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Improving consumer experiences, choice, and outcomes in Australia's retirement system: Submission by Super Consumers Australia

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Super Consumers Australia is the people's advocate in the superannuation sector. Super Consumers Australia advances and protects the interests of people on low and middle incomes in Australia's superannuation system. It was founded in 2013 and received funding for the first time in 2018.

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Introduction

Superannuation is a key part of Australia's retirement income. Combined with Government supports, super is there to provide income in people's later years. However, there are signs of deep flaws in the super system, including default insurance in super. Newer retirement products (longevity products) are also raising red flags that Australians' income and quality of life in retirement may be at risk.

The super landscape has evolved rapidly in recent years, driven largely by positive reforms to performance requirements, insurance arrangements and obligations of funds to their members. As this inquiry has identified, now is the time to turn our attention to how well the super system is delivering on its promise by focusing on what it is delivering people at retirement.

Over 8 million Australians have death and disability group insurances through super,[1] at a cost of over $6 billion annually.[2] But, there are warning signs that this system insurance in super is not delivering the social 'safety net' that working people and their families need when they are unable to work due to illness, injury or death. Retirement incomes are eroded by the cost of insurance, and there are some major concerns with the experiences and outcomes for people who make claims on the insurance in their super. The impact of insurance in super in people's working years can have devastating consequences into their retirement.

Attention is rightly focused on how people can be better served by the system in retirement. Much attention has turned to the role longevity products may play in meeting people's retirement income needs. At present, this part of the market is defined by its complexity, creating serious risk that people will end up in inappropriate products. These products could be a ticking time bomb for retired Australians if the Government does not step in promptly with more effective consumer protections.

With the Retirement Income Covenant in operation, and the Government currently consulting on the role of super in retirement, this Inquiry is a timely opportunity to:

- assess the extent to which the current policy settings are delivering good consumer experiences, choice and outcomes in retirement,
- identify emerging issues and areas for improvement in Australians' retirement outcomes, and
- explore how to align the retirement system with the evolving needs and expectations of Australians.

This submission covers questions c, e and f in the Inquiry Terms of Reference, focusing on:

- The role of super in the broader retirement system, and how the Government can optimise people's retirement incomes and make markets work more effectively through appropriate consumer protections and guidance.

[1] ASIC (2023) Report 760: Insurance in Superannuation: Industry Progress on delivering better outcomes for members (ASIC Report 760), page 3.
[2] Group super annual premiums are $6.3b (Life insurance claims and disputes data, APRA, June 2023).

- The operation of default life insurance in super, and the need to improve people's claims experiences, as well as assess whether the costs and cover of insurance in super is meeting community expectations.
- The need to guard against the mis-selling of retirement products.

We also refer to our recent submission to Treasury's consultation on 'Superannuation in retirement' (**Treasury submission**), which details our views and recommendations on a number of issues relevant to this inquiry. We encourage the Committee to consider that submission as part of this Inquiry.

Summary of Recommendations

Recommendation 1: The Australian Prudential Regulation Authority (APRA) and Australian Securities and Investments Commission (ASIC) should promptly publish more detailed, fit-for-purpose data on insurance in super claims.

Recommendation 2: The Government should address the harms caused to Australian by failures of the insurance in super system by:

- standardising key policy terms in insurance in super, including the definition of 'permanent incapacity', banning ADL and similar tests, mandating minimum cover (indexed) and clarifying how the probability of returning to work will be assessed, and
- introducing customer service standards for super funds through a mandatory code that covers insurance claims.

Recommendation 3: The Government should commission a Productivity Commission review into the default insurance in super scheme. This review should determine whether default insurance in super is the most equitable and efficient method for meeting community expectations for the support of people (and their families) when they can no longer work due to death, disability, injury or illness. It should also consider alternative options to support people who become unable to work when they are injured or become ill.

Recommendation 4: Explore ways to simplify the tax and social security rules relating to retirement to make the system simpler for all Australians to navigate.

Recommendation 5: Task an independent agency to connect Australia's government-provided retirement planning assistance services and tools through a single portal to provide quality, impartial guidance, delivered via digital channels with in-person or phone-based support.

Recommendation 6: Introduce a robust product accreditation regime for relatively simple 'no frills' longevity products. This should be supported by an independent product comparison tool to help people compare accredited products, and a cap on the proportion of a super balance that can be invested in an accredited product in the absence of independent financial advice.

Recommendation 7: Increase consumer protections for all longevity products (including non-accredited products) by introducing requirements for longevity testing and risk-reflective pricing, an annual performance test, a ban on commissions and intra-fund advice for these products, and a requirement that non-accredited products can only be distributed to people who have received independent financial advice. These protections should be backed by strong regulator oversight.

Recommendation 8: Establish a process for designing an appropriately adapted performance test for retirement products that are not account-based pensions, to ensure there is a minimum standard that all products must meet. This should be done within 2 years.

Recommendation 9: Require the ATO and super funds to proactively prompt people to consider their options for retirement income as they approach retirement. This should include referring members to the independent guidance service to help them to work out when to move their super into the retirement phase; work out how to structure their income streams; and compare retirement income products across super funds. These prompts should be subject to ongoing consumer testing and improvement to ensure they are effective and not resulting in unintended harmful outcomes.

Recommendation 10: Introduce an online application process for the Age Pension through MyGov, with pre-filled information on assets and income provided by the Australian Taxation Office. This process should also direct people to guidance and calculators provided by the independent service to help them work out how to combine the Age Pension with other sources of income, such as withdrawals from super or the Home Equity Access Scheme.

The interaction of health insurance, life insurance, general insurance, and social security supports to retirement outcomes, including options to improve incentives that drive consumer outcomes and support the sustainability of the retirement income system

The insurance in super system is costing more than 8 million Australians,[3] over $6 billion each year.[4] This fact alone means this Inquiry should take an in-depth look at the system of default life insurance in super, and its impact on the lives of Australians and their retirement outcomes.

Key issues with insurance in super

Our current system has some substantial gaps in terms of who is and is not covered. The obvious examples are people without super (e.g. people not in paid work), people whose employers have failed to pay their super, and self-employed people who are less likely to have a super fund with default insurance.

