

09/09/2016

**Superannuation
Productivity Commission
Locked Bag 2 Collins Street East
Melbourne Vic 8003**

Dear Commissioners

Re: AustralianSuper submission to the Productivity Commission enquiry into the competitiveness and efficiency of the default superannuation system

AustralianSuper is pleased to provide a submission in relation to the above inquiry.

AustralianSuper is one of Australia's largest superannuation funds and is run only to benefit its members. The best interests of our 2.1 million members drive our decisions. We do not pay dividends to shareholders. With over \$100 billion in members' assets, our sole purpose is to assist our members achieve their best possible retirement outcomes.

More than 220,000 employers of which approximately 80 percent are small businesses, make contributions on behalf of their employees to AustralianSuper.

AustralianSuper generally supports the submissions of Industry Super Australia and the Australian Institute of Superannuation Trustees. This submission adds comments in addition to the contentions made in those submissions.

We support the Commission's proposed approach, however we believe that in the absence of relevant data the Commission will find many of its benchmarking proposals difficult or of limited value.

We generally support the proposed system-level objectives and argue that the key and clear overriding objective should be that the superannuation system maximises net returns on member contributions and balances over the long term, in the context of workers defaulting into funds which best serve the system of universal coverage.

Key points:

1. System level objectives: The objectives of the superannuation system need to have the best interests of superannuation fund members as its primary focus.
2. Efficiency criteria – the key efficiency criterion should be that members are allocated to high performing funds. If this criterion is satisfied then the goal of maximizing net returns, in the best interests of fund members, will be achieved.
3. Competition criteria – we question the reliance on competition indicators that focus on engaged members only, in a system designed to ensure quality outcomes (MySuper) for members who do not make a decision.

4. Employer Tenders - There is limited employer propensity and ability to actively engage in default fund selection processes.
5. Insurance arrangements in superannuation remain important and relevant to members. AustralianSuper utilizes its size and scale for the benefit of its members in the provision of insurance arrangements.

1. System level objectives

The Commission has recognized that superannuation is a component of the retirement incomes system.

The superannuation system objectives must include the accumulation of retirement savings in order for fund members to have best retirement outcomes. Such a system needs to have the best interests of superannuation fund members as its primary focus.

AustralianSuper is of the view that the maximization of returns to provide best retirement outcomes for members is consistent with and part of this system level objective.

2. Key efficiency criteria

The Productivity Commission is focusing on efficiency and competition in its assessment of the superannuation system.

AustralianSuper's view is that the key efficiency criterion should be that members are allocated to high performing funds. If this criterion is satisfied then maximizing net returns, in the best interests of fund members, as a system objective, will be achieved.

The key function of any process relating to default fund selection is to ensure that members are placed in those funds, which on average, outperform over the long term and therefore provide members with better retirement incomes, in a system of optimum universal coverage. We will address this issue of universality of superannuation in a later submission to the Productivity Commission.

We agree with the Commission that there is a need to examine evidence of principal-agent issues in default fund selection, including any possible direct or indirect incentives provided to employers.

3. Key competition criteria

We agree with the Commission that competition is not an end in itself. Competition issues while important should be subservient to the aim of more efficient outcomes for members.

It is appropriate that the superannuation system meets member preferences and needs. The superannuation system however is also a compulsory system designed to enable disengaged members to save.

We question the reliance on competition indicators that focus on engaged members only, in a system designed to ensure quality outcomes (MySuper) for members who do not make a decision.

We therefore suggest limiting reliance on member surveys that will have a bias towards a segment of a fund membership that is more engaged.¹ For the same reason the Commission should be cautious of using switching rates and insurance take up rates as indicators of member demand. Other factors such as life events and global economic factors may also cloud any assessment of competition.

We agree with the Commission's conclusion (page 105) that when aligning competition with demand for superannuation services there are significant difficulties unbundling indicators of demand for superannuation services from other drivers such as economic growth. Taxation arrangements also affect demand as does events such as job change and economic shocks.

4. Employers not seeking to tender

The Commission should include an estimate of the search costs for employers to select default funds for their employees. The limited number of employer tenders AustralianSuper is involved in is reflective of the lack of willingness of employers to bear search costs and risks,² and suggests that this may be a viable option for larger employers only, and not the increasing number of small businesses in Australia.

There is limited pressure coming from employers that would drive any competitive tensions on anything but the periphery of the market. This is reflected in the findings of the most extensive surveys on employer attitudes to superannuation undertaken by Colmar Brunton Social Research in 2010 and the public statements and submissions of employer representatives, including the AI Group and small business representatives.³

We suggest that the Commission should consider revising the work undertaken by Colmar Brunton by undertaking further qualitative and quantitative research on this important component of competitive pressure relating to superannuation selection.

It would be instructive if the Commission included in its studies the direct and indirect benefits available to employers who integrate their banking and superannuation arrangements and if these benefits are actually passed on to employees.

¹ We note the Commission's comments on page 79 of the draft report regarding the differing views expressed regarding the whole of fund member benefits derived from a segmented engaged membership.

² Each year approximately 0.05% of AustralianSuper's 220,000 employers are involved in tender processes for the provision of superannuation services, almost all of which are large to very large employers. 80 percent of employers AustralianSuper services are small businesses.

³ Colmar Brunton Social Research: *Investigating Superannuation: Quantitative Investigation with Superannuation Consumers. Final Quantitative Report*. Prepared for the Australian Taxation Office; Feb 2010 and Colmar Brunton Social Research: *Understanding Superannuation, Preliminary Report: Qualitative Investigation with Employers, Consumers & Industry*. Prepared for Australian Taxation Office. March 2010

5. Insurance arrangements do impact member outcomes.

AustralianSuper supports the proposed assessment criteria to determine if the superannuation system is meeting members' needs in terms of insurance arrangements. The question, 'Do funds offer insurance products that meet members' needs and are the costs of insurance being minimised given the type and level of cover?', is appropriate.

The proposed criteria is compatible with the guidance provided by AustralianSuper's trustees via AustralianSuper's Insurance Management Framework (IMF) adopted by our Board. AustralianSuper's IMF is reviewed on an annual basis to ensure it remains appropriate, effective and adequate to the Fund's needs and the needs of members, and; relevant to changing market conditions; legislation; strategic direction and the Board's requirements.⁴

AustralianSuper has identified its core insurance strategy and objectives are to leverage the fund's size and scale to deliver improved benefits; pricing and service.

We support an examination of the relative costs and benefits of insurance inside and outside of superannuation.

Conclusion

An efficient and competitive superannuation system allocates members to those funds that provide optimal long term net returns.

The focus of the Commission's inquiries should be directed to matters that inhibit the appropriate allocation of members to higher performing funds or actions that unnecessarily erode members' retirement incomes.

We would like to engage with the Commission on some of these issues as the inquiry progresses.

If you have any further questions of us or would like further information please do not hesitate to contact me in the first instance.

Yours sincerely

Louise du Pre-Alba
Head of Policy

⁴ AustralianSuper Insurance Management Framework 15/06/2016 Page 43