Together towards tomorrow

13 July 2018

Commissioner and Assistant Commissioners
Productivity Commission
Locked Bag 2, Collins Street East
Melbourne VIC 3000

Productivity Commission Inquiry into Superannuation Stage 3: Assessing Efficiency and Competitiveness

Dear Commissioners,

Thank you for providing Rest with the opportunity to make a submission to the Productivity Commission in response to its *Superannuation: Assessing Efficiency and Competitiveness Draft Report*, as part of its ongoing inquiry into the competitiveness and efficiency of Australia's superannuation system.

As a leading not-for-profit superannuation fund with 1.9 million members and more than $50 billion in funds under management, Rest is passionate about improving the retirement outcomes of Australians.

Rest members comprise around one-in-six working Australians for whom retirement is many years in their future. The average superannuation account balance of a contributing Rest member is around $29,000. Approximately 62 per cent of Rest members are women and many work in part-time, casual and low-income jobs. Around 35 per cent of members are younger than 25 years old.

Rest believes that insurance is a fundamental and important part of superannuation and remains vital to ensuring more Australians receive financial help in times of need. In the absence of insurance cover provided by Rest, many of our members would be unable to access equivalent cover. For those who could, the cost would be much greater. Additionally, unlike young people who may be living at home or attending university and only working intermittently, many Rest members rely on their income. Their insurance is valuable to them and their dependants.

We welcome the Productivity Commission's interest in further improving Australia's world-class superannuation system on behalf of members. Our submission addresses draft recommendations 1 to 22 contained in the Draft Report. Rest reaffirms the points made in previous submissions to the Productivity Commission in relation to its current inquiry and notes that this document should be read in conjunction with these.

Please do not hesitate to contact me directly should you require any further input from Rest about this submission.

Yours sincerely,

Vicki Doyle
Chief Executive Officer, Rest

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1. Rest's key positions

- Rest, with more than $50 billion in funds under management and 1.9 million members, is one of Australia's largest not-for-profit superannuation funds. We welcome the Productivity Commission's (PC) interim report and core recommendations to increase transparency and protect the best interests of members.

- Rest believes **the Australian superannuation** system is generally working well. Importantly, **the system provides the necessary flexibility for superannuation funds, such as Rest, to design products and services that meet the needs of our unique member demographic over their working lives,** and give them confidence in their financial future.

- **Rest believes that proposals for opt-in insurance for members younger than 25 years old, or members with account balances of less than $6,000 is not in the best interest of members and many Australians**. The proposed changes would severely impact the lives of many working Australians for whom the ability to work is their most valuable asset, as outlined in the case studies included in the submission. Many members, particularly those in low-paid retail jobs, who rely on insurance after an unfortunate accident, illness or death, are unlikely to be covered under the proposed legislation.
    - We estimate more than half of Rest members will lose their current automatic Death, and Total and Permanent Disability (TPD) and Income Protection (IP) insurance coverage should the proposals proceed.
    - The cost of insurance to the remaining covered members would be expected to rise. Higher insurance costs will further erode members' retirement balances and encourage members to opt out of valuable voluntary insurance, which we believe is not in their best interests.
    - Members who subsequently make a claim on the understanding they were covered and had paid insurance premiums, only to discover they no longer have cover, will likely be confused and hostile. Part of that hostility will be directed to their superannuation fund, and part will be directed to the Government.

- **At Rest, the cost of insurance cover for young Australians is modest**. The standard default insurance premium for a 20-year-old is $1.58 per week. This provides:
    - $14,300 Death cover, provided to dependants or family;
    - $28,600 cover for TPD; and
    - $1,650 per month of IP up to the age of 60 (escalated by CPI) or until the member can return to work.

    Note: the cover and premiums change each year upon a member's birthday.

- **Rest members can currently opt out of their cover online, over the phone, via the Rest app or through an email. They can also increase and decrease their cover to suit their needs**. Recognising that members' needs differ, Rest continues to introduce initiatives to make it easy for members to manage their insurance cover and to exercise their exit rights should they wish.

- We believe that **insurance is a fundamental and important part of superannuation** and remains vital to ensuring more Australians receive financial help in times of need. Group insurance provides important protection for those working in part-time, casual and low-income jobs who would otherwise be unable to gain insurance and for those that could the cost would be much greater.

- Unlike many young people, who may be living at home or attending university and only working intermittently, **Rest members rely on their income**. **Their insurance is critical to them and their dependants** as outlined in section 2.