Our Consumer Pulse Survey, conducted in late 2022, found that 36% of self-employed people with a super fund reported that they did not have insurance with super. This compared to 18% of full-time workers and 22% of part-time workers.[5]

For people who do have life insurance through super, there can be significant gaps and inequities in what their insurance covers. These gaps and the lack of public policy foundation are more concerning given that insurance in super is a disengaged consumer market. Very few people engage with their super, and fewer still engage with their default group insurance. As ASIC has observed:

> Many superannuation members are not even aware that they have insurance through their superannuation, or that they are paying for it. Those who are aware may be deterred from engaging with their insurance because they find design features, terms and conditions, and pricing difficult to understand.[6]

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[3] ASIC Report 760, page 3.
[4] Group super annual premiums were $6.3b in the year to June 2023: APRA (2023), Life insurance claims and disputes statistics.
[5] Super Consumers (2022) Super Consumer Pulse Wave 0: Results from our pilot national consumer survey .
[6] ASIC (2020) Report 675: Default insurance in superannuation: Member value for money (**ASIC Report 675**), page 3.

Our Consumer Pulse Survey revealed that one in five people with super didn't know whether they had insurance bundled with their super. Of those who did know they had insurance, only 51% knew what they were covered for, and only 54% knew how much it cost them.

ASIC found that less than 50% of members have ever read the annual insurance statement provided by their super fund. And people are not shopping around: less than 20% of fund members have attempted to compare the benefits of the insurance in their current fund against alternative funds.

The typical drivers of 'good' consumer outcomes are therefore missing. Fund members rely on the super fund to arrange insurance, which needs to be suitable to a broad range of people.

This lack of consumer engagement is coupled with a lack of consumer protection. Due to the nature of default group life insurance policies in super (with the trustee being the policy holder), the unfair contract terms laws which have applied to other insurance policies since the Hayne Royal Commission do not apply to group life insurance in super. As outlined below, unexpected and harsh policy terms have caused major emotional and financial harm to people making claims on their insurance in super. This Inquiry should consider what impact the enduring gap in the unfair contract terms regime may be having on the value of insurance in super and people's claims experiences.

The more specific elements of the flawed insurance in super system that warrant close examination by this Inquiry are:

- **Retirement incomes are eroded by insurance premiums.** Most relevantly to this inquiry, people's super balances – and therefore retirement income – can be significantly reduced by the premiums paid for default life insurance in super.
- **Costs and value differ wildly**. There is a wide range of quality and value in default life insurance products in super.
- **There are hurdles to making a claim**, including tough tests of whether a person is totally and permanently disabled, such as the activities of daily living test.
- **Claims processes can be long and stressful.** Bad claims processes can go hand-in-hand with poor value policies, and exacerbate the distress of making a claim.
- **Insurance has complex interplays with other systems**, particularly TPD and IP insurance with state and federal Government supports for people who become unable to work due to injury or illness.

These features of the insurance in super system can significantly impact people's individual income and quality of life in retirement, as well as the sustainability of the retirement income system more broadly.

Retirement incomes are eroded by insurance premiums

Insurance in super can come at a very high cost, and can have inequitable and regressive impacts on people's retirement balances.

The major Productivity Commission review of 2018 found that group insurance causes 'excessive' balance erosion. According to the Commission's modelling, a blue-collar worker receiving a low income and paying for death, total and permanent disability (TPD) and income protection (IP) insurance would have $85,000 (14%) less to spend at retirement than if they had no insurance in a typical example. In an extreme example, the worker's retirement income could be reduced by $125,000 (28%).[7]

Modelling by the Productivity Commission and by KPMG found higher account erosion for certain groups of people, including:

- **People paid low incomes:** Both the Productivity Commission and KPMG found that people on lower incomes experience worse balance erosion from insurance premiums. KPMG found that the average reduction in retirement savings for people on a salary under $18,200 is 16%, whereas those on salaries above $87,000 can expect balance erosion of just 3%.[8] Worse still, people without assets or savings earning under $37,000 per year receive little benefit from group insurance at all. As KPMG's modelling found:

  > They will be paying premiums for insurance benefits that are similar to government benefits they would have received if they didn't have insurance. In addition, they may miss out on other benefits of being on a [disability support pension] or other social benefits, for example lower travel, healthcare and Pharmaceutical Benefit Scheme costs.[9]

- **Women:** Balance erosion is greater for women than men at every age. This is unsurprising given women earn less than men, on average. KPMG found that a woman between the age of 35 to 39 earning between $18,200 to $37,000 can expect her super balance to be reduced by 14% from group insurance. And the same woman earning under $18,200 can expect to have her meagre retirement income eroded by a whopping 44% thanks to insurance premiums.[10] Women still perform the majority of care-giving in Australia, and are also at risk of dropping out of TPD coverage if they take time away from paid work to care for family.
- **Young people**: Age can also impact the amount of balance erosion. Young people have also borne the brunt of poor system design to date, such as duplicate accounts further eroding super balances, and poorly tailored policies, such as paying for death cover even when they have no dependents or liabilities to worry about in the event of a premature death.

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[7] Productivity Commission (2018) Superannuation: Assessing Efficiency and Competitiveness - Inquiry report, page 381.
[8] KPMG (2017) Review of Default Group Insurance in Superannuation (Report) (**KPMG Report**) page viii:.
[9] KPMG Report, page 8.
[10] KPMG Report, page viii.

- **People moving in and out of the workforce:** The Productivity Commission found that insurance premiums can have a disproportionate impact on people with 'intermittent labour force attachment' – meaning people in and out of work. This can impact many people, particularly those in temporary, precarious and insecure work, including people working in the gig economy. This failing of insurance is alarming given the increase in insecure work, with a growing number of people working in the gig economy,[11] as well as in casual jobs without guaranteed hours, and on fixed-term contracts.[12]

Costs and value differ wildly

ASIC's 2020 research found that two identical super fund members could receive very different cover and pay very different premiums, depending on the particular super fund they were in.[13] Some MySuper products offered over 20 times as much default death and TPD cover than products for identical members of other products.

ASIC found that, depending on the MySuper product chosen:

- the total premium for a 30-year-old woman could vary by 25 times, from $29 to $732 a year; and
- The total premium for a 50-year-old man could vary by 37 times, from $40 to $1,480 a year.

These variations in cost are primarily driven by differences in the level of cover provided. They can also reflect the different occupation categories that funds default their members into, which are based on the fund's member occupation mix, and not the individual member. This situation exposes the extreme differences in how super funds have interpreted their duties to provide insurance to members. They are indicative of a system which is poorly planned, potentially exposing people to the erosive impact over insurance or the harm of underinsurance.

It is clear that the current system is varied and inequitable and – because people's cover is based on commercial arrangements between the fund and insurer – there are no benchmarks or standard expectations that Australian can rely on when it comes to their cover and premiums.

There are hurdles to making a claim

Given the billions of dollars paid for group insurance in super each year, Australians should be getting good coverage for premature death, disability or illness, considering the impact on people's retirement savings. For many, this is not the case.

