

31 March 2023

Superannuation Insurance and Governance Unit
Member Outcomes and Governance Branch
Retirement, Advice and Investment Division
The Treasury
Langton Crescent
PARKES ACT 2600

By email: superannuationobjective@treasury.gov.au

Dear sir/madam

Re: Treasury Consultation Paper on Legislating the Objective of Superannuation

Thank you for the opportunity to provide a submission on Treasury's consultation on an objective of superannuation.

MetLife Australia is a leading provider of life insurance, partnering with employers, superannuation funds and financial advisers to help Australians build a confident financial future. We have been awarded the Life Insurer of the Year Award by the Australia New Zealand Institute of Insurance and Finance (ANZIIF) for two of the last three years (not held in 2020 due to COVID lockdowns).

We welcome the Government's consultation on an objective of superannuation. We note that superannuation is a means to de-risk ageing, supporting Australians in retirement and to live confidently in the future. For it to be an equitable and sustainable system, the Government must ensure there is default insurance inside superannuation to provide a safety net for Australians throughout life from health through to illness.

In our attached submission, we show the critical role insurance inside superannuation plays in the overall architecture of our retirement system.

We look forward to continued engagement with the Government as it progresses this reform. If you have any questions about this submission or wish to discuss any aspect of it, please do not hesitate to contact Head of External Affairs and Public Policy Nathan Rees (nathan.rees@metlife.com).

Yours sincerely,



Richard Nunn
Chief Executive Officer

Objective of Superannuation

MetLife welcomes the opportunity to respond to the Government's consultation on an objective of superannuation and is supportive of both the Council of Australian Life Insurers' (CALI) submission to this inquiry as well as ASFA's [positioning](#).

MetLife endorses the Government's move to enshrine an objective of superannuation in law to support a clear and secured understanding of the ongoing role that superannuation plays in the lives of Australians – providing them with confidence to face into retirement. It is a way for individuals to de-risk ageing, supporting Australians in retirement to enable them to live confidently in the future.

MetLife suggests that insurance in superannuation plays an integral role in underpinning the objective of superannuation and is important throughout a person's life – playing a role in health and wellbeing through to illness. Underinsurance is a growing problem in Australia and the gap continues to widen, putting more Australians at risk, especially those susceptible to any change in the economy. Default insurance inside superannuation provides Australians with a safety net when the worst happens, so they have access to benefits and services to help them return to health, as well as acting as a pillar of support when faced with major illness or disability.

Any objective that does not consider life insurance as a vital complementary policy would be incomplete and vulnerable to further revision by successive governments.

1. What do you see as the practical benefits or risks associated with legislating an objective of Australia's superannuation system?

The benefit of legislating an objective of superannuation would be as set out in the Consultation Paper to provide "a guide for parliamentary scrutiny and debate in the context of superannuation legislation considered by Parliament". It will ensure accountability and limit policy changes that impact on superannuation. This will provide the sector with confidence in the regulatory environment to continue to invest in the best financial interest of its members.

A risk associated with legislating an objective is where there is insufficient consideration given to the role that default insurance inside superannuation plays in the system architecture. This leaves a loophole in the objective which will be vulnerable to exploiting. For further detail, see response in 2.

2. Does the proposed objective meet your understanding of the objective of the superannuation system in Australia?

MetLife supports a proposed objective of superannuation.

Superannuation is a way to strengthen the pillars of retirement, alongside the age pension and other government support, to enable Australians to have a dignified retirement. The current age pension is \$1,064 a fortnight for an individual, and \$1,604 a couple,¹ which falls short of what ASFA considers a 'modest lifestyle' in retirement (\$1,204 a fortnight for singles and \$1,734 for couples²). With cost of living and inflation in Australia increasing in recent times, having a strong superannuation system that can supplement the age pension or allow retirees to self-fund their retirement is more important now than ever.

¹ Services Australia, Age Pension: How much you can get, <https://www.servicesaustralia.gov.au/how-much-age-pension-you-can-get?context=22526#a1>, accessed 31 March 2023. Note: amounts listed are total normal rates, including maximum basic rate, pension supplement and energy supplement.

² ASFA, *ASFA Retirement Standard*, December Quarter 2022, <https://www.superannuation.asn.au/resources/retirement-standard>, accessed 31 March 2023. Figures listed is budget required for those aged 65-84.

Recent attempts to extend the conditions for early access to super, such as COVID-19 support, have left many, especially the younger generation (<34 years), with potentially \$10,000 - \$20,000 less in their superannuation accounts. Recent research found that this is expected to reduce their balance at retirement by \$120,000 in today's dollars.³ This means future governments will have the responsibility to fund these shortfalls in retirement benefits. It is estimated that for every \$1 taken out, it will cost the aged pension \$2.50, as it was the most financially disadvantaged with the lowest superannuation balance, who took advantage of the program.⁴

A legislated objective of superannuation would anchor future policy makers' decisions, requiring them to consider how changes to policy fit within and impact the retirement income system, allowing for proper debate and assessment centred on a dignified retirement for all Australians, including women and low-income earners.

