

SUBMISSION TO THE PRODUCTIVITY COMMISSION
SUPERANNUATION: ASSESSING EFFICIENCY AND COMPETITIVENESS

MARK MACLEOD, ROLL-IT SUPER. JUNE 2018



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Productivity Commission
Locked Bag 2, Collins St East
Melbourne VIC 8003

Dear Commissioners,

RE: Productivity Commission Draft Report “Superannuation: Assessing Efficiency and Competitiveness”

Roll-it Super welcomes the opportunity to provide a post-draft submission for the Superannuation Assessing Competitiveness and Efficiency public inquiry.

A strong advocate of draft report recommendations

Superannuation is a universal good and works to better the social fabric and overall quality of life for all Australians. Further, the Australian default superannuation model has been exceptionally successful in raising individual participation. However, the passivity of employers and employees has resulted in weak competition between suppliers. Super fund complacency is rife, with underperforming funds exploiting member apathy and disengagement, collecting increasing contribution inflows while delivering utility-oriented products.

The Productivity Commission Draft Report was an exceptional assessment of the sector, despite the challenges of establishing a sufficient evidence base in some areas. We are a strong advocate of the recommendations.

Solving implementation challenges and reaching members to achieve universal participation is an innovation opportunity for private enterprise. As evidenced with Superstream, employer clearing house services, and Single Touch Payroll, private enterprise and ATO services collectively achieve greater market reach and engagement.

Our submission responds to Productivity Commission recommendations with suggestions that facilitate private enterprise innovation to further member interests.

The pursuit of consumer led competition in superannuation

In the absence of strong consumer led competition in the default segment, the proposed assisted employee choice model is an excellent step towards improving retirement outcomes for everyday Australians. The model protects members from multiple accounts by only defaulting them once when they enter the workforce. The curated short-list of ‘best in show’ products ensures disengaged members are not defaulted into underperforming products by employers either ill-equipped to select a fund, or conflicted and failing to act for the sole benefit of employees.

We recommend the Government and ATO allow authorised service providers to integrate with the centralised online service to support the opening, closing, consolidation or carryover of accounts. Service providers may also have greater reach with employers and be able to extend the benefits of the assisted choice model to existing employees, not just those new to the workforce.

Kind regards

Mark MacLeod. Founder & CEO, Roll-it Super

ABOUT ROLL-IT SUPER

HELPING GREAT EMPLOYERS TO FINANCIALLY EMPOWER EMPLOYEES

Launching in 2018, Roll-it Super has re-imagined superannuation. We've incorporated employee rewards, financial wellbeing, financial literacy and superannuation into a platform that employers can provide their employees for free. Employers are able demonstrate they care about an employee's personal and family financial wellbeing, unrelated to company profits and performance. In return, research has proven that employees reciprocate the 'gift' of financial empowerment with higher organisational commitment and productivity.

Supporting employees to find and invest in high performing funds.

Most employees leave their choice of super fund, one of the most important financial decisions of their lives, to employers. At Roll-it Super, we don't expect employers to be able to find the best super fund for every employee. Only an individual can know their financial situation, risk appetite and investment values.

We've made it easy for employees to act and feel confident their super savings are in the right place. Our platform enables employees to easily compare and switch to their choice of fund at a push of a button. We provide unbiased, independent information on every public offer super fund and do not receive commissions from product issuers. The decision to stay or leave a super fund is 100% up to the individual. We simply want to make it easy to take control of your super and have the super funds work hard for your money.

RESPONSE TO DRAFT REPORT

DRAFT RECOMMENDATION 1: DEFAULTING ONLY ONCE FOR NEW WORKFORCE ENTRANTS

Default superannuation accounts should only be created for members who are new to the workforce or do not already have a superannuation account (and do not nominate a fund of their own).

To facilitate this, the Australian Government and the ATO should continue work towards establishing a centralised online service for members, employers and the Government that builds on the existing functionality of myGov and Single Touch Payroll. The service should:

- *allow members to register online their choice to open, close or consolidate accounts when they are submitting their Tax File Number when starting a new job*
- *facilitate the carryover of existing member accounts when members change jobs*
- *collect information about member choices (including on whether they are electing to open a default account) for the Government.*

There should be universal participation in this process by employees and employers.

