Manager, Regulatory Framework Unit
Retirement Income Policy Division
The Treasury
Langton Crescent
PARKES ACT 2600
superannuation@treasury.gov.au

Protecting Your Super Package

Cbus welcomes the opportunity to comment on the Government's *Protecting Your Super* package as announced in the 2018-19 Federal Budget.

Cbus supports measures that protect superannuation savings from undue erosion by fees and insurance premiums, ensure Australians are not paying for insurance they do not need and encourages consolidation of multiple accounts. However, it is imperative that such measures do not create unintended adverse impacts on members.

Cbus has strong reservations about the extent to which the proposed reforms will remove and restrict access to insurance for those workers in more hazardous industries who require cover or would not otherwise be able to access it. Cbus is a fund with a relatively large cohort of younger workers who by virtue of the blue collar work they undertake in the building and construction industry have a greater need for insurance and less capacity to access affordable cover as an individual or on an opt-in basis.

There is scope for the reforms to be moderated, while still achieving the primary policy objectives. Amendment is required to minimise the adverse implications for all workers, address the unique needs of high risk members with often hazardous workplace conditions and to reduce the impact on risk pools and associated insurance pricing.

Attached are our detailed comments on the proposed measures addressing Cbus member impacts, as well as implementation issues. Please do not hesitate to contact Jane Barrett on 03 9910 0339 or jane.barrett@cbusssuper.com.au if you have any queries in relation to our submission.

Yours sincerely

Robbie Campo
Group Executive
Brand, Advocacy, Marketing & Product
29 May 2018

PROPOSED CHANGES

1. Insurance changes

The proposed measures as outlined in exposure draft legislation will prevent trustees from providing default insurance to accounts of:

- new members aged under 25 years;
- all accounts with balances below $6,000; and
- all inactive accounts unless a member has directed otherwise.

Cbus believes insurance within superannuation provides significant value and is an important element of the system, especially for members working in physically demanding and hazardous occupations such as those in the building and construction industry.

Overall, Cbus supports the objective of ensuring that an appropriate level of insurance is provided to younger members having regard to their needs, removing unnecessary insurance coverage due to multiple accounts and minimising erosion of superannuation accounts from insurance premiums.

However, the current exposure draft puts forward a package of measures which in combination unnecessarily compromises the safety net of default insurance cover. Specifically, many Cbus members will be left uninsured, there will be increased premiums for those who remain covered and there will be more restrictive terms (this is explained further in 1.1 below).

1.1 Cbus member impact, issues and implementation

Loss of cover

For Cbus members, the combination of measures will have detrimental impacts and will leave many members without cover. Overall, we estimate that between 250,000 to 300,000 members will lose cover under these proposed measures. When we consider that Cbus has accepted 88% of insurance claims on an annual average basis across the last five years (totalling $1.1 billion in benefits to members or their beneficiaries), the impact on our membership will be substantial.

Inherently hazardous working environment makes our members more dependent on group cover

Cbus members are more reliant on the group insurance we provide due to the inherently hazardous nature of their working environment, making it difficult for them to obtain affordable cover elsewhere. We cover extensive working conditions and occupational categories which are excluded by many other insurers and most retail funds. Cbus uses its scale to insure workers who would otherwise not be able to get cover, or who would only receive modified cover with other retail providers.

We have recently commissioned an independent benchmarking of our insurance products by RiceWarner Actuaries. The RiceWarner Review of Insurance Offering – Summary Report

(Report) is currently being finalised for formal release. The findings confirm that Cbus delivers a unique scope of cover based around member's needs and highlights:

- "Cbus may be the only option to obtain insurance cover, or one of a very limited number of options for members working in a range of high risk occupations. We believe this is a particularly valuable service to these members."

- "Given Cbus's position in the constructions and building market, it has amassed a number of members in what would be considered high risk occupations, yet has managed to offer default cover to all."

- "Cbus is providing a valuable service to members through the provision of insurance to high risk occupations."

