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Treasury Laws Amendment (Protecting Your Superannuation Package) Bill 2018

Cbus welcomes the opportunity to comment on the *Treasury Laws Amendment (Protecting Your Superannuation Package) Bill 2018* (the Bill).

Cbus supports the policy objective of protecting superannuation savings from undue erosion by fees and insurance premiums, ensuring Australians are not paying for insurance they do not need and encourages consolidation of multiple accounts. However, it is imperative that achieving this policy objective does not create unintended adverse impacts on members.

Cbus has strong reservations about the extent to which the Bill will remove and restrict access to default group insurance for those workers in more hazardous industries who require cover or would not otherwise be able to access it. Cbus has a relatively large cohort of young and low balance members 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. The removal of default insurance and auto-consolidation of accounts will also harshly impact Cbus members due to the fact that account inactivity typically results from periods of self-employment, being engaged as a contractor or gaps in employment, all of which are very common during the working life of a building and construction worker.

We strongly submit that scrutiny of the Bill should address these unintended adverse impacts to address the unique needs of high risk members with often hazardous workplace conditions.

Attached are our detailed comments on the proposed legislation 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

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Group Executive
Brand, Advocacy, Marketing & Product
9 July 2018

1. Executive Summary

Cbus has strong reservations about measures contained in the *Treasury Laws Amendment (Protecting Your Superannuation Package) Bill 2018* (the Bill), which will have a detrimental impact on our members who need, rely upon, and have a history of successfully claiming on the fund's default insurance offering.

Cbus supports the policy objective of ensuring that an appropriate level of insurance is provided to 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 proposed legislation will have adverse unintended impacts on Cbus members who, because of the hazardous and physically demanding working environment of the industry, need rely on and successfully claim against our default group cover.

The removal of default cover from workers under 25 will impact Cbus members who often assume financial responsibilities for their families at a younger age than their contemporaries, and who will be unable to access cover on an opt in basis, or at all.

Likewise, the removal of cover from all accounts with balances below $6000 will mean new entrants to high-risk industries will be working without insurance for the first 14 months of their working lives.

Cbus is also concerned that inactive members will be severely disadvantaged by the measures outlined in the Bill. Inactive Cbus members typically do not have another superannuation account – their account is not receiving SG contributions because they have shifted into self employment or are working in a contracting capacity, or are between jobs (which is very common in the industry). Our inactive members retain their Cbus membership for the benefits it offers them, including our insurance cover.

The changes as proposed would remove cover for around 250,000 Cbus members. Around a third of members affected would be unable to opt in to group cover in future due to pre-existing conditions and issues identified in the underwriting process, leaving thousands of workers in hazardous industries without cover. Very significant numbers of members who have successfully claimed against Cbus' insurance in the last five years would lose the benefits of our default coverage.

Should the Bill be supported for passage, we would strongly submit that a mechanism should be created to grant relief to funds like Cbus which offer default insurance coverage to higher risk member profiles who need, rely and claim against their cover.

2. Summary of impact of insurance changes

The proposed measures as outlined in the 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 Australia's economic and social policy landscape provided by our superannuation system, especially for those working in physically demanding and hazardous occupations such as the building and construction industry. Cbus supports the policy objective of ensuring that an appropriate level of insurance is provided to 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 Bill puts forward a package of measures which in combination unnecessarily compromises the safety net of default insurance cover for Cbus' members.

Around 250,000 Cbus members who need, rely on and successfully claim against our default group cover will be removed from cover. Around a third of those excluded from cover will be unable to opt in to obtain the cover needed in the future due to conditions which were pre-existing or identified in underwriting processes, and there will be significantly increased premiums for remaining members. In addition to the increased cost it is highly likely that there will be more restrictive terms to the commencement of cover rules for all members making insurance harder to claim when members need to.

Employers in the industry have a strong commitment to ensuring that their employees and families have a safety net of insurance coverage to cover them in the event of tragedy striking, including both death or the member being unable to work again.

Young, new and inactive Cbus members *need* our group default cover

- Cbus members work in hazardous and physically demanding environments.
- Cbus members are primarily male and blue collar, and skew towards a younger demographic. They tend to start full time work at a younger age, and most assume financial responsibilities for others from 21 years of age.
- Inactive Cbus members do not typically have other super funds or insurance; as they are inactive because they have become self-employed, are working as a contractor and not receiving SG, are in between jobs (which is common due to the sessional nature of engagement in the construction industry) or are retired (commonly involuntarily) but still picking up some work.
- New entrants with balances under $6,000 also need cover, given the high-risk nature of work and working conditions undertaken by our membership. This exclusion would see the typical member work for around 14 months before being able to be covered by our default arrangements.