Roll-it Super response

We recommend the Government and ATO allow authorised service providers to integrate with a centralised online service for members and employers to support members to open, close, consolidate or carryover accounts. Service providers may have greater reach and engagement with employers, new and existing employees. This will improve the chances of universal participation – as evidenced with Superstream, Payment Clearing and Single Touch Payroll.

We also recommend a change to Superstream rollovers to reduce 'friction' when members wish to change funds. Currently, the only 'easy' way for members to switch funds is to initiate a rollover from their new fund's website. Service providers who are Superstream authorised should be able to initiate a rollover from and to any super fund product on a member's instruction. This model works for employer contribution payments, where employers can pay any fund from a single clearing house. Members should also be able to switch to any fund from a single service.

DRAFT RECOMMENDATION 2: 'BEST IN SHOW' SHORTLIST FOR NEW MEMBERS

A single shortlist of up to 10 superannuation products should be presented to all members who are new to the workforce (or do not have a superannuation account), from which they can choose a product. Clear and comparable information on the key features of each shortlisted product should also be presented. Members should not be prevented from choosing any other fund (including an SMSF).

Any member who fails to make a choice within 60 days should be defaulted to one of the products on the shortlist, selected via sequential allocation.

The ATO should embed the shortlist and accompanying information into the centralised online service.

Roll-it Super response

Default bias in superannuation is especially powerful due to another behavioural bias – temporal discounting. Simply put, people value benefits the closer those benefits are to now. Temporal discounting is hyperbolic, such that superannuation benefits are realised so far into the distant future (at retirement), many people discount those benefits to the point of indifference, the size of the reward becomes irrelevant.

The opportunity for authorised service providers to engage members with information on the assisted choice shortlist should be made available. Service providers authorised to access Superstream should also be able to accept a member's fund selection and open an account with the fund or rollover the member to the selected fund.

Behaviourally, it is doubtful the recommended default reforms will address our default bias to 'do nothing' or increase strong consumer-driven (demand-side) competition in the sector. Without convenient, immediate and frictionless services, most members will default to a short list product via sequential allocation. While far from ideal, this still addresses supply-side market failures with a blunt, yet practical approach to protecting member interests.

Innovation from service providers will greatly improve universal participation and member engagement with the assisted choice list of 'simple and safe' products, or alternatively help them find choice products that may better meet their risk appetite, ethical investment values, or desire for a low fee, indexed investment strategy.

REMOVE EMPLOYERS FROM DEFAULT SELECTION

One of the biggest failings of the current default allocation is the proliferation of accounts and insurance policies that it generates (chapter 12). To better serve the needs of members, they should not be defaulted into a new super fund whenever they change jobs or industries. Instead, defaulting should only be an option for members who do not have an existing account — a solution to the multiple-accounts problem that was recommended by the Financial System Inquiry, but has not been taken up (Murray et al. 2014).

While embedding the choice of default super products in the workplace relations system may have made sense in the past, the existence of different lists of funds in different awards is fuelling the creation of unintended accounts (by having different funds for different industries), and poses barriers to new funds entering the default market (chapter 7). Moreover, enterprise and workplace agreements that restrict an estimated 1 million individuals from exercising their own choice of fund serve no purpose in a modern super system, and should be prohibited by legislation (chapter 12).

The current system fails to mitigate the risk of defaulting a member into a poor performing product (chapters 2 and 12). In a modern super system, members should not be at the mercy of their employer to choose a default product. While some employers are capable and well-intentioned when it comes to choosing a default, many struggle or do not have sufficient incentive to find the best product for their employees. It is an historical oddity that employers can select financial products for their workers without needing to hold an Australian Financial Services Licence or indeed any financial advice qualifications at all.

Roll-it Super response

We couldn't agree more on all three points. Unlike the US 401(k) Employer sponsored retirement savings plan, Australian employers do not have a fiduciary responsibility to act in the interests of employees when selecting a provider. In the US, employers who fail to meet their duties have faced high-profile lawsuits, while in Australia 75% of employers never check default fund performance or fees on behalf of employees and less than 7% switch funds.