There are many drivers of poor quality and low value insurance in super. In particular, fund trustees have principles-based duties in how they provide insurance, including a general duty to act in

[11] Actuaries Institute (2020) The Rise of the Gig Economy and its Impact on the Australian Workforce (Green Paper).
[12] Australian Bureau Statistics (2022) Working arrangements (ABS Catalogue Number 6336.0).
[13] ASIC Report 675, page 6.

members best financial interests.[14] There is a lack of legislative or judicial interpretation of these duties, which has left large scope for funds to fill this void with hundreds of variations on policy terms. There is a risk that this creates an incentive for funds to put in place ‘cheap’ policies which can often be more restrictive on who can make a claim.

Insurance policies can include a number of terms, such as definitions, which can mean very different outcomes when a person makes a claim - even deeming a person ineligible because they have not made it over a very high hurdle in the policy.

The main issues are:

- what it means to be totally and permanently disabled under a TPD policy,
- application of an activities of daily living (ADL) test to TPD claims, and
- TPD policies with occupational exclusions.

Definition of ‘permanent incapacity’

There is substantial variation between funds in whether a person is considered to be totally and permanently disabled.

One key problem is that the legislative definition of ‘permanent incapacity’ in the law – that the member's ‘ill-health (whether physical or mental) makes it *unlikely* that the member will engage in gainful employment for which the member is reasonably qualified by education, training or experience’[15] – has been abandoned by industry in favour of narrower definitions based on the concept that a member is *incapable of ever engaging* in that work.

TPD policies can vary hugely in their wording and what they require to prove a claim. This can make it extremely difficult for a person to get the paperwork needed to show that their inability to work is ‘permanent’ in accordance with their policy’s definition. It can leave people who are living with a disability and unable to work effectively ‘locked out’ of making a TPD claim for a very long time.

Activities of daily living test

Another significant problem is discriminatory terms in TPD policies, which require some people to claim under more restrictive definitions of TPD than others. Some policies contain exclusions and eligibility criteria that depend on a fund member's working status in the lead up to the claim, including that person’s:

- **Employment status**: i.e., whether the member is unemployed, or working on a casual, seasonal or part-time basis, for less than a specified number of hours per week; and
- **Occupation**: e.g., in underwritten cover whether their occupation was deemed to be high-risk or hazardous.

[14] *Superannuation Industry Supervision Act 1993* (Cth) s 52(11).
[15] *Superannuation Industry (Supervision) Regulations 1994* (Cth), r 1.03C (emphasis added).

Where a person falls foul of these arbitrary requirements in a particular policy, they may face a more stringent activities of daily living (**ADL**) test when they make a claim.

Under an ADL test, a person must show that they cannot do two activities from a list of basic physical tests, such as being able to eat, bathe or dress without assistance. They must meet this very high bar rather than just show that their disability prevents them from working.

In our 2020 research, we analysed the TPD insurance policies of 31 large super funds from June 2009 to May 2020. We found that 30 of the 32 policies in our sample used ADL type definitions and applied them based on a person's work status. That meant over 7.8 million Australians held TPD insurance that had limited value if they became unemployed or worked limited hours.[16]

ADL tests are much harder to pass than other tests which more closely reflect the legislative definition. ASIC found that, on average, ADL definitions have a much higher declined claims rate (60%) than a standard TPD definition (12%). The declined claims rate for policies with an ADL test rises to an appalling 77% for mental health claims, and 71% for musculoskeletal claims.

Despite the much higher claims denial rates, people are charged the same premium even when an ADL test is applied. As a result, TPD policies that use ADLs and other restrictive definitions are effectively 'junk insurance'. Worse still, the people most likely to end up on junk TPD policies are those who are already economically disadvantaged: i.e., people in casual, contract or seasonal work, and people who are long-term unemployed.

This is compounded by delays and frustrations in the claims process for many people, and even the lawyers who assist some to make claims.

Real stories of ADL tests

Rachel's claim was denied because she worked casual[17]

Rachel worked in a busy customer service job and had an active social life. However, over time she developed health issues including chronic idiopathic urticaria, angioedema and oral allergy syndrome which mean she needs to wear a mask outside (COVID-19 or not) and carry an EpiPen at all times for episodes of anaphylaxis. Her ill health has also triggered secondary depression.

Rachel tried to stay in work despite doctors warning that she'd have to leave, but eventually had to resign. Rachel made a claim on her TPD and was immediately declined because she worked casual and faced an ADL test. This is despite being approved for the Disability Support Pension straight away.

Rachel says: 'It feels like whenever there's hope that maybe it will go through, they put another barrier up'.

[16] Super Consumers Australia (2020) Restrictive definitions in default TPD insurance policies. .
[17] For more detail see CHOICE (2021) Junk insurance in super: 'I struggle week to week'.

Wayne's insurance via his employer wouldn't pay out[18]

After a stroke, long-haul truck driver Wayne was unable to dress himself but could still do the other basic tasks, such as walking and speaking. Wayne's doctor and neurologist stated that Wayne was unlikely ever to work again because of the stroke.

However, this did not qualify him for a benefit under his TPD insurance. He was forced to (unsuccessfully) claim under an ADL definition because his occupation was listed as 'hazardous' by his insurer – even though his insurance had been provided by default through his employer's super fund.

If Wayne had been assessed under the standard definition in the TPD policy, he would have qualified for the insurance benefit.

Wayne says: 'I'd been paying out for five years for the total and permanent disability insurance, and now that I needed it, I got nothing.'

Despite huge problems and widespread criticism, ADL definitions still remain in some TPD policies offered through super.

Super Consumers followed up with the super industry in 2021 to assess any improvements since our initial review. The results were mixed. Encouragingly, 57% of policies had either removed or significantly reduced the impact of ADL definitions on their customers. But that meant 43% of policies still confined claims to restrictive definitions before a person was unemployed for 16 months, with one default product removing eligibility to claim under the 'any occupation' definition after just three months.[19]

ASIC's most recent report found that 232 claims were still assessed under an ADL definition in 2021-22 and, of these, 52% of claims were declined. Super trustees have made some improvements. But there remains wide variation in the way they assess disability, and therefore how likely people are to make successful claims. Even where funds are removing ADL tests in future policies, they are continuing to deny claims on older policies, leaving people with disabilities without the cover they need and have paid for.

Recent APRA data on insurance in super claims also shows that, for some existing default TPD policies in super, upward of 8% of claims are still assessed against an ADL test.[20]

Occupational exclusions

In addition to the risk of having to meet an ADL test, occupational exclusions can also impact whether a person can get insurance at all when they join a fund or change jobs. These exclusions typically impact people who are personally underwritten for cover.