- **In the past two years, Rest has paid $213 million to members with an account balance of less than $6,000, and $203 million to members who have not contributed to their account in the past 13 months**.

- **Rest has paid more than $50 million to members who are younger than 25** and have passed away, leaving dependent partners and children, or who have suffered a disability that has left them unable to work.

- **Rest supports the PC's intention to reduce account balance erosion by reducing the amount of multiple accounts in the system**. We believe this will particularly assist younger members, the majority of whom have low account balances and are still many years from retirement.

- **Rest supports, in principle,** the recommendation of **defaulting only once for newer workforce entrants**. However, Rest believes there will be **negative consequences for people whose insurance needs change when they change jobs.**

- **Rest does not support a 'Best in Show' shortlist for new members**.
    - In our view, **toughened MySuper authorisation** would remove underperformers from the industry and help mitigate the need for a shortlist, while also assisting in ensuring members receive insurance appropriate to their needs.
    - **It is probable that some funds could make short-term decisions in order to gain or retain a position in the 'Best in show' shortlist that are not in the best interest of members**. Superannuation is a long-term investment. Superannuation fund Trustees are required by law to act in the best interests of members over the full life of the fund.
    - **A 'Best in show' shortlist would also negatively impact competition over the long term** as new technologies are introduced, superannuation balances increase as the system matures, and customer expectations change.
    - **Rest does not support a sequential allocation process** as members may be defaulted to a fund with inappropriate investment, insurance, and engagement offerings.
    - Should allocation occur, Rest advocates for **allocation from funds currently listed under industry awards**, as these funds have been selected for industries and occupations relevant to member demographics and needs.

- In the event our submission is not successful, then any ‘Best in Show’ shortlist should be designed with the following considerations.
    - The shortlist should avoid the potential for ‘manufactured’ offerings designed to meet fund-selection criteria.
    - Any process and criteria for fund selection, and subsequent removal, should be agreed in consultation with industry.
    - Importantly members should have an appropriate and high-performing range of superannuation funds with appropriate products and services to choose from that suit their ongoing and different needs.

- **Rest believes that any expert panel could also be tasked to produce a list of the bottom-performing funds based on stringent and agreed criteria**. The Panel could deny default status to any fund that does not meet accreditation standards, similar to the current system in education and health.

- **Rest reaffirms the points made in previous submissions** to the Productivity Commission in relation to its current inquiry and notes that this document should be read in conjunction with these.

2. Insurance for superannuation members

2.1 Group insurance provides important and affordable cover

Rest believes that insurance is a fundamental and important part of superannuation and remains vital to protecting Australians. Insurance provided as part of superannuation provides many incentives that allow Australians to receive flexible and affordable financial assistance in times of need.

Group insurance is an inclusive insurance arrangement, providing insurance on tax-favourable terms and at lower premiums than those offered by retail or direct insurance providers. Importantly, without insurance provided as part of superannuation, many Australians would be unable to access equivalent cover. For those able to access insurance, the cost would be much greater.

This is because those with pre-existing health conditions – and those who work in part-time or casual employment are commonly excluded from retail and direct insurance options. In addition, a not-for-profit superannuation fund like Rest ensures our members do not pay commissions to brokers, third-party sales channels or intermediary agents, which can be upward of 80 per cent of the first year's premium.

Case study: administration worker aged under 25 assisted in successfully returning to work

Laura*, aged 22, worked as a reservation officer when she aggravated a left-ankle injury in March 2017. This was not a work-related injury and not covered by workers' compensation. She was terminated two weeks later due to a company restructure.

This was a very difficult time for Laura, who suffers from anxiety and depression. Under the terms of her IP cover with Rest, she qualified for payments from the day she commenced with her employer.

Given the circumstances of Laura's termination and the impact this had on her self-confidence, she did not feel that any employer would be willing to employ her. Her surgeon certified her fit to return to work in May 2018, meaning that she would no longer be entitled to receive IP payments. However, given that she had not yet secured any paid employment, it was agreed to provide her with a six-week rehabilitation program. Laura was provided with a resume and job-seeking assistance and returned to work in May 2018.

Laura received $13,180.59 in IP benefits over twelve months.

Under the proposed changes to insurance in superannuation, Laura, who is under 25 years, would not have received automatic insurance cover as part of her superannuation. She may never have regained the confidence to seek paid employment without the assistance of Rest and AIA's rehabilitation programs.