Member research has demonstrated that our members highly value the default cover provided by Cbus. Specifically, Cbus research indicates that two-thirds of members recognise the group buying power benefit of Cbus obtaining insurance on members' behalf. In addition, three-quarters of members trust Cbus to put in place the right levels of insurance.[1] Cbus was also the 3rd highest ranked fund, for our insurance options in a nationally representative sample of 6,720 Australians.[2]

Relatively large cohort of younger members

The exposure draft provisions are based on an assumed working pattern typical for professional workers. However, for most Cbus members, working life and family responsibilities usually start at a much younger age. Our research has also indicated that many of our members have financial responsibilities from the age of 21, borne out by the fact that for those between 21 and 25, over 60% of death benefits are paid to dependents (a further 10% is paid to Estates which also includes dependents).

Cbus is concerned that younger members are less likely to opt-in to cover, so it is highly likely that these proposed changes will leave most of our younger members uninsured. This is a concern when we consider our younger members' reliance on Cbus' default insurance as illustrated by claims experience. Over the past 16 years, Cbus has paid out over $110 million in death and TPD claims to members under the age of 25 years.

Cbus has actively reviewed and tailored cover for younger members in order to balance insurance needs against unnecessary erosion of superannuation accounts. Importantly, Cbus reviewed its insurance offering in early 2017 following the retendering of our insurance arrangements. This review resulted (amongst other things) in a reduction in death cover for those under 21. Following these changes, premiums for most members were significantly reduced.

Insurance cover provide our members and their families with a greater level of financial security by covering causes of death not covered by other insurances. For example, Cbus'

[1] Cbus Insurance Product Development Report, EY Sweeney 2015.

[2] Investment Trends May 2017 Member Sentiment & Communications Report, based on a survey of 6,720 super fund members

group death cover does not exclude suicide. Importantly, due to the high proportion of younger men in Cbus' membership, we tragically experience a higher rate of suicide. 14% of death claims for under 25 year olds have related to suicide (a further 32% are awaiting coronial review).

Younger members still require TPD cover and if permanently injured without the group cover we provide, they will be more dependent on government support. Any cost/benefit analysis of the measures should contemplate this potential cost to government.

Sub-optimal outcomes from a pricing and coverage perspective

The impact of these proposals will go beyond the loss of cover for members directly impacted and will have other unintended negative consequences. Group insurance on a default opt out basis pools risk over members' various life stages and has significantly simplified underwriting arrangements that provides insurance cover on an automatic basis when basic eligibility requirements are met. It is essential that certainty of commencement of cover rules exist and this pool of members is preserved for the benefit of all members.

The cost of premiums for remaining members will significantly increase as a result of these insurance measures and the scope of cover would become more restrictive with increased underwriting and exclusion of pre-existing conditions. This will generate uncertainty and disputes around the commencement of coverage. We have estimated that premiums from the remaining pool is likely to rise by up to 20% to 30%, with Cbus' pricing more detrimentally impacted than many other funds due to the additional hazards we bear associated with the industry conditions.

The package of insurance changes will have unintended negative consequences and will cost some Cbus members more than they save

Under the proposed amendments, premiums for Cbus members are estimated to increase by 20 to 30% (for modelling purposes we have assumed 25%).

A member who joins Cbus at age 22 with current default insurance cover and default investment with Cbus and commencing immediately is projected to have a balance at age 67 of $1,236,000[3].

A member who joins Cbus at age 22 with default insurance cover commencing from age 25 and default investment with Cbus is projected to have a balance at age 67 of $1,232,000[4].

The results can be marginally positive or negative depending on the commencement age. However, it is important to highlight that for approximately the same result at retirement, the member has gone without the benefit of insurance in a hazardous work environment for three years.

[3] Based on Cbus member estimated average age based income, Cbus fees, costs and premiums, earnings at CPI plus 3.25%, SG at 9.5% and 25% increase in premium.

[4] Based on Cbus member estimated average age based income, Cbus fees, costs and premiums, earnings at CPI plus 3.25%, SG at 9.5% and 25% increase in premium.

Definition of activity is too narrow

Both the insurance exclusion for inactive members and proposed auto-consolidation of small inactive accounts assume that inactive accounts are likely to be held by members with an active account in another fund, meaning they are paying for multiple insurances or fees which are unnecessary. However, member research and data analysis indicates that most inactive Cbus members only have Cbus as their superannuation fund (73% in 2017). Insecure working conditions in the building and construction industry means that they have long breaks from work or from work which attracts superannuation contributions.

The definition of inactivity which is premised on receipt of contributions or rollovers is too narrow having regard to these broken working patterns, and the existence of clear and explicit indicators of member engagement with the Fund.