[18] For more detail see CHOICE (2021) Junk insurance in super: 'I got nothing' says Wayne.
[19] Super Consumers Australia (2021) Update on restrictive definitions in default TPD insurance policies.
[20] APRA (2024) Quarterly Superannuation Product Statistics - Default Insurance Design.

Exclusions for people working in jobs deemed 'high-risk' or hazardous can unsuspectingly and unfairly expose members and their families to financial risk. If anyone needs reliable cover in the event of premature death or disability, surely it is the people working in dangerous jobs, whose work often benefits the rest of society.

However, our 2021 joint analysis with Financial Rights Legal Centre found seven super funds with occupational exclusions or restrictions in their policies that would make it extremely difficult for people to make a claim if working in an industry deemed 'high-risk'. And no two exclusions were the same.[21]

The industry as a whole abandoned its code of practice for insurance in super, with the Financial Services Council (FSC) instead issuing a mandatory Standard for its members – retail super funds and, at the time, life insurers – requiring them to remove occupational exclusions and occupation-based restrictive disability definitions from default insurance by 1 July 2023.[22] However, the wide disparity in terms leaves people in high-risk jobs with a confusing process to compare policy at best, and no coverage at worst.

Claims can be long and stressful

Along with policy terms, claims processes for insurance in super have major room for improvement.

There is mounting evidence that the processes and customer service of super funds and insurers are failing Australians who have to claim on their life insurance.

Super Consumers' analysis of APRA's data on insurance in super claims[23] found that:

- More than one-in-five claims for IP and total and permanent disability insurance in super take longer than the insurers' commitment under their own industry code:
  - 20.4% of all IP insurance claims in super exceed the Life Insurance Code of Practice's two-month time frame commitment, and
  - 22.7% of all TPD claims in super exceed the Code's six-month commitment.
- The outcomes of claims disputes are extremely murky, with no clear picture of what happens when someone makes a complaint about their insurance claim. In 2022-23 'other dispute outcome' was recorded for:
  - 75.9% of the 1,821 IP disputes,
  - 67.9% of the 1,593 TPD disputes, and
  - 66.7% of the 93 death insurance disputes.

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[21] Super Consumers Australia and Financial Rights Legal Centre (2021) *Submission to The Treasury, Review of Occupational Exclusions in Default Insurance Offered Through MySuper Products*, pages 2-4.
[22] Financial Services Council (2021) Standard No 27: Removal of occupational exclusions and occupation based restrictive disability definitions in default cover.
[23] Super Consumers (2023) Insurance claims data shows super funds must step up to protect members.

In addition to these concerning outcomes, complaints to the Australian Financial Complaints Authority (AFCA) about delays in claims handling skyrocketed 136% in 2022-23 compared to the previous year.[24]

Despite the concerning evidence that funds are not meeting their members needs and expectations , there is scant public information on which of the super funds are serving their members best or worse when it comes to insurance. APRA and ASIC have not yet published fund-level information on claims outcomes and disputes (despite holding this information) and super funds themselves provide virtually no public information on the outcomes of insurance claims by their members (e.g., in the summaries of annual member outcome assessments).

The regulators need to promptly publish more detailed, fit-for-purpose data on insurance claims and disputes at the super fund product level, to shine a light on where funds are not delivering good claims experiences to their members. This includes APRA publishing product-level insurance claims handling statistics for all super funds, and ASIC publishing more detailed internal disputes data.

This information is the missing piece of the puzzle if regulators and consumer advocates are going to work with super funds and insurers to improve people's claims experience and outcomes. It is critical if we are going to address the devastating impacts that delays and disputes have in people's lives.

Real stories of bad claims processes

Carol's claim delays added to her ordeal[25]

Carol (not her real name) is a victim-survivor of domestic violence who became unable to work because of her psychiatric injuries. Carol's domestic partner tried to run her off the road when she was a pedestrian. He later committed suicide in their home.

Carol worked at Woolworths but couldn't return to work because of her injuries. She claimed on her TPD insurance policy, which said the insurer would pay if a person couldn't find a role bearing in mind the education, training and experience she had. For the purposes of her insurance, Carol's medical specialists verified that she couldn't work again.

The insurer delayed the claim for over six months. Carol's lawyer says the insurer was gathering evidence for 'their inflexible and dogmatic criteria within their own processes' and mechanically seeking information that wasn't relevant to whether Carol met the policy's definition of disability and should receive her money. The hold ups inevitably added to Carol's distress.

Reflecting on Carol's claim, her lawyer says that 'delay by an insurer can entrench the disadvantaged position of the client'.

[24] CHOICE (2023) 'People lose their homes': The human cost of delayed insurance claims.
[25] For more detail, see CHOICE (2022) Carol's story: Insurance delay making bad situation worse.

Jamal was pushed to quit his claim due to bad process

Jamal (not his real name) is from a culturally and linguistically diverse community and speaks a little English. He is in his 40s with two children. He has had significant chronic health problems and is currently going through cancer treatment.

Jamal was trying to make a claim for IP insurance but found it too hard to understand the process and forms. He could not understand what documentation was needed and how to provide it.

Jamal approached his super fund for assistance and was told he would be given a case manager, but only after he submitted his claim. The super fund did not give Jamal any additional or specialist assistance to help navigate the application process.

Jamal then approached a financial counsellor for help but was too distressed to start the claims process again. He told his financial counsellor that the process was too hard and wasn't worth the effort, even though it would provide valuable income to him and his family.

Jamal's financial counsellor says that a simplified claims process, better language support, and specialist customer assistance for people experiencing vulnerability would stop people like Jamal from slipping through the cracks.

Super funds and insurers have failed to resolve these and other issues which have had real impacts on people's health and financial wellbeing, and which will reverberate well into their later life and retirement. These unfair hurdles for people making claims – and devastating consequences – will persist while there are no targeted consumer protections or standardisation of terms in group life insurance in super.

Government can address the harms that these systemic failures cause for people by introducing two consumer protections:

1. Standardisation of key policy terms in insurance in super, including:
    - a single definition of 'permanent incapacity' in TPD policies,
    - a ban on ADL and similar tests,
    - mandatory minimum cover, appropriately indexed, and
    - clarifying the assessment of the probability that a person will return to work.
2. Customer service standards for super funds, via a mandatory code which reflects community expectations of claims handling processes.

These changes could help to prevent the kinds of harrowing experiences described above, and build more certainty and protection into the insurance in super system.

Recommendations

Recommendation 1: APRA and ASIC should promptly publish more detailed, fit-for-purpose data on insurance in super claims.