** Name changed to preserve privacy*

2.2 Opt-in insurance would leave many young Australians financially vulnerable

Providing insurance on an opt-out basis helps ensure more Australians receive support and security when they and their dependants need it most. In the MySuper reforms, the Government made Death and TPD cover a mandatory part of superannuation. Providing insurance cover on an opt-out basis as part of superannuation provides support and security for members if they are unable to work due to sickness or injury, and for their dependants in the event of their death.

Group insurance provided on an opt-in basis would require underwriting and lead to less certainty on the number of members receiving insurance cover. Insurance would inevitably be more expensive and less accessible for many working Australians, particularly those with pre-existing health conditions. Without group insurance, the burden would fall to Government to provide services for members who suffered a disability and did not receive any insurance, resulting in a significant cost to the public-health system.

Research of the general Australian population, conducted by AIA Australia in July 2016, revealed that almost one in two of those with insurance in superannuation believe they would not be covered if it was not provided automatically, leading to a potential underinsurance gap of almost $2.2 billion[1].

Research commissioned by Rest in late 2017 of young Australians aged 18 to 34 supported this observation, with two thirds (68 per cent) or those surveyed with IP and TPD included as part of their superannuation saying they wouldn't have it if it wasn't provided automatically. However, more than half (55 per cent) also felt that having IP and TPD included as part of their superannuation reduced worry and stress and increased their feelings of protection.

Research of the general Australian population conducted by Rice Warner in July 2015 also points to the underinsurance gap facing many Australians. The research concluded that the median level of life cover meets only 61 per cent of basic needs and that median life cover is only 37 per cent of the income replacement level required. Alarmingly the median levels of TPD cover and IP cover meet only 13 per cent and 16 per cent of their respective needs[2].

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[1] Insurance consumer Research, AIA Australia July 2016

[2] *Underinsurance in Australia 2015*, Rice Warner July 2015

3. Looking after members

As the superannuation trustee for nearly 1.9 million Australians, it is our responsibility to design insurance and investment products that aim to provide a secure retirement for members. Throughout Rest's history insurance has been of critical importance to us. Every day we see the benefits of providing default Death, TPD and IP cover to 1.5 million members as part of their superannuation.

Rest members comprise around one in six working Australians for whom retirement is typically many years into their future. The average superannuation account balance of a contributing Rest member is around $29,000. Approximately 62 per cent of Rest members are women and many work in part-time, casual and low income earning jobs. Around 35 per cent of Rest members are under 25 years of age.

Our insurance offer provides income and financial wellbeing to members and their families, at a cost-competitive value proposition. The insurance offer within superannuation may not be as top of mind for our younger demographic as other insurances, such as car, travel, home contents, and health insurance. However, IP, TPD, and Death insurance are no less significant, especially when they need to claim.

In the 12 months to 30 June 2017, Rest paid more than 5,100 insurance claims – nearly 20 claims every working day including around 3,000 IP claims and 1,000 TPD claims. Total insurance cover provided to Rest members comprises $286 billion in Death, $70 billion in TPD and $2.15 billion in IP to November 2016.

Due to our size and the fact we operate one of the largest insurance pools in the Southern Hemisphere, our scale allows us to negotiate and provide insurance cover to members at wholesale rates – that is, group rates excluding commissions.

Rest's insurance design and policy definitions are developed to maximise the number of Rest members receiving insurance cover appropriate to their life stage. Benefits are relatively low for young members with default cover increasing with age when financial commitments are usually higher and there is a greater dependency on income (and a greater capacity to afford).

3.1 Insurance cover adjusts as needs change

- **An 18-year old** Rest member's insurance costs are $1.11 per week.
    - The sums insured are Death: $14,300, TPD: $28,600 and IP: $1,650 per month.
- **A 20-year old** Rest member's insurance costs are $1.58 per week.
    - The sums insured are Death: $50,000, TPD: $28,600, and IP: $1,650 per month.
- **A 25-year old** Rest member's insurance costs are $4.85 per week.
    - The sums insured are Death: $101,200, TPD: $28,600, and IP: $2,550 per month.

Note: cover changes each year on your birthday.

Recognising that members needs differ, Rest members can opt out of their cover online, through the phone, via app or email. Members can also increase of reduce their cover at any time to suit their needs.