Proposed date of commencement will have adverse consequences

The Exposure Draft states that these measures will take effect from 1 July 2019. This is an insufficient period of transition. Trustees of funds will need to notify affected members by 1 May 2019 to provide them sufficient opportunity to opt-in to insurance coverage. This proposed date of commencement will necessitate early renegotiation of insurance contracts which will place funds in a very weak bargaining position. This will impact pricing and terms/scope of coverage, resulting in poor outcomes for members.

Cbus' current insurance contract expires on 31 October 2020. A forced renegotiation mid contract leaves Cbus in a less than ideal position, given the complexity and detailed actuarial modelling and pricing required. Renegotiating insurance contracts typically takes at least 6 months. Implementing insurance changes then involve system changes by the administrator, revisions to internal processes/systems, and development of member communications and disclosure materials (these can take 6 to 12 months to complete).

1.2 Cbus position

Removal of default cover for new members under age 25:

Cbus supports measures that provide an appropriate level of insurance to younger members, but proposes that amendments be made. Cbus believes that a more appropriate age for younger members is 21 for death, below which default cover should not be provided on an opt out basis. However, we consider that it is important that trustees have the capacity to be able to provide default disability cover (TPD) for members. This is particularly important for those persons who undertake hazardous occupations/'blue collar' work, who generally commence work at a younger age and are unable to obtain other insurance cover.

These amendments would minimise unintended impacts on special categories of members who rely on default TPD and would be unable to obtain affordable opt-in insurance cover.

Removal of default cover for members with balances of less than $6000

Overall, Cbus has strong reservations in relation to removing default cover in respect to those members with balances less than $6000 (or in other words until their balance reaches $6,000).

As currently drafted, this exclusion would remove default cover for all members in the first 12-18 months of working life which would compromise the benefits of risk pooling critical to group cover and almost certainly result in tightening of terms for the commencement of cover including exclusion of pre-existing conditions. This will impact certainty of cover for many individuals and cause significant increases in cost.

Cbus proposes that amendments are made to provide that the exclusion of default cover for members under $6,000 only applies where the member is inactive. See further comments below regarding inactivity definition.

Removal of default cover for members inactive for a continuous period of 13 months

Cbus proposes that in respect to default cover this measure be restricted to fund members with an account below $6,000. This means that the low balance and inactivity criteria would be combined.

Inactivity criteria would need to be clearly defined, be practical and contemplate different workforce patterns/scenarios such as seasonal workers and parental leave. For example, inactivity could be where there is no contribution or other prescribed form of member engagement (some positive act indicating the member wishes to remain a member of the fund).

In order for necessary member communications to occur, it is proposed that the 'clock' for the period of inactivity should commence from the date the reforms are introduced.

Transitional Arrangements

Cbus' position is that a longer transition period is important to ensure that members' interests are protected. It is proposed that the insurance requirements commence at the expiry of a particular fund's current insurance contract, to ensure that funds are able to negotiate fair terms for the benefit of their members.

2 Inactive low-balance accounts and consolidation into active accounts

The proposed measures require the transfer of all superannuation accounts with balances below $6,000 to the Commissioner if the account has been inactive for a continuous period of 13 months.

The measures also enable the ATO to pay balances held by the ATO into a member's active superannuation account, where the reunited balance would be greater than $6,000.

In terms of consolidation measures, it is important to highlight that Cbus has a process in place to automatically consolidate accounts taking into account name, date of birth, address and Tax File Number. The accounts are merged together with any duplicated insurance premiums refunded to the members account and maintenance of only one insurance cover.

2.1 Impact, Issues & Implementation

These proposals seem to be justified on the basis that inactive accounts belong to a member who has an active account elsewhere. As noted above, our member research shows that most of our members with inactive accounts do not have an active account outside of Cbus (73% in 2017). This is either due to the member not working, becoming self-employed or undertaking contracting roles which do not attract superannuation.

It is important to note that inactive accounts benefit from Cbus' strong long-term performance. A comparison of net returns on Cbus Growth rate as compared to the ATO CPI rate on $6,000 produced the following indicative results:

	1 year	3 years	5 years	10 year
ATO	$114	$325	$597	$1,418
Cbus Growth	$570	$1,513	$3,732	$5,517

Returns are after fees and tax excluding premiums. To 31 March 2018.