- Cbus recently undertook a major review of our insurance cover and retendered our group arrangements. The terms of coverage were revised to reflect members' needs- including the removal of default cover for members under 21 years (death cover).

Young, new and inactive Cbus members *rely* on our group default cover

- Demography and hazardous work environments mean most members would not be able to access cover through other insurers; affordably, conditionally, or at all, due to exclusions of occupational groups and working environments (i.e. many policies exclude those working over 10 metres). This was confirmed by an independent benchmarking exercise recently undertaken for Cbus by RiceWarner Actuaries.[1]
- Our policies provide generous scope and terms tailored to our membership – for instance, the definition of total and permanent disability recognises the limited options for an injured construction worker in obtaining other types of work, work test conditions accommodate longer breaks from work, automatic acceptance of pre-existing conditions, unconditional cover for suicide which takes into account the increased risk of mental health and suicide for men in construction (this feature is one which very few funds offer).
- Cbus members are particularly reliant on the default nature of coverage - group pooling enables broad coverage and automatic acceptance of cover (i.e covering pre-existing conditions). Opt-in cover is inevitably more expensive and more likely to be conditional.
- In particular, the exclusion of coverage of members with balances under $6000 will be detrimental to our current broad scope and current pricing.
- If Cbus members are required to opt in to insurance cover, we estimate that around 30% of members will be refused cover or only provided conditional cover (reflecting the patterns for members seeking extended underwritten cover currently).
- In addition, it must be recognised that there will be many younger members who will not opt in, and they and their families will remain uncovered.

Young, new and inactive members successfully *claim* against Cbus' default group insurance

- Cbus accepts around 90% of insurance claims made by members, which is above the industry average. We have paid out $1.1 billion of cover to members over the past 5 years.
- The cohorts targeted in these reforms are strongly represented in Cbus' claims history over the past 5 years: Cbus has accepted on average: a death claim in relation a young member (21-25 years of age) every 1.5 weeks, 3.5 death claims a week for inactive members (no contributions 13 months) and 2.6 death claims a week for members with balances under $6000.
- Cbus members who are under 25 years, who have balances under $6000 or who are inactive feature strongly in our claims. The policy rationale for prohibiting the capacity for trustees to offer default insurance for these cohorts – that is, that the exclusions will prevent the offering of insurance that members do not need, rely on or have the capacity to successfully claim against – do not hold up against the experience of Cbus members and their families.

[1] This report is currently being finalised.

- In addition, we believe that the price increases which will result from these legislative changes will mean that over their life, members will not be better off in terms of retirement savings. Our estimates are that members will end up paying as much in premiums over their working lives, but for a less beneficial scope/period of cover.
- Furthermore, the Protecting your Super package assumes broader economic benefits in terms of revenue savings (due to lower tax deductibility of group insurance premiums). However, this is based on a flawed assumption that premiums for remaining members will rise only by around 5%. Given the riskier nature of Cbus insurance pool, it is estimated that premiums for remaining members will rise by 20-30% and so would mean any assumed revenue savings to government would not be realised, but Cbus' members will be worse off. KPMG has estimated a 26% increase in group life premiums for superannuation members across the economy as a result of the budget changes. They estimate that 22% of the increase in premium increase is estimated to come from the removal of cover for accounts with less than $6k and no default cover for members under 25 years of age.[4]

1.1 Detailed evidence of impact on Cbus members

1.1.1 Young, new and inactive Cbus members need our group default cover

Cbus members work in hazardous and physically demanding environments. Safework Australia's statistics demonstrate that the construction industry was the third most hazardous industry in Australia in terms of fatalities and serious injury, coming in closely behind transport and agriculture.[2]

Cbus members are primarily male and blue collar, and skew towards a younger demographic. Cbus' membership is 92% male, which is reasonably equivalent to the gender breakdown of the workforce in the building and construction industry.[3]

The package of reforms is based on an assumed working pattern typical for professional workers. However, for most Cbus members, working life and family responsibilities typically start at a much younger age. 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, some of which are likely to also include dependent beneficiaries). Younger members still require TPD cover and if permanently injured without the group cover we provide, will be more dependent on government support. The Trustee has determined that notwithstanding lower claim rates for young TPD members, it is important for all young members to be covered for TPD insurance, given the serious life impacts and financial devastation for members who incur an injury or condition which prevents them from working again. Any cost/benefit analysis of the measures should contemplate this additional cost to government.