3.2 A focus on Income Protection

Our insurance design focusses on a holistic approach to disability, providing Death and IP cover with a notional amount of TPD cover. Rest believes there is far greater benefit in covering temporary and total disability. This approach provides members who are temporarily unable to work because of physical and mental health issues, with a monthly benefit as well as access to remediation and support programs designed to return them to wellness and work.

Around 38 per cent of IP claims supported members living in regional areas of Queensland, New South Wales and Victoria. In fact, claims in regional areas of Queensland and New South Wales exceed IP claims in metropolitan areas.

For members aged 25 years and younger, the average duration of a Rest IP claim is 34 months.

Case study: heavy manual worker who suffered a serious accident and post-surgical complications

Dave*, a 21-year-old labourer, snapped the tibia and fibula on his right leg when he fell off and hit a tree while riding his dirt bike in October 2016.

He was rushed to hospital and underwent surgery on the same day. Due to the location and nature of the accident, he was not entitled to Centrelink benefits and was ineligible to lodge a CTP claim. Dave had no accrued annual or sick leave, as he was employed on a casual basis.

Due to his need to support himself financially, Dave returned to work part time. However, post-surgical complications left him totally disabled and unable to work. Due to the severity of the injury and ongoing complications, Dave underwent a second surgery six months later. He was off work for 14 months.

Dave had IP cover as part of his superannuation with Rest. He received $1,577.90 per month while recovering and returned to work in January 2018.

Under the proposed changes to insurance in super, Dave would not have received insurance automatically. As a casual worker with lower levels of financial literacy and low engagement with superannuation, it is unlikely that Dave would have elected to opt-in for insurance cover.

** Name changed to preserve privacy.*

4. Young people rely on insurance

Rest believes that proposals for opt-in insurance for members younger than 25 and the $6,000 account-balance rule are not in the best interest of members and many Australians with superannuation.

Unlike young people who may be living at home or attending university and only working intermittently, many Rest members rely on their income. Their insurance is valuable to them and their dependants. For many, their ability to earn a living is their most important asset. Rest's insurance is created with this in mind.

Around 32 per cent of Rest's members with insurance are younger than 25. In the past two years, Rest paid $36.5 million dollars in Death claims, $9.2 million in IP and $2.75 million in TPD payments to those younger than 25. These members have passed way, leaving dependent partners and children behind, or have suffered a disability that has left them unable to work.

During the past two years, $213 million has been paid to members with an account balance of less than $6,000. We have also paid $203 million in claims to those who have not contributed to their account in the past 13 months.

4.1 Claims paid to young Rest members in the past two years (March 2016 to February 2018)

Member younger than 25	
Death	$36.5m
IP	$9.2m
TPD	$5.0m
TOTAL	$50.7m

Member with an account balance of less than $6,000	
Death	$126.6m
IP	$59.4m
TPD	$27.5m
TOTAL	$213.5m

Member without a contribution in the past 13 months	
Death	$161.5m
IP	$23.2m
TPD	$18.5m
TOTAL	$203.2m

Case study: young retail worker with an account balance less than $6,000 who suffered a viral heart condition

Stu*, 18, was employed by a major retail outlet when he contracted a serious viral heart condition known as myopericarditis in March 2017. He was told that recovery may take up to 12 months. He did not have any leave entitlements accrued to assist him financially during his recovery.

With no other sources of income, Stu contacted Rest to seek to withdraw some of the funds in his superannuation account to assist his recovery. He discovered that he was entitled to an IP benefit of $1,650 per month and immediately lodged his claim. He received IP payments from May 2017 to March 2018.

Stu was ready to transition back to work from August 2017. AIA Australia worked with him to provide an exercise physiology program to increase his physical capacity. AIA Australia also implemented a graded return-to-work plan. Stu returned to work full time in March 2018.

Under the proposed changes to insurance in super, Stu would not have accumulated $6,000 in his account and, being younger than 25, would not have received insurance automatically. Without automatic cover, Stu would have been left without any income for more than 12 months and would have struggled to return to work without a personalised rehabilitation program to support his return.

** Name changed to preserve privacy.*

5. About Rest members

As a leading not-for-profit superannuation fund with nearly 1.9 million members and more than $50 billion in funds under management, Rest is passionate about improving the retirement outcomes of Australians.

Rest provides insurance for 1.5 million working Australians (more than 70 per cent of Rest members) and is one of the few industry funds providing flexible, long-term IP cover as well as Death and TPD insurance by default.

