Your Future, Your Super

How will this legislation impact you and your employees?

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Employers have had to deal with a lot given the enormous change and, at times, turmoil in Australia's $3 trillion, 16-million-member superannuation industry. Since the introduction of the Superannuation Guarantee in the early 1990s, employees' choice of fund, the advent of Self-Managed Super Funds and erosion of account balance provisions have all impacted your ability to use superannuation as a universal tool for supporting your employees' retirement *and* health during their working life.

The most recent raft of reforms is "Your Future, Your Super" (YFYS). This is a bill designed, in theory, to deliver better outcomes for superannuation members, and came into effect from 1 July 2021. YFYS affects superannuation funds (not employer-owned insurance policies), however you should be aware there are several key implications that flow on to group insurance provided under default superannuation arrangements and may impact your employees.

1. *The proposal for a "performance test" based on the investment performance of the super fund relative to peer group funds.*
   If the superannuation regulator, APRA, determines a fund to be underperforming (i.e. the fund fails the performance test), the fund must inform members in the first instance. If the fund fails the performance test for two consecutive years, then the fund cannot accept new members.
2. *The concept of "Stapling" is proposed for employees who start work on or after 1 November 2021.*
   If the employee has not chosen a super fund, then you must:
   - Ask the ATO if the employee has an existing fund account already (the stapled fund), and
   - Default the employee into the stapled fund rather than to a:
     - default fund chosen by your company, or
     - a fund previously specified under a workplace determination or enterprise agreement.

In either of these instances, this means that despite having carefully selected a default super fund and tailoring the insurance arrangements to meet the needs of your employees, you suddenly cannot default new employees into that fund.

These measures further erode your ability to arrange meaningful insurance coverage tailored to your employees and financed by superannuation guarantee contributions. YFYS also comes on top of the 2019 Protecting Your Super (PYS) and 2020 Putting Members' Interests First (PMIF) legislation which required super funds to provide zero default insurance to potentially inactive accounts, as well as members who are either under age 25 or had an account balance of less than $6,000, unless the member actively opts in to cover.

How will these changes impact you, your employees and group insurance inside superannuation?

- As an employer, you will be unable to ensure your entire workforce is covered, as fewer new starters will be directed to your default super arrangement. And without appropriate coverage and support from an insurer, you will have less control over return to work initiatives for injured or ill employees.
- Those employees who start their career in a particular industry (e.g. retail or hospitality), but later move to another (e.g. building or mining) where tailored insurance arrangements are key, may not have access to the appropriate cover.
- Funds will endure the pain of the compounding effects of PYS, PMIF and now Stapling – all potentially reducing the number of insured members in the fund and driving up insurance premiums and fees due to a smaller and more fragmented pool of risks. There are also potentially increased claims costs from the ability of members to "select" against the insurer by choosing when to opt in. Automatic Acceptance Limits may also reduce, with likely greater use of "limited cover" and pre-existing condition clauses which do not provide full coverage.
- Levels of default insurance cover may also reduce inside super as funds manage the strong regulator pressure to keep member insurance costs under 1% of salary.

This scenario presents an opportunity, however, to recognise that group insurance is still one of the few remaining value add employee benefits. Financing insurance premiums in addition to superannuation guarantee contributions will enable you to:

- Insure 100% of your employees through either an insurance-only superannuation solution (to maintain the tax advantages of Death & TPD inside superannuation) or through insurance outside of super, which is common for Group Income Protection insurance
- Perhaps obtain better insurance pricing than large super funds can provide, given you can deliver a controlled group of employees whose occupation and salary profile are known, with reduced scope for members to opt in and out and select against the insurer
- Potentially obtain better Automatic Acceptance cover for your employees, with less or no limited cover or pre-existing condition restrictions
- Provide more meaningful cover levels tailored to your salary and occupational profile, and
- Make better use of rehabilitation and return to work services offered by insurers than super funds can.

How can we help?

It is clear that insurance inside superannuation may no longer be relied on to universally support you and your employees through illness or injury.

Investing in the provision of well-designed employee benefits can help reduce significant costs associated with sick or injured staff and absenteeism and can help limit sickness and illness claims from falling into workers' compensation. A holistic approach to employee wellness can also give your business a competitive advantage.

The **Willis Towers Watson Health and Benefits team** are experts in this field and can help you devise an appropriate people risk management strategy to:

- Transfer risks off your balance sheet and optimise your benefits spend
- Attract, retain and motivate your workforce - enhancing your status as an employer of choice
- Reduce your administration burden and manage claims
- Return your employees to health and, when possible, back to work, and
- Enhance your employees' awareness and understanding of their benefits through education that is tailored to your organisation.

This is an important piece of legislation that needs your active consideration. Reach out to our team to find out more about how these changes will impact your business and ask for a free review of your current employee risk management practices.

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