

31/10/2016

Attention: Karen Chester, Deputy Chair

## **Superannuation**

Productivity Commission  
Locked Bag 2, Collins Street East  
Melbourne Vic 8003

Dear Ms Chester

### **Re: AustralianSuper's submission to the Productivity Commission Issues Paper – Superannuation: Alternative Default Models.**

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

AustralianSuper is Australia's largest superannuation fund and is run only to benefit its members. The best interests of our 2.1 million members drive our decisions. We do not pay commissions to anyone to recommend us, nor do we 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.

AustralianSuper supports the comments made in the submissions of Industry Super Australia and the Australian Institute of Superannuation Trustees in response to the issues paper.

The key points of our submission are as follows:

- The best interests of superannuation fund members should be the primary focus of the Productivity Commission in determining appropriate criteria.
- It is completely impractical to consider no defaults as a baseline comparator against alternative default models - the current default system should be considered in the first instance
- The right balance between choice and member protection, and best interests of members, needs to be achieved.
- The burden on business of dealing with alternative default models needs to be considered – costs to business have been underestimated.
- Analysis of the suggested criteria to assess models points to a need to include further important criteria
- Tendering for superannuation is too costly for small employers, and acts as a barrier to competition when conducted on an industry basis.
- There are identified issues with the current system which need to be addressed – the Fair Work Commission Expert panel should be given the opportunity to operate.

#### **1) Flawed Choice Baseline for decision making – include current default arrangements**

The Issues Paper states the Commission's preference for *not* having default arrangements within Australia's superannuation system, and assessing alternative default models against this preference – it is simply not practical to have no defaults and force choice on employees in a compulsory system.

## 2) Current default fund arrangements

AustralianSuper supports the need for a default process and for the ability for an employer to be able to exercise choice to improve outcomes for their employees. The bulk of the 220,000 employers that contribute to AustralianSuper have default arrangements in place. They do this to ensure they can meet their obligations to pay superannuation to eligible employees under the *Superannuation Guarantee (Administration) Act 1992*.

In reviewing the default system, we share the Productivity Commission's ambition to find the right balance between competition and choice on the one hand, and member protection and superior retirement outcomes on the other when determining the most appropriate default system. Changing default fund arrangements will have significant cost and investment implications for members, employers and the efficiency and effectiveness of funds and the system. Such a change should only be undertaken when there is confidence that the changed system would actually work better for defaulting members.

## 3) Analysis of the suggested criteria to assess models

The Issues Paper rightly identifies members' best interest as the first of the decision-making criteria in assessing the merits of any new arrangements. The other criteria are important but members' best interest must be paramount.

- **Members' best interests** - The potential impact of lost lifetime earnings on the member is the primary focus for AustralianSuper. Any future model should seek to improve net investment returns and retirement outcomes for members.
- **Competition** - We see choice and competition as a potential source of innovation and improved outcomes for members.
- **Integrity** - Integrity can be measured by reasoned assessments of corporate culture, how incentive systems are aligned to sales and behavior, and whether there is pressure to return a profit to shareholders at the expense of returns to members.
- **Stability** - Stability should not mean the absence of change. Stability should reasonably include prudential considerations such as transition risk, the impact on net cash-flows, product development and the overall sustainability and performance of superannuation funds. Stability is key for member trust and confidence.
- **System-wide costs** – Regard must be had to the initial and ongoing costs to business of any change, including search, disruption, transition and choice costs.

#### 4) Suggested additional criteria to assess models

The current default criteria<sup>1</sup> and the Commission's proposed assessment criteria do not include the issue of Superannuation Guarantee compliance. Employer non-compliance with the Superannuation Guarantee requirements represents a significant threat to the balances of many Australians. It is estimated by ASFA that \$2.75 billion savings in superannuation are foregone affecting over 650,000 working Australians.<sup>2</sup> Only superannuation funds that are successful in retrieving unpaid Superannuation Guarantee contributions on behalf of members should be considered when assessing funds for default fund status.

#### 5) Tendering for default superannuation

Tendering processes commissioned by large employers are resource intensive for both employers and the funds involved. Such processes would be an inappropriate cost for small employers (80% of AustralianSuper's 220,000 sponsoring employers are small employers).

Fund-wide tendering would reduce employer choice in a manner that would undermine competition rather than enhance it. We note also that any tendering process that considers fees only would invariably involve a 'race to the bottom' in terms of achieving real net returns appropriate for a long term investment such as superannuation. Further, if a tendering system considers only administration fees, then investment management fees would increase and defeat the intentions of the tendering process to keep costs down.

#### 6) Issues with the current default system.

- **Comparators** – There are dual fee and cost disclosure regimes in superannuation, with reduced fee disclosure for some choice products. ASIC has cautioned that it is misleading to compare fees and costs of products from the two regimes,<sup>3</sup> which ensures that there is no ability for consumers to make reasoned comparisons between choice and default products. This requires immediate law reform for true competition to flourish in superannuation.

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<sup>1</sup> Section 156F of the *Fair Work Act 2009*

<sup>2</sup> <http://www.superannuation.asn.au/media/media-releases/2015/media-release-16-october-2015>

<sup>3</sup> Question 23 of <http://www.asic.gov.au/regulatory-resources/superannuation-funds/superannuation-guidance-and-relief/fees-and-costs-disclosure/questions-and-answers-fees-and-costs-disclosure-superannuation-and-managed-investment-products/>

- **MySuper authorization** – The MySuper licensing regime has no direct filter to prevent long term low performing funds from becoming default funds, or ceasing to be default funds.<sup>4</sup>
- **Unimplemented Fair Work system** – Employers should be able to choose from a select list of quality funds assessed by appropriately qualified experts and informed by the needs of the workplace and workforce. Implementing the Fair Work reforms<sup>5</sup> would provide this assurance.
- **Award coverage** - We believe the system should cover all employees. The Issues Paper has pointed out that the current system does not cover all employees.

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

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<sup>4</sup> Section 29U(2) of the *Superannuation Industry (Supervision) Act 1994* deals with circumstances for cancelling authority to offer a MySuper product – it does not cover long-term low performing funds.

<sup>5</sup> Division 4A—4 yearly reviews of default fund terms of modern awards of the *Fair Work Act 2009*.