Rest is committed to keeping fees as low as possible for members by carefully managing costs, while also continuing to invest in new technologies to increase efficiencies and make it easier for members to engage with their superannuation.

Rest was the first Australian superannuation fund to give members online with ‘mobile-first’ access to personalised financial advice so they can seek financial advice on their own terms in a way and at a time that best suits them. We also offer an inbuilt consolidation tool as part of personalised, interactive member statements.

We believe in the importance of giving our members more options to better understand and take control of their superannuation and to make it as straightforward as possible to receive affordable and tailored financial advice. This is at the core of our digitally led customer-experience strategy.

However, fees are not the only factor for improving retirement outcomes for Australians. Rest remains within the top quartile of low-cost providers with strong long-term investment returns and highest net benefits for members.

Our mission, which underpins everything we do, is simple: Give every member confidence in their financial future.

Case study: young retail worker with no superannuation contributions received in the past 13 months diagnosed with recurrent depressive disorder

Jack*, 19, was employed as an apprentice baker with a major retail outlet when he began experiencing mental-health issues including depression, social phobia and sleeping disorder. He was initially expected to return to work within three months, however his ongoing mental health prevented him from returning within this period.

Jack contacted his superannuation fund to discuss withdrawing some of his superannuation to assist with his recovery while off work. He was entitled to an IP payment of $1,650 per month and lodged a claim. As at July 2018, Jack is still receiving monthly IP benefits and is considering engaging in an AIA rehabilitation program. He has received $11,550 in IP payments over eight months.

Under the proposed changes to insurance in superannuation, Jack would not have accumulated $6,000 in his account and had not made any superannuation contributions in the past 13 months and therefore would not have received insurance automatically. Without automatic cover Jack may have been without any income for the past 12 months.

** Name changed to preserve privacy.*

6. Responses by recommendation

6.1 Recommendation 1: Defaulting only once for new workforce entrants

Rest supports, in principle, initiatives to reduce the number of superannuation accounts currently resulting in unnecessary costs to both members and funds in administering duplicate accounts.

Rest believes it should be easy for members to retain their superannuation account, including their insurance, when changing jobs or increasing the number of their employers. It should also be easy for members to chose to move to any fund that better suits their desired outcomes.

Rest notes that while the proposed process will help reduce the systemic issue of duplicate accounts, the insurance needs of members may need to change when they change jobs, given different risk profiles associated with differing occupations and locations. A centralised online service must consider how members will be encouraged to revisit their insurance needs.

In addition to this, we support initiatives aimed at active consolidation of members' accounts, noting the insurance considerations above.

Whether the service collects information about member choices is more a matter for Government, but Rest broadly supports greater knowledge of member choices in the system.

6.2 Recommendation 2: 'Best in show' shortlist for new members

Rest does not support a shortlist of funds.

We believe a stronger MySuper test would remove underperformers from the industry and help mitigate the need for a shortlist. In Rest's view, the *Improved Accountability and Member Outcomes Bill No. 2* will give APRA an enhanced ability to withdraw the MySuper licence of underperforming funds or funds that are proven not to be aligned with the best interests of members.

Superannuation is a long-term investment and members have variable life stage needs and retirement expectations. It is difficult to conceive of a 'Best in show' 10-fund shortlist or a set of criteria that can ensure optimal outcomes for the diversity of Australian superannuation fund members during the next 10 years.

Superannuation fund Trustees are required by law to act in the best interests of members for the full life of the fund. A 'Best in show' shortlist updated every four years is likely to divert focus to the short-term, which is at odds with superannuation as a long-term investment, and against the best interests of members. This point is raised in the PC's Draft findings 9.4:

> "Many funds mimic (at least to some degree) the strategy of rival funds for fear they will otherwise exhibit poor short-term performance relative to their peers ('peer risk'). This short-termism is likely to be at the expense of long-term returns to members."

In Rest's view, there is also potential system risk that funds will manufacture products, insurance, fees or services to meet shortlist criteria. We believe 'vanilla' offerings will lower innovation and competition.

Rest believes the criteria should consider specific factors to ensure members have an appropriate and high-performing range of funds to choose from that suit differing needs; such as long-term investment performance, investment options, insurance, engagement and advice that varies for certain occupations, hours worked, geography, gender and age. Many of these factors are critical to ensure the right investment option and insurance cover is available and, more importantly, members can actually make a claim in their time of need.