Role of life insurance

MetLife would also like to reiterate CALI's view that any objective of superannuation must include the protection of retirement income, through insurance inside superannuation, where premiums are paid out of the member's account.

In MetLife's view, any legislated objective of superannuation must include a recognition of the fundamental role that default life insurance plays in the overall architecture. As MetLife has shown in our *Value of Life Insurance* report 2022, far from the view that is often perpetuated in the media that insurance premiums erode superannuation account balances, life insurance is a way to smooth out the retirement outcomes (that is, leaving the workforce permanently) for those who do not have the good fortune to be able to work until a normal retirement age, free of events such as death, illness or total and permanent disability.⁵

For those who fall ill or are totally and permanently disabled (TPD), insurance benefits will ensure they have a 'dignified' retirement from the workforce, allowing them to continue living the standard of life they are currently used to (financial security), and providing them with a worry-free and supported recovery process. They are also less likely to have to rely on family or government support. The same can be said for the family of an insured, who will not be burdened with debts, if they were adequately insured.

In addition, the *Superannuation Industry (Supervision) Act* (SIS Act) sets out governing rules that contain covenants, one of which relates to insurance.⁶ This provides that the trustee must consider the cost of insurance to members and that this "does not inappropriately erode the retirement income of beneficiaries".

³ Steven Hamilton, Geoffrey Liu and Tristram Sainsbury, *Institute for International Economic Policy*, "Early pension withdrawal as stimulus", <https://iiep.gwu.edu/2023/03/15/early-pension-withdrawal-as-stimulus/>. Accessed 20 March 2023. See also Warren McKeown, University of Melbourne, "Kicking Australia's superannuation problem into the future", <https://pursuit.unimelb.edu.au/articles/kicking-australia-s-superannuation-problem-into-the-future>. Accessed 15 March 2023.

⁴ Industry Super Funds, "Study shows early release of super causes economic Long Covid", <https://www.industrysuper.com/assets/FileDownloadCTA/ISA-study-shows-early-release-of-super-causes-economic-Long-Covid.PDF>. Accessed 27 March 2023.

⁵ MetLife, *Value of Life Insurance*, 2022 (<https://www.metlife.com.au/content/dam/metlifecom/au/thoughtleadership/All/value-life-insurance-report-20221012.pdf>, accessed 30 March 2023).

⁶ SIS Act, s52(7) Insurance covenants.

There is already a serious level of underinsurance across Australia and if life insurance is not considered as a key component of the superannuation system, it will only get worse.⁷ Recent reforms, including Protecting Your Super and Putting Members' Interests First, would have unintentionally widened the underinsurance gap and removed valuable cover from those less financially literate who may need it the most. Without this vital cover, if these individuals were to become TPD or fall terminally ill, they would have to drawdown their superannuation balance, and rely on family/friends and government support.

'Deliver income'

The Consultation Paper defines 'deliver income' as 'to provide income in retirement'. MetLife agrees with this and suggests that as a means to de-risk ageing, the Government must further develop policy settings around the retirement income covenant, such as accessibility and affordability of financial advice.

MetLife also suggests that when thinking about 'income in retirement' the Government needs to recognise how retirees spend their money. As income and capital needs vary in retirement, retirees should be able to access their retirement savings to support their retirement in any way they deem appropriate. Many retirees are retaining large balances in superannuation in order to assist in funding the lump sum and ongoing costs associated aged care accommodation. Any definition of 'income' should therefore consider this so as to not restrict how members can use the money in their superannuation at retirement, that is, to provide 'income' only.

MetLife supports the rationale that the purpose of superannuation is 'not for minimising tax on wealth accumulation or enabling retirees to leave tax effective bequests'. In the recent debate around the Government's intention to introduce a \$3m cap on superannuation balances, we note if it applies to accumulated balances, that there is potential detrimental impact to superannuation members who receive Death or TPD benefits (as the additional life insurance proceeds may cause member balances to exceed the cap) and attention also needs to be given towards investment returns.

3. Is the proposed approach to enshrining the objective in legislation appropriate? Are there any alternative ways the objective could be enshrined?

The proposed approach is appropriate and would bring superannuation into line with other sectors of the industry which are guided by the objects of their respective legislation. Therefore, any objective of superannuation should be in the Act that most appropriately applies to superannuation.

When considering separate legislation, the Government would be aware of the review currently being undertaken by the Australian Law Reform Commission to simplify the financial services legislative framework, and to not add to the legislative burden.

4. What are the practical costs and benefits of any alternative accountability mechanisms to the one proposed?

Legislating a clear objective of superannuation provides a strong foundation to ensure future Government policy related to the superannuation system aligns with it and limits any impact of political ideologies on superannuation policy making.

It will provide stability to the system to allow trustees to continue to make investment decisions in the best financial interest of members, which will flow through to the economy.

⁷ MetLife, *Value of Life Insurance*, 2022 (<https://www.metlife.com.au/content/dam/metlifecom/au/thoughtleadership/All/value-life-insurance-report-20221012.pdf>, accessed 30 March 2023).