Recommendation 2: The Government should address the harms caused to Australian by failures of the insurance in super system by:

- standardising key policy terms in insurance in super, including the definition of 'permanent incapacity', banning ADL and similar tests, mandating minimum cover (indexed) and clarifying how the probability of returning to work will be assessed, and
- introducing customer service standards for super funds through a mandatory code that covers insurance claims.

Insurance has complex interplays with other systems

It is not just gaps and failings in the insurance in super system that cause problems.

The overlaps between various payments can also render policies 'junk insurance'. Group insurance in super can overlap with other payments, income support and compensation provided for death, disability and illness during a person's working life.

IP and TPD insurance intersect and overlap with support at the state/territory and federal level.

The table below briefly outlines some of the key support payments that may cover people in similar scenarios to where they are making a claim on their insurance in super. There is a multiplicity of support available, and the different processes and requirements to access them. These can be overwhelming and difficult to navigate for many people who find themselves out of work and trying to replace their income.

Table: Overlaps with other payments

Type of payment	Coverage
Workers compensation	An insurance payment made to someone who is injured at work or who becomes sick due to their work. It pays for lost wages, medical expenses and rehabilitation costs. This compensation varies between states and territories.
Motor accident compensation	Compulsory third-party insurance pays for compensation for people injured in a vehicle accident (although sometimes not single-person accidents, and sometimes not if the person found to be at fault). Again, this insurance varies between states and territories.
Disability support pension (DSP)	A federal Government income support payment to people with a permanent physical, intellectual or psychiatric condition that prevents them from working. The majority of people who apply for the DSP are unsuccessful. These people can then apply for the lower JobSeeker payment.
JobSeeker payment	This income support payment helps people who are sick or injured and cannot do their usual work for a short period. It is also a more general payment the Government makes to people who are looking for work between 22 years old and the Age Pension age.
Liability under the law	A person can in some cases sue for another person's or organisation's actions or negligence which cause disability or death. Some organisations that deal with the public must take out public liability insurance, which covers the organisation for claims from a member of the public who is injured or dies at the organisation's site.
Other life insurance	Life insurance can be purchased through an adviser or directly from a life insurer, including death, TPD, IP, trauma, accidental injury or accidental death cover.
National Disability Insurance Scheme (NDIS)	The NDIS financially supports eligible people with disability to pay for the services and supports that they need to improve their quality of life. It is publicly funded and not means-tested. It does not provide income support.

Personal leave	Some workers may have accrued sick or personal leave entitlements at the time of their injury or disability.
Other government payments for illness, death, or income support	A range of other government payments may be available including: ● Age Pension; ● bereavement allowance; ● carer payment, allowance and supplement; ● child disability assistance payment; ● sickness allowance; ● crisis payment; ● essential medical equipment payment; ● mobility allowance; ● special benefit; ● widow allowance; ● supplementary payments for rent, pharmaceuticals, phone and utilities and energy; and ● youth disability supplement.

IP insurance cover is included by default for members of some super funds. IP insurance policies typically include an 'offset' clause, which means that payments under the policy will be reduced, potentially to zero, if the person is receiving payments from another source, such as sick leave, workers compensation or other payments listed in the Table above. These policies also offset income received from another IP policy (e.g., if the person has insurance with two super funds) and, in some instances, TPD benefits.

Like restrictive TPD definitions, this issue has received much attention and yet problems remain.

ASIC's 2021 review of IP insurance offsets found poor disclosure and no evidence that super funds analysed the impact of IP offsets on member outcomes.[26] ASIC conducted follow-up work with the same insurers and super funds to assess improvements. On all claims paid or processed between April to June 2022, ASIC found:

- an offset was applied to an estimated 1 in 16 (6%) of claims;
- the average offset reduced the payment by 63%; and
- nearly a quarter (23%) of the offsets applied reduced the payment to zero.[27]

The apparent purpose of these offsets is to ensure people's income does not exceed their pre-disability income, in order to encourage a return to work. While this may sound justified, it again calls into question the suitability of these policies being offered through default arrangements and

[26] ASIC (2021) Super trustees offering default income protection insurance urged to check on member outcomes (Media release) .
[27] ASIC Report 760, para 20.

creating overlaps in the system. The IP insurance offset isn't accompanied by a refund of premiums paid – it remains profit for the insurer, which does not have to pay out when someone else is financially supporting the member through their recovery. Effectively, public money and employers subsidise the insurer's payment of a claim, and a member's super balance is still eroded for a policy they cannot fully benefit from.

Default cover is unsuitable

Even for people who are covered by the policy, there can be issues with the amount of coverage – either too little or too much.

Default death and TPD 'sum insured' amounts are not tailored to a person's needs, but are based on a super fund's decision about the likely needs of the 'cohort' that the member is deemed to be in (usually based on age, income, gender and occupation). Some funds also allow members to tailor the amount of insurance to meet their individual needs, although they typically only permit members to do this by going through an underwriting process if the member makes the changes within a narrow period of time (e.g., within several months of joining the fund). In practice, however, most members remain on the fund's default settings and do not change their cover.[28]

Similarly, not all members have children or dependents that they need to financially support in the event of an early death or disability. But they end up on higher default cover due to assumptions about their dependents and liabilities based on their age.

While in theory a person can vary their own level of cover, 71% of all super accounts with insurance are on the default settings arranged by the super fund.[29] As a result, the decisions made by funds 'most powerfully shape outcomes for members'.[30]

Insurance cover is best when it is tailored and suitable for the individual's circumstances and likely risks. Group insurance, while often cheaper than alternative policies provided through the direct or advised channels, will never be able to provide truly suitable cover for every person in the fund.

The problem is in the name: group insurance is insurance for the needs of the group, not the individual.

This permeates superannuation policy settings. Too much of the system is based on a 'one-size-fits-all' approach. The recent regulatory focus on member outcomes assessments and the product design and distribution obligations encourages funds to design products for 'cohorts' and 'target markets' – rather than the person.

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[28] ASIC has estimated that 86% of people are on the default insurance setting: ASIC Report 675.
[29] ASIC Report 760, page 3.
[30] ASIC (2019) Report 646: Insurance in superannuation 2019–20: Industry implementation of the Voluntary Code of Practice, page 2.

Alternative models to support people

There is feasibly a better use of the billions of dollars that Australians spend on group life insurance each year. There are more efficient and equitable ways to support people who are out of work due to illness or injury.