In the event any shortlist is provided, the way information about funds is presented will be important in assisting consumers to choose a fund that best meets their needs. Rest seeks clarification on how funds will be ordered, and how the information will be provided to members. It is possible that, in the absence of individual advice, members could make decisions that aren't in their long-term best interests.

We believe industry consultation on the technical criteria guiding fund shortlisting would help ensure the best outcome for fund members. In particular, the technical criteria controlling how funds may shift once they're on the shortlist, and how the shortlist may be changed. For example, funds may slip on some of the criteria that supported their inclusion, such as investment performance or fees. Rest believes consideration should also be given to the differences between a single diversified fund and a lifecycle fund – which could provide a different performance depending on the age cohort. In addition, there is currently no reference to consistency in risk profile, as high performance comes at potentially increased risk.

Rest believes consideration needs to be given to how these funds would be removed if they are no longer 'Best in show', and how they communicate this fact to members. Further consideration must be given to the impact of a merger of funds on the shortlist.

Rest recommends that any shortlist design should leverage the Fair Work Commission's existing selection of funds to provide a shortlist of funds that are appropriate for members in specific industries. If any sequential-default mechanism should exist, Rest advocates for an allocation from funds currently listed under industry awards. These funds have been selected for industries and occupations relevant to members' needs.

Rest does not support a defaulting sequential-allocation process as members may be defaulted to a fund with inappropriate offering. Insurance and member communications may be tailored to a different industry, for example.

6.3 Recommendation 3: Independent Expert panel for 'Best in show' selection

If a shortlist is adopted, Rest supports in principle the appointment of an expert panel, noting the need for industry consultation on both the criteria for selecting the panel members, and the selection criteria the panel will apply in shortlisting funds. Rest believes panel members should be nominated by and drawn from the industry and Government, and have technical expertise in the core offerings of investments, insurance, engagement and advice.

Rest believes that any expert panel could also be tasked to develop a shortlist of the bottom-performing funds. Selection should be based on stringent and agreed criteria, subject to APRA's potential role in this and also in enforcing a more stringent MySuper authorisation. The Panel could deny default status to any fund that does not meet accreditation standards, similar to current systems in education and health.

This would remove underperformers from the superannuation system during a specified period and work to ensure consumers are free to choose from a broader list of superannuation funds suited to their circumstances and, most importantly, their insurance needs.

6.4 Recommendation 4: MySuper authorisation

Rest supports the recommendation in principle. We believe a stronger MySuper test would remove underperformers from the industry. We note that developing audit-level standards and robust technical specifications would require industry consultation.

6.5 Recommendation 5: Regulation of Trustee Board directors

Rest supports the recommendation and notes that it is closely consistent with Rest's own governance policy.

6.6 Recommendation 6: Reporting on merger activity

Rest supports this recommendation.

6.7 Recommendation 7: Capital gains tax relief for mergers

Rest supports this recommendation to eliminate Capital Gains Tax being an inhibitor to mergers and transfers.

6.8 Recommendation 8: Cleaning up lost accounts

Rest supports initiatives to clean up lost accounts, however we do not believe the current definition of 'lost' is appropriate should it reflect the proposed budgetary change around low-balance (less than $6,000) inactive accounts.

Rest opposes proposals to transfer all inactive accounts to the ATO where balances are less than $6,000, as this is not a low-balance in the context of young, part-time employees in the retail sector and stay-at-home parents. Under these proposals, members would lose valuable insurance cover. Rest also believes it is not necessary for the ATO to retain members' savings in order to reunite them with inactive accounts at a later date. Members' savings with the ATO would receive investment returns based on the Consumer Price Index, rather than benefiting from higher investment returns by remaining with their fund longer term.

Rest supports the proposed recommendation to exempt 'lost accounts' from the process **where the member has provided an explicit signal** that they wish to remain with the fund prior to the account being classified as lost.

Certain members maintain their super accounts to take advantage of attractive insurance arrangements offered by a fund, rather than using them as their primary retirement savings account. They occasionally top-up their account to meet their fees and premium payments. Such accounts could be inadvertently captured under low-balance or inactive rules, if there is an extended period in which no contributions are made.

When a member is not employed, for example, they are a stay-at-home parent, they may want to maintain low-cost insurance. The trade-off between the erosion of retirement balances and the benefit of low-cost insurance is not always clear. The member may consider that appropriate, low-cost insurance is no less 'valuable' than their account balance at retirement.

