouse, we suggest that, in a superannuation context, a priority distribution to a spouse living with the member as at the date of death would be consistent with the purpose of a superannuation death benefit. Alternatively, proposed s 29QF(2)(b)(ii) could specify that the death benefit must be paid to the member's legal personal representative in all cases (i.e. for distribution in accordance with the member's will or the laws of intestacy). In this case, proposed s 29QF(4) would not be needed.

Contact

18. The Committee would welcome the opportunity to discuss its submission further and to provide additional information in respect of the comments made above. In the first instance, please contact:
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Yours sincerely

A handwritten signature in blue ink, appearing to read 'Jonathan Smithers', with a long horizontal stroke extending to the right.

Jonathan Smithers
Chief Executive Officer