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[2] https://www.safeworkaustralia.gov.au/statistics-and-research/statistics/fatalities/fatality-statistics-industry https://www.safeworkaustralia.gov.au/statistics-and-research/statistics/disease-and-injuries/disease-and-injury-statistics-industry

[3] ABS 6291.0.55.003 Labour Force, Australia, Detailed, Quarterly, Table 06. Employed persons by Industry sub-division of main job (ANZSIC) and Sex

[4] KPMG Insurance in Superannuation – The impact and unintended consequences of the proposed Federal budget changes June 2018.

Case Study 1 – Young member TPD Claim

Cbus member Andrew was 23 years old when he was injured at work, crushed by two glass palettes, weighing in at an excess of 1.6 tonnes. He sustained serious spinal and pelvic injuries which he was fortunate to survive. Andrew was hospitalised for over a month during which time he watched his wife give birth to their first child while he was in a wheelchair.

Today, Andrew is recovering well but experiences ongoing health issues. His Cbus insurance has made an enormous difference to his health and quality of life outcomes. He says he cannot imagine where he and his family would be without the default cover that he was able to rely upon in his time of need.

The policy rationale for excluding inactive members is that they will have an active account elsewhere which will provide them with insurance. However, inactive Cbus members do not typically have other super funds or insurance. Cbus member research and data analysis has consistently indicated over the past few years that most inactive Cbus members only have Cbus as their superannuation fund (73% in 2017). This member research is confirmed by industry research conducted by Investment Trends which confirms that across the super industry, Cbus has one of the lowest incidence of members with other superannuation accounts[4]. Qualitative research conducted recently for Cbus confirms our members' accounts are not receiving SG contributions because they have become self-employed or are working as a contractor, are in between jobs (which is common due to the sessional nature of engagement in the construction industry) or are retired (often involuntarily, and so still hopeful of picking up some work).

Importantly, the majority of inactive members knew their account was open and were deliberately keeping it open. The main reasons provided by members for keeping the account open was in order to recommence it again one day, for insurance purposes or to hold the money in the super system. The majority of these "inactive" members indicated that they intended to make superannuation contributions in the future. This supports our view that most inactive Cbus members do not have an active account elsewhere and while technically inactive, are not dormant.

Cbus' inactive members are strongly represented in our death and TPD claims, so the proposed exclusion will have a very detrimental impact on them. Over the past 5 years, 26.6% of death claims (934 claims) and 13.8% of TPD claims (407 claims) were made by members who had been inactive for a continuous period of 13 months or more.

Therefore, while the legislative changes are based on the assumption that inactive members would have an active account (and thus insurance) elsewhere, this is not true of most Cbus inactive members.

[4] *Investment Trends 2018 Member Sentiment & Communications* Report, based on a survey of 11,112 super fund members.

Members with balances under $6,000 also need cover, given the nature of work and working conditions undertaken by our membership. This exclusion would see the typical member work for around 14 months before being able to be covered by our default arrangements.

Case Study 2 – Member with balance under $6,000

Cbus member Michael had been in the fund for around six months when he was injured. He had just returned to working on building sites after years of running his own business and was enjoying the freedom of working without the stress of running his own operation.

His injuries left him unable to work and pushed him and his family to the edge financially. The insurance he had with Cbus meant he was able to keep his home as well as receive the critical medical support and rehabilitation he needed.

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. The needs of our members were at the heart of our revised insurance arrangements. Note that Cbus does not provide default income protection insurance to its membership due to this type of insurance being provided by industry schemes outside of superannuation.

1.1.2 Young, new and inactive Cbus members rely on our group default 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.

Our insurer has advised that if another fund did not have cover suitable for members in high risk/hazardous conditions and wished to set up a separate category of cover (black collar/higher risk) then the premiums are estimated to be double the rate of the Cbus Industry manual category. This underscores the value delivered by Cbus' broad default offering to our atypical member demographic.

We have recently commissioned an independent benchmarking of our insurance products by RiceWarner Actuaries. The RiceWarner Review of Insurance Offering Report (RiceWarner Report) is currently being finalised. The findings of the RiceWarner Report 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.[5] Cbus was also the 3rd highest ranked fund, for our insurance options in a nationally representative sample of 6,720 Australians.[6]

Our policies provide generous scope and terms tailored to our membership – for instance, the definition of total and permanent disability recognises the limited options for an injured construction worker in obtaining other types of work, work test conditions accommodate longer breaks from work, our automatic acceptance does not preclude cover for members who have pre-existing conditions, unconditional cover for suicide which takes into account the increased risk of mental health and suicide for men in construction (this feature is one which very few funds offer). This last feature of our cover is very important: 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 are related to suicide. A further 32% are awaiting coronial review where suicide is likely to be represented.