6.9 Recommendation 9: A member-friendly dashboard for all products

Superannuation product offerings are complex. Rest supports improved access to timely, relevant and understandable information. While product information is helpful, Rest believes it is important to provide greater context to help consumers make the most of any information. We believe greater investment in tools designed to support consumer decision making will deliver better member outcomes than prescriptive product information alone.

Rest believes the current dashboard structure and content requires considerable reworking to enable proper comparisons.

Currently there is no standardised approach to how content is presented. As a result, Trustees present content in different formats. Furthermore, the dashboard does not include information on insurance and therefore does not provide a comprehensive representation of the superannuation offer. This is due to complexities and variances in offerings, and difficulties in representing standard and tailored insurance arrangements.

Consideration should be given to using the proposed Key Feature Statement under the *Insurance in Superannuation Voluntary Insurance Code of Practice* as supporting information to the dashboard.

Additionally, consideration could be given to employing an agency to 'rate' funds according to overall benefits and costs, similar to the Moodys or Standard & Poors ratings of financial risk.

Rest also seeks clarification on whether a dashboard is required for every choice investment option, or whether this will be limited to the 'Best in show' shortlisted funds, or use another measure.

6.10 Recommendation 10: Delivering dashboards to members

Rest does not support this recommendation due to concerns about technical and procedural practicalities.

In Rest's view, further clarity is needed on how product dashboards will be sourced into the centralised online service. Will they be presented alphabetically or grouped in some way, or will consumers have the opportunity to filter superannuation product offerings based attributes, such as whether the fund is for-profit or not-for-profit; performance rankings; or fee and cost rankings?

Clarity is also needed on how the MyGov site will be updated to incorporate current fund and industry comparisons.

When a member looks to switch from a MySuper product to a choice product, will the dashboards be provided at the time of the switch request and before confirmation, or after switching? This could introduce a forced time delay in switching, to the members' detriment.

Clarity is also needed on the definition of 'actively provide'. Delivery through digital communications and channels, and reference to website links, will assist in keeping delivery costs low and support lower fees for members.

Subject to the delivery method, consumers may not read or acknowledge the dashboards. Currently members acknowledge reading a Product Disclosure Statement. However, this may not meet the definition of 'actively provided'.

6.11 Recommendation 11: Guidance for pre-retirees

Rest supports this recommendation in principle. However, we believe this is primarily a matter for the ATO and Government agencies. Clarity will be required on any requirement for funds to provide content and links, and how the websites will maintain information currency.

6.12 Recommendation 12: Exit fees at cost-recovery levels

Rest supports moves that make it easier for members to consolidate their superannuation accounts. Rest has removed any sell spreads for members switching or exiting, and does not charge a fee on the first withdrawal.

Members should not be financially penalised for consolidating accounts, however members should incur transaction costs associated with any active trading they undertake to switch between options. As such, Rest believes a withdrawal fee should be charged for subsequent withdrawals (following the initial withdrawal) on a cost-recovery basis in line with the MySuper rules. This will ensure that fund members, as a whole, are not disadvantaged by the activities and strategies of individual members.

6.13 Recommendation 13: Disclosure of trailing commissions

Rest supports this recommendation in principle.

6.14 Recommendation 14: Opt-in insurance for members under 25 and Recommendation 15: Cease insurance on accounts without contributions

Rest strongly opposes the recommendations for opt-in insurance for members younger than 25, and the cessation of insurance on accounts without contributions.

Rest offers insurance under MySuper regulations that is designed and priced appropriately for our younger demographic, with an opt-out principle. The design and pricing would need to be revisited with likely increased costs and lower claim benefits.

Behaviourally, younger people are also unlikely to purchase any underwritten insurance, as required in an opt-in environment, resulting in underinsurance and a lack of financial support when needed.

Rest believes these recommendations are not in the best interest of many Australians.

This proposal would severely impact the lives of many working Australians, for whom the ability to work is their most valuable asset (as outlined in the case studies included in this submission). Many members, particularly those in low-paid retail jobs, who rely on insurance after an unfortunate accident, illness or death are unlikely to be covered under the proposed legislation.

- We estimate more than half of Rest members will lose their current automatic Death, and TPD insurance coverage should the proposed legislation proceed.
- The proposed legislation would also result in members who are currently covered for IP losing that cover as opt-in provisions replace opt-out provisions.
- The cost of insurance to the remaining covered members would be expected to rise. Higher insurance costs will further erode members’ retirement balances and encourage

members to opt out of valuable voluntary insurance, which we believe is not in their interests.