In 2011, a Productivity Commission inquiry proposed a new National Disability Insurance Scheme (now the NDIS) and a National Injury Insurance Scheme (NIIS).[31] The NIIS was intended to be a nationally-consistent no-fault scheme of fully-funded care and support for everyone who experienced a catastrophic injury. While the NDIS first launched in 2013, Australia still does not have a nationally consistent no-fault insurance scheme to reduce costs and provide rehabilitation for people who are injured.

We encourage the Committee to look at the Aotearoa New Zealand Accident Compensation Commission (**ACC**) as an example of a scheme which broadly aligns with the Productivity Commission's 2011 proposal.

The ACC is a unique example of a comprehensive, universal no-fault social insurance to fund a person's compensation and rehabilitation following an accident. The ACC pays for treatment for anyone injured in an accident, regardless of whether the person is working, unemployed or retired, a visitor to New Zealand or a child. This overcomes some of the gaps in our existing private life insurance regime.[32]

The ACC was established after the 1967 Royal Commission of Inquiry into Compensation for Personal Injury in New Zealand.[33]

Sir Owen Woodhouse, the Chair of the Royal Commission and architect of the ACC, had a vision of a comprehensive, universal, no-fault scheme of social insurance for all accidents, which would provide fair and equal access to income support, care and treatment. To achieve this, Woodhouse set out five principles that provided the foundations for the ACC:

- **Community responsibility**. The whole of society benefits from the productive work and voluntary activities of citizens, and those activities have inherent risks of injury and disability. Given those risks, society should accept responsibility for supporting and rehabilitating any person who is injured. This is a principle of socialised risk-sharing.
- **Comprehensive entitlement.** Equal losses should be treated equally by society, regardless of the cause or place of a person's injuries. This principle aimed to address the fragmentation and inconsistency in the legal rights and outcomes of injured people, and to remove discriminatory outcomes between people in the same situation.
- **Complete rehabilitation**. The scheme should encourage the physical and vocational recovery of all citizens, while also providing real compensation for their losses. As the report

[31] Productivity Commission (2011) Disability care and support, Inquiry report.
[32] ACC, Injuries we cover.
[33] Royal Commission of Inquiry into Compensation for Personal Injury in New Zealand, (Report, December 1967) (**NZ Royal Commission**), page 11.

stated, 'the consideration of overriding importance must be to encourage every injured worker to recover the maximum degree of bodily health and vocational utility in a minimum of time'.[34]

- **Real compensation**. A person's physical and economic losses, including permanent impairments, should be compensated. This means income-related compensation for people unable to work temporarily or permanently, rather than means-tested or needs-based social security benefits.
- **Administrative efficiency**. This principle holds that the collection of funds and distribution of benefits through the scheme 'should be handled speedily, consistently, economically, and without contention'.[35] Woodhouse intentionally moved away from adversarial legal processes in the assessment of compensation.

The proposition underlying the creation of the ACC was affordable, universal, no-fault personal injury compensation and rehabilitation in return for the relinquishment of the right to sue for personal injury damages. Despite initial resistance from lawyers and insurers who had a stake in maintaining the status quo, the ACC was established and is now a core part of New Zealanders' lives.

The ACC offers a useful comparison of what might be achieved in Australia. It would need to be adapted for the Australian context, and expanded to be genuinely universal. But the Woodhouse principles could underpin a better system.

Redesigning Australia's system as a national, comprehensive no-fault compensation scheme could fix our current problems with coverage gaps, product complexity, low consumer engagement, and the inequitable erosion of retirement income for those already retiring on less. It would also reduce duplication and gaps between insurance in super and other schemes, and allow the superannuation system to focus squarely on building and delivering retirement income.

An in-depth review of insurance in super is needed

There is little evidence that Australia's system of private life insurance, paid for by default out of people's retirement savings, is the most equitable and efficient way to support people and their families when they can no longer work due to illness, injury, disability or death.

Former Senator Nick Sherry, Australia's first superannuation minister, now chair of TWU Super, has explained that insurance came into super 'by accident' rather than being the result of consultation: 'There was no discussion or debate about including insurance in the system from the point of view of retirement income. It was the decision of individual funds.'[36]

[34] NZ Royal Commission, page 40.
[35] NZ Royal Commission, page 41.
[36] Ben Hurley (2022) 'Insurance in superannuation needs to evolve or die, say industry veterans', Investment Magazine.

There are still significant live questions about whether the current default model is the most equitable and efficient, or whether alternative models – such as a universal social safety net – would better achieve those aims.

These broader issues should be the subject of a Productivity Commission review of insurance in super which covers:

1. Whether providing insurance in super is the most appropriate and equitable method for meeting community expectations for the support of people (and their families) when they can no longer work due to death, disability, injury or illness.
2. Detailed analysis of the aggregate net public benefits and costs associated with insurance in super, such as costs saved through the welfare system..
3. Detailed analysis of the gaps and overlaps between insurance in super and other schemes and payments in Australia to support people in the event of death, disability, injury or illness, including:
    a. workers' compensation,
    b. transport accident compensation schemes,
    c. sick leave,
    d. the DSP, Age Pension, JobSeeker and other social security payments,
    e. the NDIS, and
    f. other insurance offerings, including life insurance outside of super.
4. Alternative models, including no-fault compensation schemes such as the New Zealand Accident Compensation Commission.
5. If insurance in super is to be retained, changes to policy settings that are required to enhance the value of insurance in super, including:
    a. standardised terms and greater consistency in the types and levels of insurance provided by default, and
    b. any additional protections for members, such as extending the unfair contract terms prohibition.

This review can advise the Government on the best solution to protect all Australians who become ill or injured and can no longer work. It can examine the current issues, and alternative models, to create a more comprehensive safety net that reflects the way people live, work and support their loved ones today and in the future.

Recommendation

Recommendation 3: The Government should commission a Productivity Commission review into the default insurance in super scheme. This review should determine whether default insurance in super is the most equitable and efficient method for meeting community expectations for the support of people (and their families) when they can no longer work due to death, disability, injury or illness. It should also consider alternative options to support people who become unable to work when they are injured or become ill.

Policy options to support greater choice and quality of life in the retirement income system, including but not limited to the aged pension, financial advice, home ownership and downsizing, and insurance

Optimisation of Australians' retirement income, and its impact on quality of life has, until recently, garnered relatively little attention from Government and industry.

The focus of scrutiny and reforms to date has been in the super accumulation phase, with regulation to protect people from poor performance, high fees, unsuitable life insurance policies and duplicate accounts. As we have discussed, there are still major opportunities to improve these elements of the super system, which could have significant positive effects on people's lives in retirement.

The Retirement Income Covenant has also sought to address the opportunities for people in retirement, however industry progress has been slow (see below).