The causes for which members make successful claims also reinforces the reliance which Cbus members have on our cover. Most of the conditions for which they are claiming for permanent disability and that their dependents claim on their death would not be likely to be covered, adequately or at all, by other sources (including compulsory transport accident insurance or Workcover).

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

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

Causes of Death Claims – 2016-2017	
Cancer	20%
Diseases of the circulatory system	14%
Polytrauma, poisoning, external effects	11%
Suicide	9%
Infections & diseases of the nervous/ digestive/ genitourinary systems	5%
External causes of morbidity or mortality	5%
Disease of the respiratory system	4%
Musculoskeletal Injury & fractures	2%
Other	30%

Causes of TPD Claims – 2016-2017	
Musculoskeletal, connective tissue diseases	28%
Injury & fractures	18%
Diseases of the circulatory/digestive/respiratory system	12%
Diseases of the nervous system	8%
Mental & behavioural disorders	8%
Cancer	5%
Polytrauma, poisoning, external effects	2%
Diseases of the eye	1%
Not allocated - other	18%

The policy assumptions which underpin the insurance measures in the Bill are that members excluded from default cover who wish to retain their cover will be able to opt in. However, given the hazardous nature of the industry in which our members work and the demographic of our membership, the impact of the reforms is far more problematic. There will be a proportion of members who will be refused cover or only provided limited cover, the conditions of acceptance of cover will be likely to be more restrictive for all members particularly in relation to pre-existing conditions, and the cost of coverage will increase for all members.

The creation of a large default pool of coverage reduces the risk of self-selection and enables Cbus to provide generous coverage of our members notwithstanding the higher risk of our insured pool of members.

While we currently are able to offer automatic acceptance of cover including any pre-existing conditions, it would be very unlikely that this would be sustainable were these measures to be passed as currently drafted. In particular, removing all members with accounts under $6000 (i.e. for the first 14 months of work) will be very detrimental to these arrangements, given the heavy manual nature of work- it is not uncommon for members to incur some injury during this period.

Group insurance, provided 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. This provides members with cover which is far more certain – once they have qualified (based on receipt of contributions) then they are covered. In policies where there is exclusion of pre-existing conditions, there is greater uncertainty and disputes at the time a member makes a claim. It is essential that certainty of commencement of cover rules exist and this feature of our group default policy is preserved for the benefit of all members.

If Cbus members are required to opt in to insurance cover, we estimate that around 30% of members will be refused cover or only provided conditional cover (reflecting the patterns for members seeking extended underwritten cover currently). Around 18% of new members would have an exclusion for specific events and around 8% would be denied cover. Unfortunately, some of these restrictions and limitations will not be known until a claim is lodged and the history of the individual is uncovered. In this situation members will think they are covered when in fact they are not and complaints will arise. This will lead to a position of concern within the community due to the uncertainty of cover.

In addition, the cost of cover for all members will increase.

In addition, it must be recognised that, due to the psychological biases studied in behavioural economics, the majority of younger members who will not opt in, and they and their families will remain uncovered.

1.1.3 Young, new and inactive members successfully claim against Cbus' default group insurance

Cbus accepts around 90% of death claims made by members, and 88% for TPD claims, which is above the industry average. We have paid out $1.1 billion of cover to members over the past 5 years.

The cohorts targeted in these reforms are strongly represented in Cbus' claims history over the past 5 years: Cbus has accepted on average: a death claim in relation a young member (21-25 years of age) every 1.5 weeks, 3.5 death claims a week for inactive members (no contributions 13 months) and 2.6 death claims a week for members with balances under $6000.

Members with balances under $6,000 and inactive members are also strongly represented in TPD claims. The Trustee has determined that notwithstanding lower TPD claim rates for young members, it is important for all young members to be covered for TPD insurance, given the risk inherent in the industry and the serious life impacts and financial devastation for members who incur an injury or condition which prevents them from working again. The Trustee is also concerned that a deferred commencement of TPD cover to an older age will result in many members having restrictions or being excluded from automatic cover (either temporarily or permanently) when it is available, as a result of physical and health issues arising during the deferment period.

While our default cover provides a modest level of support when compared to loss of lifetime earnings and additional costs of medical care, these payments are a necessity for those working in the hazardous conditions typical in our industry. Any cost/benefit analysis of the measures should contemplate the additional cost to government of providing greater financial support to totally and permanently injured young people, were they not able to access insurance benefits through their super.

The following table sets out our claims experience over the past five years (claims paid over the last 5 years with a date of event that occurred within the 5 year period) for each of the groups that will be directly affected by these measures.

