

9 September 2016



Ms Karen Chester - Deputy Chair  
Superannuation  
Productivity Commission  
Locked Bag 2, Collins St East  
MELBOURNE Vic 8003

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Dear Karen

## **SUBJECT: Review of the efficiency and competitiveness of the superannuation system**

CPA Australia represents the diverse interests of more than 155,000 members in 118 countries. Our vision is to make CPA Australia the global accountancy designation for strategic business leaders. We make this submission on behalf of our members and the broader public interest.

The superannuation system has grown considerably over the last three decades to a \$2 trillion dollar plus industry today.

CPA Australia welcomes the Productivity Commission's review into the efficiency and competitiveness of the superannuation system. Ensuring public confidence in the superannuation system is vital therefore it is timely that a review which can consider issues associated with investor confidence is being undertaken.

The principles associated with investor confidence are as applicable to the superannuation system as they are to the broader financial advice sector. The issues associated with consumers suffering as a result of poor financial advice have been well documented and there have been too many media reports about the failings of large financial planning institutions.

Concerned by these developments, last year the CPA Australia Board took the unanimous decision to offer a solution and, consistent with our commitment to the public interest, established CPA Australia Advice Pty Ltd, a wholly owned subsidiary of CPA Australia which became operational on 1 July this year.

CPA Australia Advice aims to set a new benchmark for professional and ethical conduct in making independent financial advice available to all Australian consumers, putting an end to conflicts of interest in financial advice, and focusing on what is right for the person seeking the advice, not what is financially beneficial for the adviser.

CPA Australia is of the view that trailing commissions, hidden incentives and asset based fees have negatively impacted the efficiency of the superannuation system and eroded people's retirement savings and real value. CPA Australia Advice's offering is based on a model of no commissions, no hidden incentives, and no asset based fees.

Public trust and confidence should never be taken for granted. Considering the size and importance of the superannuation system we believe a comprehensive review is warranted and we have provided specific comment in response to the Productivity Commission's draft report below.

### **Assessment criteria and indicators**

Due to the complexity of the superannuation system we recognise the difficulty in developing criteria and indicators to effectively assess the superannuation system. Further the usefulness of the criteria and indicators will ultimately be determined by what relevant data is uncovered and analysed as part of this review.

Overall, we believe the criteria and indicators the Productivity Commission have identified are most appropriate. However, we believe the review outcomes will also benefit from including the following additional proposed criteria and indicators:

**Objective: competition driving efficient outcomes**

Assessment criteria	Additional Indicators or Comments
Is there sufficient member engagement to exert competitive pressure?	How does one determine the number of members who have actively chosen to be in a default fund? Are they considered engaged?
Do active members and member intermediaries have sufficient countervailing power?	What are the barriers to efficient and timely benefit rollovers from APRA-regulated funds to SMSFs?
Is the market contestable?	What are the barriers to efficient and timely benefit rollovers from APRA-regulated funds to SMSFs?

**Objective: maximising net returns**

Assessment criteria	Additional Indicators or Comments
Are costs incurred by funds and fees charged to members being minimised, taking account of service features provided to members?	An extension of this criterion or possibly a separate criterion is what is the cost of non-core services provided, such as banking, insurance and health insurance and what is the impact of these costs on members' benefits?
	What is the overall leakage of fees to the various service providers along the supply chain to a superannuation fund, such as administrators, custodians, insurers and investment managers? What is the long-term impact on net returns?
	What are the advertising and promotion costs of funds?
	What is the impact of these costs on the objective of increasing FUM and on net returns?
Is the system effectively managing tax for members, including in transition?	In addition to the use of strategies for members in transition, consideration should also be given to the use of strategies for members in accumulation and pension phases. This is a key differentiator between SMSFs and APRA regulated funds and their incidence could be considered qualitatively.

**Objective: the superannuation system meets member preferences and needs**

Assessment criteria	Additional Indicators or Comments
Minimising unpaid contributions and lost accounts?	Number and value of multiple accounts?
	What is the allocative efficiency of the payment/collection of Superannuation Guarantee contributions, such as the requirement to pay contributions quarterly and the process(es) for addressing non-payment of contributions?
<Additional criteria/comment provided>	What is the impact of the choice of fund process and the provision of the choice of fund form on employers and employees
The system providing high quality information and financial advice to members to help them make decisions?	What is the members' level of financial literacy?

**Objective: the superannuation system complements a stable financial system**

Assessment criteria	Additional Indicators or Comments
Are there material systemic risks in the superannuation system?	<p>The consideration of the levels of leverage should not be restricted to SMSFs. APRA funds also leverage their investments and higher levels would present similar systemic risks.</p> <p>Levels of liquidity within APRA funds should also be given consideration. For example, there were a number of funds that were unable to pay benefits during the Global Financial Crisis due to a lack of liquidity.</p>
<Additional criteria/comment provided>	<p>What is the cost of regulatory change, for example Stronger Super, Superstream and MySuper - on funds?</p> <p>How is this cost passed onto members? What is the impact on net returns?</p>

**Objective: provides insurance that meets members' needs**

Assessment criteria	Additional Indicators or Comments
Do funds offer insurance products that meet members' needs?	<p>What are the rates of members opting out of default insurance cover?</p> <p>What is the minimum insurance cover provided by default funds in comparison to the legislated minimum requirement?</p> <p>What are the rates of cover lapsing due to low balances or for other reasons?</p> <p>Is there an impact of one size fits all in underwriting? For example, insurers defaulting to smoker premiums unless member advises they are a non-smoker or premiums defaulting to 'blue collar' unless member advises they are 'white collar'.</p> <p>What is the size of insured benefits paid compared to a member's financial needs? HILDA may provide suitable data.</p> <p>What is the members' level of understanding of the insurance cover they have and the conditions to make a claim?</p>
Are the costs of insurance being minimised given the type and level of cover?	<p>How do funds tender for insurance cover?</p> <p>Is there an impact on the adequacy of cover when seeking the lowest premiums?</p>

**The effectiveness of the superannuation system**

The Productivity Commission has been tasked with reviewing the competitiveness and efficiency of the superannuation system. However, a review of the superannuation system is not complete without also considering the effectiveness of the superannuation system in meeting the objectives of superannuation.

We recognise this goes beyond the current terms of reference provided by the Treasurer. However, we believe this is a valuable opportunity for the Productivity Commission to also comment on this. We encourage the Productivity Commission to consider developing criteria to assess the effectiveness of the superannuation system. Areas for consideration would include: the adequacy of superannuation savings, the current and projected impact on Age Pension expenditure, the smoothing of consumption, the facilitation of paying income in retirement and the management of risk in retirement.

If you have any queries, please do not hesitate to contact Michael Davison, Senior Policy Adviser – Superannuation

Yours faithfully

Paul Drum FCPA  
Head of Policy