The ways in which Government could meaningfully improve retirees' income and quality of life are:

- simplifying tax and social security laws,
- establishing an independent guidance service and tools for retirees,
- building stronger consumer protections for longevity products, and
- building nudges and enhancements into existing Government processes, such as the Age Pension application.

Complex tax rules are contributing to Australians need for assistance in retirement

Our recent Treasury submission sets out the impact of tax rules on people's experience of and outcomes in retirement.

Retirees and pre-retirees face barriers to understanding their finances,[37] and working out how super is taxed in the accumulation and retirement phases.[38]

[37] Survey of 1,451 Australians aged 45-80 in 2021; see Super Consumers Australia (2022) Consultative Report: Retirement Spending Levels and Savings Targets.
[38] Survey of 1,100 Australians aged 65 and over in 2023; see Super Consumers Australia (2023) Insights from our survey about how older Australians are using their super.

The tax and transfer system is a major source of complexity for people planning for retirement, with a panoply of rules and requirements relating to contribution types and limits, how savings can be drawn down, and how much Age Pension someone is eligible for at any point in time.

Australians are often left to face this complexity on their own, with existing government information and guidance having major deficiencies and the absence of useful independent guidance to help them navigate it.

The complexity also fuels demand for professional financial and tax planning services, while at the same time making those services more costly and difficult to provide, which puts them out of reach of most lower and middle income Australians. As a consequence, many people may end up making suboptimal decisions because they misunderstand or are unaware of the rules.

The Federal Government is responsible for creating these complex tax rules and so has an obligation to resolve them. Failing that, we see a strong role in the government helping people navigate the complexity they have created. This can best be achieved by bringing together many existing sources of guidance into a single, independent one-stop-shop.

An independent service is also well placed to offer free, trustworthy product comparisons to help people to find funds and products that better meet their needs. For example, the UK consumer group Which? has estimated that shopping around for an annuity can increase someone's retirement income by up to 20%.[39] This in turn would help to drive healthy competition between super funds, while reducing the costs of each super fund having to invest to 'reinvent the wheel' in developing its own resources and guidance.

As we recommended in our Treasury submission, the Government should meet this need – as well as the broader need to optimise people's retirement income – by establishing an independent, one-stop-shop that people can turn to for free guidance when they need it.[40] This would fill the gaps that currently exist between:

- Existing government information sources – which are widely trusted but scattered, hard to navigate and generally underused.[41]
- Advice offered by super funds – which, in an ASIC review of personal advice, did not comply with key legal requirements more than 50% of the time.[42]
- Independent, professional financial advice – which is unaffordable and out of reach for most lower and middle income Australians.

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[39] Which? (2023) Buying an annuity.
[40] Super Consumers Australia, Treasury Submission, pages 17-22.
[41] For example, our qualitative research on the ATO YourSuper comparison tool found that people generally trusted it, but few were aware it existed: see Super Consumers Australia (2023) Using the ATO's YourSuper Comparison Tool: Findings from Super Consumers' qualitative research project. A survey by the Conexus Institute found that the ATO and Moneysmart were the two most trusted sources of financial assistance. However, only 29% of people were aware of Moneysmart and only 10% had ever used it: see Conexus Institute (2022) Transforming Financial 'Advice' Report, pages 13 and 16.
[42] ASIC (2019) Report 638: Financial advice by superannuation funds.

The one-stop-shop should be modelled on the successful Money and Pensions Service in the United Kingdom, which offers free telephone and in-person advice to help people with drawing down their retirement savings. This is backed up by digital comparison tools, calculators and guidance.

Recommendations

Recommendation 4: Explore ways to simplify the tax and social security rules relating to retirement to make the system simpler for all Australians to navigate.

Recommendation 5: Task an independent agency to connect Australia's government-provided retirement planning assistance services and tools through a single portal to provide quality, impartial guidance, delivered via digital channels with in-person or phone-based support.

Longevity products: Complex design and inadequate consumer protections

As our Treasury submission details, current regulation does not adequately protect consumers who are considering buying into longevity products, such as annuities.

Longevity products are typically life insurance products which require a person to pay a lump sum upfront for a guaranteed income for the rest of their life. They are complex products, with complicated and varied terms, and the nature of the product is not always clear to consumers. They can be high-cost and high-risk, with potentially significant impacts on people's experiences, choices and outcomes in retirement.

The examples below show the potential harms that longevity products can cause for retired people (these are illustrative examples, not real-life stories).

Examples: Harms caused by longevity products

Po Yee retired and invested her entire super balance in a longevity product that delivers an income stream. She recently acquired a disability, and now needs to make improvements to her house to make it accessible. But she is unable to access her capital to pay for these works.

Ali purchased an annuity without inflation protection when he retired. Because of inflation, the monthly payments are now too low to meet his spending needs. He is 'trapped' in the annuity product. He cannot withdraw his balance and switch to a product with inflation protection, or to an account-based pension with investment returns to help offset the impact of inflation.

Sam and Vittoria, a married couple, invested in a longevity product without a reversionary feature using Sam's super balance when he retired. Sam recently passed away. His income stream from the longevity product has now ceased. Vittoria now has no income or capital from Sam's super.

Joe retired and bought an annuity with his super balance. He had a diagnosed genetic condition which meant he was likely to live a much shorter life than the national average. Two years later he passed away, meaning the product was significantly poor value for the investment he made.

These examples show the extent of the potential harm to retired people while Australia does not have appropriate protections for consumers of longevity products.

While relatively few Australians have taken up these products to date, the overseas experience and hypothetical examples above clearly show that we need stronger protections. This is particularly true where people are potentially paying significant amounts of their retirement savings towards these financial products with unique and significant risks. Smart, tailored regulation of these products now will deliver better outcomes, choices and experiences for more Australians as they retire over future decades.

The Government needs to build robust consumer protections that will give people confidence that longevity products offer good value and will meet their needs. This in turn will drive healthy competition in the market and may increase take-up of longevity products by people who stand to genuinely benefit from longevity protection. Stronger consumer protections would also help to end the 'chicken and egg' problem of funds not offering longevity products because their members are unlikely to take them up, while members do not invest in these products because their fund does not offer them.

Our Treasury submission recommends distinguishing between 'no frills' longevity products sold directly to consumers, and the wider set of products that are more appropriately assessed after receiving financial advice. The regulations we propose would be proportionate to the risks these products pose.

1. 'No frills' longevity products sold directly to consumers[43]

The following protections should apply to longevity products which are sold directly to consumers:

- **Product accreditation:** APRA should accredit longevity products, which can have a set of 'no frills' features and be sold directly to consumers by super funds, insurers and others.
- **Easy, independent product comparisons:** The independent guidance service should offer an easy-to-use comparison tool for account-based pensions and accredited longevity products.