Most employers want to act in the financial interests of employees, but the majority have not recognised the importance of their default super fund choice. Super is not a strategic priority for employers. Taking an employer out of the decision-making process benefits both employers and employees and removes a systemic risk.

36% of working Australians are employed under an EBA, with 19% of EBAs preventing employees from selecting their choice of fund. The inclusion of super within an EBA is an endorsement of trade restrictions and has no place in an efficient, competitive market. Given the proposed changes prevent an employer nominating a default fund, the conflict of interest risk marketed by certain industry funds and representative bodies has been mitigated.

DRAFT RECOMMENDATION 3 INDEPENDENT EXPERT PANEL FOR 'BEST IN SHOW' SELECTION

The Australian Government should establish an independent expert panel to run a competitive process for listing superannuation products on the online shortlist. This panel should select from products submitted by funds that meet a clear set of criteria (established beforehand by the panel) and are judged to deliver the best outcomes for members, with a high weighting placed on investment strategy and performance.

The panel should have flexibility to select up to 10 products, with the exact number at the discretion of the panel based on the merit of each product and what is most tractable for members, while maintaining a competitive dynamic between funds for inclusion.

The panel should be comprised of independent experts who are appointed through a robust selection process and held accountable to Government through adequate reporting and oversight.

The process should be repeated, and the panel reconstituted, every four years.

Roll-it Super response

We agree with the process, but suggest a four-year cycle could be too long. The risk is that the number of suppliers and resultant competitive tension will diminish overtime if the duration forces suppliers to consolidate or exit between cycles. Additionally, new entrants with superior investment or performance strategies will be locked out of the market for an extended period. A short cycle (2 or 3 years) will help unsuccessful suppliers to remain viable between cycles and support innovation from new entrants.

DRAFT RECOMMENDATION 9: A MEMBER-FRIENDLY DASHBOARD FOR ALL PRODUCTS

The Australian Government should require funds to publish simple, single-page product dashboards for all superannuation products.

ASIC should:

- *prioritise the implementation of choice product dashboards to achieve full compliance by 1 July 2019*
- *revise the dashboards to simplify the content and provide more easily comprehensible metrics (drawing on robust consumer testing) by end 2019*
- *immediately publish all available MySuper and choice product dashboards on a single website, with the information clearly and readily accessible from the area of myGov that allows for consolidation of accounts.*

DRAFT RECOMMENDATION 10 DELIVERING DASHBOARDS TO MEMBERS

The Australian Government should require the ATO to present the relevant (single page) product dashboard on a member's existing account(s) on its centralised online service.

The Government should also require all superannuation funds to actively provide their members with superannuation product dashboards when a member requests to switch from a MySuper product to a choice product within the fund. This should include:

- *the dashboard for the MySuper product*
- *the dashboard for the choice product the member wants to switch to.*

Roll-it Super response

Simplified dashboards would be highly valuable to members. Authorised servicer providers should be able to publish all product dashboards and switch members between products upon member instruction.

DRAFT RECOMMENDATION 11 GUIDANCE FOR PRE-RETIREES

The Australian Government should require the ATO to guide all superannuation members when they reach age 55 to:

- *the 'Retirement and Superannuation' section of ASIC's MoneySmart website*
- *the Department of Human Services' Financial Information Service website.*

Roll-it Super response

Permission should be granted to authorised service providers to re-publish Government guidance for pre-retirees on their website or within their platforms. This will ensure consistent and authentic key messages reach as many pre-retirees as possible.

DRAFT RECOMMENDATION 12 EXIT FEES AT COST-RECOVERY LEVELS

The Australian Government should legislate to extend MySuper regulations limiting exit and switching fees to cost-recovery levels to all new members and new accumulation and retirement products.

Roll-it Super response

Technology advances have reduced the variable cost of account exits and switching to marginal levels. Funds should not be able to pass on any exit or switching fees to members. The minor costs associated with exit and switching should be absorbed in the fund's standard operating costs and not be itemised.