



Productivity Commission

ASU Submission

How to assess the superannuation system's performance

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Introduction

1. The Australian Services Union (ASU) is one of Australia's largest unions, representing approximately 135,000 members.
2. The ASU was created in 1993. It brought together three large unions – the Federated Clerks Union, the Municipal Officers Association and the Municipal Employees Union, as well as a number of smaller organisations representing social welfare workers, information technology workers and transport employees.
3. Current ASU members work in a wide variety of industries and occupations because the Union's rules traditionally and primarily cover workers in the following industries and occupations:
 - Social and community services
 - Local government
 - State government
 - Transport, including passenger air and rail transport, road, rail and air freight transport
 - Clerical and administrative employees in commerce and industry generally
 - Call centres
 - Electricity generation, transmission and distribution
 - Water industry
 - Higher education (Queensland and South Australia)

The ASU has members in every State and Territory of Australia, as well as in most regional centres.

4. The ASU's members are covered by a large number (approximately 20) of the modern awards because of the diversity of our membership. Following the introduction of compulsory superannuation, the ASU has become a significant stakeholder in the superannuation system as union members' employee representative on industry superfunds relevant to our coverage. Through the established long term relationships with industry superfunds, the ASU holds board positions and advocates for our members' interests in the ongoing success and security of the superannuation system. Relevantly, the ASU is also a party interested in the maintenance of the national safety net of minimum terms and conditions of employment through modern awards.

The ASU response

5. The terms of reference discussed in the Productivity Commission Draft Report (the Report): *How to Assess the Competitiveness and Efficiency of the Superannuation System*¹ published for a proposed stage 3 study, call for comment on the draft criteria for assessing efficiency and competitiveness of the Superannuation system. As has been said in the Report, a competitive and efficient default fund market needs to aim for protecting net returns to fund members². However, the ASU believes that it is just as important that the choice of fund made by the employer or any other party other than the employee remain subject to regulatory review as a matter of the *Fair Work Act 2009* (FW Act).

¹ 2 August 2016

² *Ibid.* p. 58

Criteria should flow from sustainability objectives for Superannuation

6. In contrast to the current government position³, the ASU believes that the objectives of the superannuation system should flow from the following principle objective for the superannuation system:

To fairly provide retirement income for all Australians that, when combined with or in replacement of any public pension would sustain their standard of living

7. The principle objective as envisaged by the ASU, enshrines the role of the superannuation system in improving the retirement incomes of Australians, through a combination of compulsory contribution rates as well as voluntary contributions. The objective discussed in the Report does not embed superannuation within a fair and relevant retirement income system and deals only with the nexus between superannuation and the Age Pension.
8. The ASU continues to voice concerns that the objective of superannuation should be improvements in the operation of the superannuation system so that it continues to alleviate the impact of an ageing population on government revenue; whilst maintaining public expectations of decent living standards in retirement. The Senate of Australia's 44th Parliament of Australia pledged bipartisan support for the findings of their 2015-16 Inquiry into the economic security of women in retirement. Their important assessment of Australia's retirement income system said:

Australia's retirement income system is made up of a number of interrelated components, which cannot be viewed in isolation. This system has been subjected to tinkering, often without due consideration given to how the different components interconnect. For example, the committee considers that any objective for superannuation should acknowledge its interdependency with the other pillars, including the Age Pension.⁴

It is imperative that the cost of the Age Pension continue to be managed as the numbers of people who will fund their own retirement through superannuation grows; the growth in funding the cost of health and aged care from healthy superannuation must be supported; and reasonable levels of voluntary contributions must always be encouraged to ensure that consumption levels can continue to contribute to the economy as the proportion of retired Australians not working increases.

9. The current policy settings have; instead, allowed unintended consequences. Firstly, the role of compulsory and voluntary superannuation contributions in complementing the Age Pension can only operate successfully during income earning years and adequately for a full-time employee whose working years are never interrupted by career breaks.
10. The self-employed, part-time employed, unemployed, those earning less than \$450 per month and those who cannot work due to disability also do not benefit equitably from this current policy setting and will continue to face a disproportionate dependence upon the Age Pension in retirement years. It is the growth in variety of working arrangements that will weaken the sustainability of the current superannuation system and the factors contributing must qualify as relevant to this study.
11. To function effectively within the whole retirement income system, the principle objective of superannuation must; therefore, allow for the creation and implementation of measures that do not detract from the primary objective such as targets or strategies to improve gender equity; low income

³ *Ibid.* p. 57

⁴ The Australian Government, (2016) '*A husband is not a retirement plan*' *Achieving economic security for women in Retirement report*, Canberra, Senate Economics References Committee, p.139

outcomes and the impact on effectiveness of superannuation that the growth in self-employment and part-time work raises; as well as facilitate transparency and other long-term expectations.

