

Superannuation Efficiency and Competitiveness

Submission by Mike Knight

Focus

The limited opportunity for investment by Australian Super Fund managers is already recognised as a critical issue and in urgent need of a solution.

The operation of the Australian Financial System lacks effective competition and efficiency. This has stifled our retirement system. The lack of a free and informed market and the failure of businesses and governments to behave ethically or even legally is distorting the balance of risk and return for participants primarily to the disadvantage of individual retirement fund owners.

This should be the Productivity Commissions focus for change. I believe this is within scope. What follows is in my opinion secondary but may eventually be seen as of value should a better way of resolving the above concern.

Employer's role in Super

Employers only interest in the superannuation of their employees should be to ensure their own obligations are discharged efficiently and effectively (i.e. costs minimised legally and responsibly). There seems little likelihood that any employer is able to anticipate lifetime needs of its employees when employment periods are increasingly short, work locations increasingly changing. Financial advisors (even with education and sometimes experience) find it extraordinarily expensive to do the equivalent for an individual let alone a highly varied workforce that you haven't employed yet.

Employees should receive the full value of their voluntary contributions, salary sacrifice contributions, and SG contributions in their chosen fund promptly and all delays in payment into employee's accounts between pay periods should be documented on the following pay slip.

Where employers feel they can make their employment opportunities more attractive by additional benefits these should not be made through discretion in the operation of a Corporate Super Fund. This will have the effect of reducing diversion of super funds to corporate financing needs and avoiding kickbacks for corporate promotion of particular super or related decisions.

This will reduce corporate super costs dramatically in some cases, reduce employee or taxpayer losses due to bankruptcy or corrupt management.

Entry and exit of Super Funds

Inactive, ineffective, or disqualified Super Funds should have all dispersible funds credited to accounts and accounts rolled over to a better than median fund by APRA or ATO tender. APRA or ATO shall analyse data to identify non-reporting, inactive, or poor performing Super Funds.

If negotiations with these funds do not finalise within 3 months, legal action should be taken to liquidate the Super Fund manager and transfer its accounts and assets to a suitable Super Fund.

New Funds should enter the industry with minimal effort beyond satisfying legislative requirements. Some form of pooling of new Super Funds may be possible to provide scale and efficiency whilst they build an account base. This may be facilitated or left entirely to the market.

The objective here should be to facilitate a consolidation of existing small scale funds that may exist to service remnant accounts, deceased estates, unresponsive account holders, or milking funds of careless account holders.

Employee fund consolidation

Where casual workers or employees with small super accounts have an above median performing account with significant funds (e.g. below \$1,000 vs more than \$5,000) these should be identified by ATO (along with a recommended consolidation for signature) for inclusion with any ATO communication.

In the event of no consolidation or response within 6 months an automatic consolidation should be performed on behalf of the account holder. Ultimately the number of any individual's accounts with different Super Funds could be reduced to a number below 2.

Assessing Super Funds

The returns obtained by Retail Super funds are largely dependant on investment managers and the financial markets leading to: Consideration of retail returns being considered as a function of a purchasing service unless the Retail Super fund is internally invested and managed, Where a Retail Super fund is offered by an organisation that also provides wholesale services they shall be operated as a distinct businesses and reported on as such. i.e. Allow the Retail Super fund elements to be assessed in the same way as others.

Superannuation Fund Reporting

All funds should publish the maximum possible data annually with full financial and membership demographic for all funds and services provided.

Data should be available for download in perpetuity for any body interested. There may be a reciprocal right to collect demographic data on those interested in downloading.

This data should be the basis for industry analysts, regulators, the default fund assignment process, as well as public access. Clearly efforts to prevent disclosure of identifying information are necessary but this should be done by mechanisms that do not limit the utility of the data. I can advise further on this.

SMSF / SAF Fund reporting

Non-SMSF/SAF funds should not be compared with SMSF or other retirement funds. ATO shall advise SMSF/SAF investors and beneficiaries of the return their funds would have if invested with a default fund provider.

Trustees are obliged to recognise any inefficiency or failure of strategy and seek to make appropriate changes. ATO shall request Trustees to explain and refer Trustees failing in their duty for appropriate remedy.

Assumptions and terms

Super Fund refers to a Organisation that administers and services fund owners, their accounts, and the investments held within their accounts. It excludes SMSFs or SAFs but includes Corporate Super Funds and the account services related parts of integrated financial services organisations.