[43] See further Super Consumers, Treasury Submission, p 35.

- **Cap on investment:** To reduce the risks associated with someone investing all of their retirement savings into a longevity product, there should be a cap on how much a person can pay into an accredited longevity product (e.g. 30% of their super balance).
- **Referral to independent guidance**: All super funds should refer people to the independent guidance service when providing information about retirement planning or retirement income products.

2. Additional protections for all longevity products[44]

Longevity products would not be required to be accredited, and products outside the accreditation framework could be made available to people who have received appropriate personal advice. The across-the-board consumer protections for longevity products should include:

- **Longevity testing and risk-reflective pricing:** To protect people from inappropriate, low-value offerings, providers of all longevity products should:
    - Ask people questions about their medical or lifestyle conditions that significantly affect their life expectancy (for accredited products, these questions could be embedded in the independent comparison tool).
    - Offer a higher income rate to people with a lower life expectancy. For example, for 'enhanced annuities' in the UK, quoted income can be up to 30% higher for people with a medical condition.[45]
- **Restrict distribution of non-accredited products to people receiving independent personal advice:** To avoid people buying inappropriate products, non-accredited longevity products should only be sold to people who have received independent personal advice - i.e., not from the super fund or life insurer issuing the product.
- **Ban on commissions:** To avoid people buying inappropriate products that are sold due to conflicted advice or marketing, there should be a ban on product issuers paying commissions to advisers and super funds.
- **Ban on recommending longevity products through intra-fund advice:** Super funds should not be able to recommend longevity products through 'free' advice, where the advice costs are collectively charged to all members. Appropriate advice about longevity products is costly to provide, and collectively charging these costs risks creating significant inequities across members. Super funds are also conflicted - i.e., they have an incentive to recommend their own products even if these are not in a member's best interests.
- **Annual performance testing:** All retirement products, including longevity products, should be subject to an annual performance test. This is particularly important for longevity products, given they are higher-risk than some other retirement products.[46]

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[44] Super Consumers, Treasury submission, pages 36-37
[45] Which? (2023), Enhanced annuities.
[46] See Super Consumers, Treasury submission, pages 32-33 and Super Consumers (2024) Why we need to test retirement products.

- **Strong regulator oversight:** APRA and ASIC should provide strong oversight, and enforce the members' best financial interests duty and the design and distribution obligations in relation to longevity products.

Extending the annual performance test to retirement products, including longevity products, is an urgent priority, which should be addressed in the next two years. Super balances are typically largest at the point of retirement, and super fund members pay more fees during retirement than they do in the entire accumulation phase.[47] Performance testing retirement products would ensure that Australians have the similar information and protections in their retirement as in their working lives.

Recommendations

Recommendation 6: Introduce a robust product accreditation regime for relatively simple 'no frills' longevity products. This should be supported by an independent product comparison tool to help people compare accredited products, and a cap on the proportion of a super balance that can be invested in an accredited product in the absence of independent financial advice.

Recommendation 7: Increase consumer protections for all longevity products (including non-accredited products) by introducing requirements for longevity testing and risk-reflective pricing, an annual performance test, a ban on commissions and intra-fund advice for these products, and a requirement that non-accredited products can only be distributed to people who have received independent financial advice. These protections should be backed by strong regulator oversight.

Recommendation 8: Establish a process for designing an appropriately adapted performance test for retirement products that are not account-based pensions, to ensure there is a minimum standard that all products must meet. This should be done within 2 years.

Government can build in process enhancements

There are also opportunities for the Government to have positive impacts on retirees' income via the retirement system more broadly. As our Treasury submission outlines, the key actions Government can take are:

- **Proactively prepare people for retirement:** The Australian Taxation Office (ATO), as well as super funds, should be required to prompt people to consider their options for retirement income as they approach retirement, and refer people to the independent guidance service.[48]
- **Streamline the Age Pension application process:** There should be an online application for the Age Pension through MyGov, with pre-filled information on assets and income

[47] Rainmaker Information (2022), Retirees pay more in superannuation fees.
[48] Super Consumers, Treasury submission, pages 22-24.

provided by the ATO. People should also be referred to guidance and calculators provided by the independent guidance service.[49]

These two initiatives could help to set up retirees for 'success' from the beginning, and significantly improve people's choices and experience in retirement.

The time when people are approaching and starting their retirement is the critical point where Government nudges and enhancements within the existing retirement system could have a major positive impact on retirees' lives. Placing people in a suitable financial position in early retirement can have a positive impact on their health and interactions with the social security, health and aged care systems for decades to come.

Recommendations

Recommendation 9: Require the ATO and super funds to proactively prompt people to consider their options for retirement income as they approach retirement. This should include referring members to the independent guidance service to help them to work out when to move their super into the retirement phase; work out how to structure their income streams; and compare retirement income products across super funds. These prompts should be subject to ongoing consumer testing and improvement to ensure they are effective and not resulting in unintended harmful outcomes.

Recommendation 10: Introduce an online application process for the Age Pension through MyGov, with pre-filled information on assets and income provided by the Australian Taxation Office. This process should also direct people to guidance and calculators provided by the independent service to help them work out how to combine the Age Pension with other sources of income, such as withdrawals from super or the Home Equity Access Scheme.

The recommendations to the tax, advice and insurance in super systems outlined above could significantly improve choice and quality of life in the retirement income system.

[49] Super Consumers, Treasury submission, page 27.

Progress on implementing the Retirement Income Covenant

APRA's and ASIC's joint review on industry implementation of the Retirement Income Covenant found an overall 'lack of progress and insufficient urgency' in how funds have been implementing the retirement income covenant.[50] They also found some funds were not bothering to track how members were using the information and tools the fund provided, or lacked concrete plans to address gaps in their assistance offerings.

The covenant itself has a number of issues, including:

- funds have significant discretion in how they assess member needs and in what assistance they provide, and some funds are taking a low-effort, tick-the-box approach,
- it does not compel funds to offer different types of retirement products, or require products to perform well, and
- it does not give regulators clear powers to act when funds are not delivering good outcomes.

Relying on super funds to give advice and guidance will not deliver better retirement outcomes. More than 30 years after compulsory super was introduced, super funds are still failing to deliver quality assistance and guidance to most Australians. The fact that a legislative covenant was required to compel funds to help people maximise their retirement incomes is evidence of this fact.

[50] APRA and ASIC (2023) Implementation of the retirement income covenant: Findings from the APRA and ASIC thematic review, Information Report, page 5.