The current proposals do not seem to enable a member to nominate to keep an inactive account with less than $6,000 where there is no insurance coverage. Many Cbus members remain in the building and construction industry for a significant portion of their working life and wish to retain an account with Cbus for future employment purposes.

2.2 Cbus position

Cbus proposes that small inactive accounts (based on the broader activity test proposed in 1.2 above) be transferred directly to a member's active account. This would mean that auto-consolidation would not apply where the member does not have an active account in another fund. Small inactive accounts benefit from Cbus' strong long term returns and would be subject to the exclusion on provision of default insurance as per section 1 above.

The proposal should include a measure to clearly exempt those members who choose to maintain an inactive account even where they have no insurance coverage.

3 Fees charged to superannuation members

The proposed measures as outlined in the exposure draft legislation prevent trustees of superannuation funds from charging administration and investment fees exceeding 1.5% of the balance of accounts with balances below $6,000 for the six-month period immediately following the date on which the balance is calculated.

The proposed measures also prevent trustees from charging exit fees on all superannuation products, regardless of member's account balance.

3.1 Impact, Issues & Implementation

3% Cap on fees for under $6,000 balance

We note that this proposal is similar to (although more extensive than) the member benefit protection provisions which were repealed in 2013. It will also lead to greater cross subsidy of lower balance members within the system.

In its current form, implementation and operation of a capped fee will be problematic and inefficient - a cost which will be ultimately borne by other members. A fee rebate after financial year end would be a more efficient and practical approach, particularly given that many fees are not able to be quantified until 30 to 60 days after financial year end.

In addition, we note that the use of a six-month period will impact funds like Cbus who have a charging and investment crediting regime which runs to an annual financial year cycle. We note that a retrospective approach would be preferred from an administrative perspective and would produce a more equitable and accurate outcome.

Ban on Exit Fees

As a general comment, Cbus does not consider it unreasonable that a member directly bears the cost of exiting a superannuation fund, provided the exit fee is reasonable and proportionate to the underlying costs and not used as a mechanism to prevent member choice. It is important to highlight that Cbus currently imposes an exit fee of $35 which is less than the full cost of a member exiting.

Cbus does not oppose this proposal. However, Cbus queries the exclusion of buy/sell spreads from this regime and strongly submits that failing to tackle buy/sell spreads will result in the exit fee ban being able to be gamed by funds imposing buy/sell spreads as a disincentive for members to exit. Buy/sell spreads are less transparent than exit fees and are often more detrimental to members transacting in or out of funds. Cbus does not apply buy/sell spreads.

3.2 Cbus position

Cbus proposes that the calculation of the fee cap be amended so that it applies as a rebate on an annual basis (3% to apply in a 12-month period) and that the fee cap should be applied retrospectively.

In respect to the exit fee, Cbus strongly submits that the ban must also extend to buy/sell spreads if it is to be effective.

BACKGROUND

4.1 Who is Cbus

Cbus is the leading Australian Industry Super Fund for all those working in the building, construction and allied industries. Maximising the retirement outcomes of our 765,000 members is at the heart of everything we do.

Our successful member-first approach is guided by our key sponsoring organisations - the unions and employer organisation of the building and construction industry. We offer great service to over 130,000 employers, providing confidence that their employees are with a top performing fund, which continues to grow.

Cbus is committed to providing a collaborative, supportive and inclusive working environment. We hold ourselves to high standards in terms of governance, transparency, reporting and risk management and know that our members expect us to maintain high standards of integrity and fairness in the way the Fund is run.

Our members' retirement savings join a $44 billion pool that gives them access to large scale, long-term, diverse and innovative investments, reflected in the fact that Cbus has been a top performing fund over short, medium and longer time periods. We invest responsibly to maximise long-term value for members and the society in which they work and retire. Cbus invests in developing the built environment. We are a leader in direct investment in property, creating a virtuous circle where part of our members' retirement savings is invested into their industry, creating over 75,000 jobs today and a better retirement tomorrow.

Cbus is proud to have delivered an average of 9.24% per year to our members over the past 33 years. Cbus recently received recognition for its 11 years as a platinum rated fund by independent ratings agency SuperRatings.

4.2 Summary of our product offerings

Cbus provides superannuation and retirement income products and advice to current and former workers in the building, construction and allied industries. We believe our robust default settings will enable our members to be confident and generate the best possible retirement outcomes. We offer limited product flexibility to enable members who have additional or different needs.

