Your Knowledge Newsletter

AP Partners

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Super, insurance and exit fees: The 1 July changes

From 1 July 2019, new laws prevent superannuation providers from eroding member balances with unwanted or unnecessary insurance and exit fees. Plus, inactive accounts with low balances will be moved to the ATO to try and unite the unclaimed super with its owner.

These changes do not apply to self-managed superannuation funds or small APRA funds.

Insurance inside your fund

Up until 30 June 2019, superannuation providers were required to provide members with appropriate life and total and permanent disability (TPD) insurance inside superannuation on an 'opt out' basis. That is, the insurance was automatically put into place when you became a member of the fund.

The problem is that for a lot of people, such as young people with no dependants and those with insurance cover elsewhere, these default insurance premiums are a key factor in eroding their superannuation balances. And in many cases, people simply did not realise they had insurance inside their funds.

New laws that came into effect on 1 July 2019 prevent superannuation providers from maintaining 'default insurance' for any member with an account that has been inactive for a continuous period of 16 months unless that person has elected to maintain the insurance. An inactive account is one where no contributions or rollovers have been received in the previous 16 month period.

For everyone else, insurance will remain a default on new and existing superannuation funds unless you specifically opt out.

What to do if you are affected

If you are affected, you need to make a decision about whether the insurance held in your fund is valuable to you. Often insurance cover through superannuation is cheaper than what you might be able to access elsewhere. Also, the premiums come out of your fund so they don't impact on your cashflow. However, if the insurance is unnecessary or duplicated, the premiums will simply erode your account.

Employer default super funds generally provide death and TPD cover. This basic cover may be available without health checks. You can usually increase, decrease, or cancel your default insurance cover. Your super fund's website will have a product disclosure statement (PDS) which explains the insurer they use and details of the cover available.

If you are affected, the insurance you hold inside your super fund may be cancelled unless you take action. If you choose to, you can keep your insurance by contacting your insurer (login to your insurer's website and follow the links or call them to find out how to make the election) or by making a contribution. The election cannot be made over the phone to your fund.

Your superannuation provider is obliged to let you know if your insurance is about to be cancelled.

Low balance super accounts moved to ATO

Australians have over $17.5 billion in unclaimed superannuation. From 1 July 2019, superannuation providers will be required to report and pay inactive low-balance accounts to the ATO. Twice a year, super funds will report and pay:

- unclaimed super of members aged 65 years or older, non-member spouses and deceased members.
- unclaimed super of former temporary residents.
- small lost member accounts and insoluble lost member accounts.
- inactive low-balance accounts.

A low balance account is one with less than $6,000. These new rules mean that if your superannuation account has less than $6,000, and the account has been inactive for 16 months, the balance will be transferred to the ATO who will attempt to consolidate your superannuation.

Reducing fees and charges

From 1 July 2019, exit fees including fees on partial withdrawals have been abolished for all superannuation fund members regardless of their superannuation account balance.

Where a superannuation fund member's final account balance is less than $6,000 in a year, new caps apply to the fees that providers can charge. From 1 July 2019, administration and investment fees and other prescribed costs on these accounts will be capped at 3%. If the fund has charged more than 3%, the excess needs to be refunded within 3 months.

Agostinelli Perlen Pty Ltd
Chartered Accountants
Level 1, 200 Lygon Street Carlton Victoria 3053
+61 3 9654 2022
info@agpe.com.au
www.agpe.com.au