  - Members who subsequently make a claim on the understanding they were covered and had paid insurance premiums, only to discover they no longer have cover, will likely be confused and hostile. Part of that hostility will be directed to their superannuation fund, and part will be directed to the Government.

These significant concerns are outlined in section 2 of this submission.

6.15 Recommendation 16: Insurance balance erosion trade-offs

Rest agrees in principle with this recommendation. We currently inform members about our insurance design and offers through direct communications and in our insurance guide.

6.16 Recommendation 17: Insurance code to be a MySuper condition

Rest supports this recommendation, recognising that it is consistent with our adoption of the *Insurance in Superannuation Voluntary Code of Practice*.

6.17 Recommendation 18: Insurance code taskforce

Rest agrees in principle with this recommendation. We recommend that the taskforce be run jointly with the code-owners and/or fund representatives.

6.18 Recommendation 19: Independent review of insurance in super

The *Insurance in Superannuation Voluntary Code of Practice* will introduce significant change across the industry. Further review should allow sufficient time for this change to become effective. The review should also consider the funds who have made proactive changes under the requirements of the Voluntary Code if it is not made enforceable.

6.19 Recommendation 20: Australian Prudential Regulation Authority

In Rest's view, the recommendation that all APRA-regulated superannuation funds be required to conduct formal due diligence of their outsourcing arrangements at least every three years to ensure the arrangements 'provide value for money' is problematic.

Rest encourages restricting due diligence of outsourcing arrangements to those of a material nature and believes criteria should be developed for materiality and 'value for money'. In our view, it may be considered to be a subjective test that would be applied differently across each fund. The definition of 'value for money' must also be agreed.

In Rest's view, APRA's member-outcomes test is sufficient to enable outsourcing arrangements that are suitable for members.

Rest supports APRA reporting annually to the Council of Financial Regulators on the application of the MySuper scale test in bringing about fund mergers.

Rest also supports APRA undertaking a systematic assessment of the costs to funds of the thousands of legacy products in the superannuation system.

6.20 Recommendation 21: Australian Securities and Investments Commission

The report states that ASIC should proactively set and enforce standards for the meaningful disclosure of information to members on superannuation products and insurance policies, in addition to product dashboards.

Information should be simple, comparable and easy for members to understand. Rest welcomes such an approach, because transparency and comparability of information is key to enable members and prospective members to understand their benefits. However, it's critical to develop an approach that will be implemented and disclosed using the same assumptions and principles for all funds.

Various attempts at comparable disclosure by ASIC have resulted in confusion and differing interpretations by funds. RG 97 is an example of this.

In response to strong feedback from the industry on challenges with the implementation of RG 97, ASIC announced on 1 November 2017 it would appoint an external expert to conduct a review of the fees and costs disclosure regime to ensure it is best meeting the objective of greater transparency for consumers.

Feedback from industry was that ASIC's RG 97 requirements resulted in inconsistency between the fees and costs disclosure requirements for superannuation products and managed investment products. This made it hard for consumers to compare products. It also created practical burdens for the industry and defeated the original purpose of RG 97, to enable consumers to make meaningful comparison between funds.

Accordingly, while Rest welcomes approaches to enable better comparisons between funds, we note that RG 97 is yet to achieve this outcome.

The requirement that all superannuation funds publicly disclose the proportion of costs paid to service providers that are associated with a related party outsourcing arrangement, is problematic unless definitions of 'related party' are specified and consistently applied across all funds in order to provide meaningful disclosure and comparison.

Rest supports stronger measures to remove underperformers from the industry, and to the extent 'questionable' cases have occurred, supports this recommendation. However, the definition of 'questionable' could be problematic and requires clarity. Reasons for stalling may be commercial in confidence and may not relate to matters within ASIC's jurisdiction.

The proposal to review exit fees faced by existing members has already been proposed as part of the 2017-2018 Budget and Protecting Your Super legislative reform package. This proposal is supported. However, it means that costs in processing exits will be spread across the entire membership of the fund, appearing to contradict the non-cross subsidisation requirements of MySuper.

6.21 Recommendation 22: Superannuation data working group

Rest supports the recommendation to encourage greater data availability within the superannuation system, subject to specific technical detail on data availability, collection methods, and the potential cost impacts to funds.