Our three superannuation products enable members to save for retirement with insurance protection designed for their industry in which they work. Insurance provides a vital lump sum benefit for our members and dependents when it is most needed.

Broken work patterns and relatively flat income progression through our members' working lives means our members will benefit from maximising their exposure to growth assets. More than 90% of members are invested in our default option Growth (Cbus MySuper) which has returned 9.24%[5] per annum over the last 33 years.

We offer three additional standard investment choice of cash savings, conservative growth, high growth. For members seeking additional choice Cbus Self Managed enables members to select their own investments from direct Australian Shares, Exchange Traded Funds, Term Deposits, Property and Infrastructure.

Cbus has a focus on keeping costs as low as possible in order to give members the best possible retirement outcomes. Our fee design is centered around fair and reasonable costs for the product and services members used on the basis of members having a typically long tenure with the fund.

According to the SuperRatings Benchmark 2018 report on a $50,000 account balance, Cbus's fee of $583 sits below the Not for Profit Median of $605, the SR All Fund Median of $627 and the Retail Master Trust Median of $668. Our costs are competitive in the market whilst supporting our members with a full-service superannuation and retirement product offering.

Cbus Industry Super

Cbus Industry Super is our largest product in terms of funds under management, number of members and insurance liability and is dedicated to those employees in the building, construction and allied industries.

Due to the hazardous nature of building and construction occupations, insurance is a critical component of our Cbus Industry Super offer.

According to independent consultant RiceWarner Actuaries "Cbus may be the only option to obtain insurance cover, or one of a very limited number of options for members working in a range of high risk occupations. We believe this is a particularly valuable service to these members." (RiceWarner Insurance Report May 2018)

Additional modifications towards the nature of the industry in which our members work include:

- our Total and Permanent Disablement definition designed to pay claims to workers when they need it.
- no exclusion for suicide in an industry with many young male workers who are more at risk than the general population.
- Default cover for members joining the Cbus Industry super provides the member with a basic level of meaningful cover under the manual occupation category, with premiums at a reasonable level.

A member joining the fund at 20 is provided 1 unit of death and Total and Permanent Disablement Cover at a cost of $2.68 per week ($52k Death and $52k TPD) whereas an older member joining the fund at 25 who is likely to have dependents are provided with 4 units at a cost of $10.72 per week ($208k Death and $156k TPD).

[5] Since inception to 30 June 2017, based on the crediting rate, which is the return minus investment fees, the Trustee Operating Cost and taxes. Excludes account keeping administration fees. Past performance is not a reliable indicator of future performance

Member have the flexibility to increase their cover within the first six months of being provided insurance and can reduce cover at any time. Electech, Non-manual, and Professional occupation categories provide more cover for the same unit cost with optional income protection for the latter two. Income Protection for manual workers is provided for through other industrial arrangements directly with the employer.

Cbus Sole Traders

Cbus Sole Trader provides self-employed members, either as part of a partnership or as sole traders to save for retirement and receive the benefit of insurance cover. A member joining the fund is provided 1 unit of death and Total and Permanent Disablement Cover at a cost of $2.68 per week ($52k Death and $39k TPD for a 25 year old) and 6 units of income protection which ranges from $2.28 to $6.18 per week.

Cbus Personal Super

Cbus Personal Super provides members who are not receiving contributions from an employer or are not self-employed the option to save for retirement. Members have the choice to apply for the level of death and TPD cover they need.

Retirement income

Our retirement income products allow our pension members to transition into retirement or retire with dignity by converting their superannuation into an income stream which is typically a beneficial supplement to an age pension or any other income entitlements.

Cbus Super Income Stream offers consist of two options:

- Transition to Retirement for those reducing hours of work and easing into retirement or looking to boost retirement savings prior to retiring.
- Fully Retired for those who have ceased employment or reached age 65 and wish to commence an income stream.

Both products provide flexibility over the frequency and amount of payments with fully retired members able to request ad hoc withdrawals as necessary.

Members are offered investment choice upon commencing an income stream including our default Conservative Growth. The additional three standard investment options include cash savings, conservative growth, high growth. For fully retired members seeking additional choice Cbus Self Managed enables members to select their own investments from direct Australian Shares, Exchange Traded Funds, Term Deposits, Property and Infrastructure.