12. The ASU believes that for the reasons described that the objective of superannuation to provide decent retirement incomes for all Australians is yet to be achieved. Significant inequities of outcomes that are unsustainable arise from the current system. Alleviating those inequities in the broader policy settings of superannuation is of fundamental importance to an efficient system and the focus of the Productivity Commission's proposed stage 3 study on measuring contestability and choice, fails to address those objectives.
13. A further consequence of the narrow terms of reference provided to the Productivity Commission for developing criteria assessing alternative default fund allocation is that the Commission has been encouraged to elevate the role of competition as the appropriate means for measuring sustainability of net benefits to members. That is, the proposed assessment of competitiveness and choice has been presented as an end in of itself that in theory may never ensure contestability. Nor will contestability necessarily lower fees.
14. The ASU joins other industry experts in rejecting the notion that contestability in the default fund market can drive efficiency. In a study of the best outcomes for fund members and retirees, the ASU does not accept that contestability is the best indicator of outcomes for fund members. Such an ideological approach will destabilise a superannuation system that is performing very well. The real test should be: what is the best net return of benefit to members?

The appropriate role of contestability and choice in an efficient system

15. Default allocation of the Superannuation Guarantee Charge (SGC) is a matter for the employment relationship. The current MySuper system was designed to acknowledge the risks to employees involved in legislating the employer's choice of default superfund and found that efficiency and competitiveness criteria that can be applied to the market for voluntary contributions, must be off-set by a higher standards that ensure consumer protection for compulsory contributions.
16. Any proposed study of default fund allocation should be designed to assist in mitigating the high level of risk for the management of employees' deferred wages by any third party that either manages or selects a default fund product on behalf of members. In the absence of a better legislative framework to facilitate the employee's interests in the employment relationship, the Productivity Commission should conclude that the Fair Work Commission (FWC) is the most credible and transparent agency for conducting regular assessment and accountability for default fund selection for compulsory contributions, through the allocation of MySuper products to the modern awards.
17. Employees should also continue to have recourse to agitate on all governance issues and the appropriate place to equitably agitate matters relevant to the employment relationship is the FWC. Superannuation benefits to members are actually improved by enterprise agreement and superannuation clauses in the modern awards. Higher levels of default insurance cover, higher levels than the prevailing SGC and making these provisions legally enforceable are just some of the advantages of the current system.
18. Therefore, the ASU also continues to argue that the regulatory review process of recommended criteria for MySuper products should continue be undertaken by a properly informed Expert Panel of the FWC. MySuper products would be best served if the Productivity Commission makes recommendations on

whether alternative allocation models can significantly improve net return to members on all the following standard indicators of fund performance:

- i. Best net investment return over a range of investment cycles: short - 2yrs; medium - 5yrs; &, long term - 10 yrs.
- ii. Whether complete transparency of fees has been implemented in accordance with the Australian Securities and Investment Commission's Regulatory Guide 97 *Disclosing fees and costs in PDSs and periodic statements*; and whether the fees are justifiable.
- iii. Relative value of services to employees; such as transferring other balances in; online access to account; modes of additional contributions; personal financial planning advice; education of investors; retirement planning; and, calculation tools.
- iv. Appropriateness of insurance policies for Death, TPD and Income Protection, to fund member's employing industry or occupation and the provision of cover to the employee in a high risk occupation, at reasonable cost.

Conclusion

19. The effect of limiting scope of the objectives of Superannuation is an error that understates the role of superannuation in broader government policy settings. The objectives of Superannuation are clearer in the context of principles for addressing adequacy, sustainability, as well as fairness.
20. Rather than focus on operational, allocative and dynamic efficiency of alternative default fund allocation, the ASU would prefer that the government; instead, .urgently turn their focus to the 19 Recommendations of the Senate Economics Reference Committee in their 2016 Report⁵. Relevant to this study, the ASU supports the Committee's 8th recommendation, as follows:

...that the Australian Government ensure that any changes to the retirement income system are measured against the guiding principle of dignity in retirement and should:

- deliver a decent standard of living for both men and women in retirement;
- take into consideration the interrelationship between the three pillars of the retirement income system—the Age Pension (including income and assets tests); the superannuation system (with particular reference to tax concessions); and private savings—as well as mature age workforce participation, housing, health and aged care;
- recognise the diversity of experience and outcomes in retirement incomes for different groups in society, particularly but not restricted to women;
- adequately assess and mitigate the risks placed on the individual;
- determine mechanisms for developing benchmarks for the adequacy of retirement incomes to inform future policy; and
- introduce mechanisms to measure and assess reforms to ensure they are meeting objectives.

21. MySuper products should also continue to simplify choices to eligible, cost-effective superannuation accounts for the relevant industry, that consistently return the best net benefit return to fund members. In the absence of a better legislative framework to facilitate the employee's interests in the employment relationship, the Productivity Commission should conclude from this study that the FWC is the most credible and transparent agency for conducting regular assessment and accountability for default fund selection for compulsory contributions through the allocation of MySuper products to the modern awards.

⁵ *Ibid.* p. xii

This study could assist in advising on the appropriate criteria for an assessment of the transparent operation of MySuper products, by an Expert Panel of the FWC for their review.

22. The ASU would be pleased to provide further information or to answer queries in relation to this submission. Please contact the National Secretary, David Smith