CATEGORY	NO OF CLAIMS	% OF CLAIMS	$ CLAIMS	% of $ CLAIMS
21-25 death*	167	4.7%	$29,234,500	6.1%
21-25 TPD	52	1.8%	$4,898,000	2.2%
<$6K death*	670	19.1%	$93,197,400	19.5%
<$6K TPD	432	14.6%	$34,380,980	15.4%
Inactive >13 months death*	934	26.6%	$118,737,400	24.8%
Inactive >13 months TPD	407	13.8%	$29,288,527	13.1%

Last 5 Years: 2013 – 2017 inclusive
*Death includes TIB
Inactive: no contributions received 13 months prior to claims date

1.1.4 Impact on Cbus members, their families, their employers and the community

Cbus members who are under 25 years, who have balances under $6000 and who are inactive feature strongly in our claims. The policy rationale for prohibiting the capacity for trustees to offer default insurance for these cohorts – that is, that the exclusions will prevent the offering of insurance that members do not need, rely on or have the capacity to successfully claim against - do not hold up against the experience of Cbus members and their families. We estimate that around 250,000 Cbus members will lose the benefit of default coverage.

However, the impact of these proposals will go beyond the loss of cover for members directly impacted and will have other unintended negative consequences.

Due to the inherently hazardous nature of the industry and riskier profile of membership, employers in the industry have a strong commitment to ensuring that their employees and families have a safety net of insurance coverage to cover them in the event of tragedy striking, including both death or the member being unable to work again.

Price increases which will result from these legislative changes will mean that over their life, members will not be better off in terms of retirement savings. Members are likely to end up paying as much in premiums over their working lives, but for a less beneficial scope/period of cover.

We modelled the likely savings for Cbus members based on excluding cover until the age of 25 years versus premium increases for the remainder of their working life. For modelling purposes, we have assumed a premium increase of 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[7]. 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[8]. 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, and with the high likelihood of a far less generous scope of coverage.

Furthermore, the Bill assumes broader economic benefits in terms of revenue savings (due to lower tax deductibility of group insurance premiums). However, this is based on a flawed assumption that premiums for remaining members will rise only modestly. Given the riskier nature of Cbus insurance pool, we estimate that premiums for remaining members will rise by 20-30% and so would mean any assumed revenue savings would not be realised. We would urge that the regulatory impact statement should consider closely the assumed benefits for members and government, which we believe are based on flawed assumptions about impacts of the changes on future pricing.

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.

Proposed date of commencement will have adverse consequences

The Bill states that these measures will take effect from 1 July 2019. This is an insufficient period of transition. 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. This will impact pricing and terms/scope of coverage, resulting in poor outcomes for members.

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[7] 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.

[8] 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.

The timeframes for commencement are also logistically challenging. 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). Trustees of funds will need to notify affected members by 1 May 2019 to provide them sufficient opportunity to opt-in to insurance coverage. These timeframes to undertake a complex set of system, process and disclosure changes would make a 1 July 2019 commencement very challenging for funds to comply with, and lead to far worse outcomes for Cbus' members.

1.2 Cbus recommendations on legislative provisions

Removal of default cover for new members under age 25:

While Cbus supports the policy objective of ensuring that trustees provide an appropriate level of insurance to younger members, we have strong reservations about the blanker exclusions proposed in the Bill, given the insurance needs of our younger members. Cbus believes that a more appropriate age for younger members is 21 years of age, but only in relation to death cover.

Should the Bill be supported for passage, we would strongly submit that a mechanism should be created to grant relief to funds like Cbus which offer default insurance coverage to higher risk member profiles who need, rely and claim against their cover. Such relief could be premised on the trustee obtaining independent actuarial certification of the hazardous nature of the industry and tailoring of product to reflect members' needs.

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

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

Cbus has very strong reservations in relation to removing default cover in respect to members with balances less than $6000.

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.

Should the Bill be supported for passage, we submit 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

Should the Bill be supported for passage, Cbus proposes that the exclusion of inactive members be restricted to those with an account below $6,000.

We also recommend that the definition of inactive should be clearly defined, 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 Bill requires 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). As noted above, this is either due to the member not working, becoming self-employed or undertaking contracting roles which do not attract superannuation, or being semi retired or retired. Cbus' inactive members do not typically have another active account in another fund.

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, or as they transition into retirement. This is strongly supported by our inactive qualitative research as noted above in 1.1.

2.2 Cbus position

Cbus submits that small inactive accounts under $6000 (based on the broader activity test proposed 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 Exit Fees charged to superannuation members

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

3.1 Impact, Issues & Implementation

Ban on Exit Fees

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

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%[9] 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."

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).

[9] 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.