



Superannuation
Productivity Commission
Locked Bag 2, Collins Street East
MELBOURNE VIC 8003

submitted online

**Superannuation: Assessing Efficiency and Competitiveness
Productivity Commission Draft Report**

Our approach

Cbus welcomes the opportunity to comment on the Productivity Commission (PC) Draft Report – *Superannuation: Assessing Efficiency and Competitiveness* (Draft Report).

At all times, Cbus maintains a focus on how it can maximise the retirement outcomes of its 765,000 members. This focus is at the heart of everything we do and it informs this submission.

The current superannuation system has served members well, with the majority of default members being in high performing funds.

Changes to the system should only be made if they meet specific, articulated challenges, create demonstrable superior outcomes and are implemented in a way which:

- serves the interests of superannuation fund members
- is as efficient and effective as possible, using existing structures where available and not creating a regulatory burden disproportionate with the benefit sought
- provides transparency and certainty to all participants in the system, and
- does not create new problems.

Cbus is also mindful that superannuation sits within a framework of rights and obligations in people's working lives. The superannuation system in Australia was borne out of the struggle of employees, their union representatives and sympathetic employers to see a material improvement in Australians' retirement outcomes, cognisant that the resulting deferment of income by employees would ameliorate the growing economic burden of an ageing population which would otherwise be on the Government and broader population.

The regulatory framework around superannuation situates it both within the industrial landscape of Australia and as an important and growing participant in the Australian

economy. Accordingly, two additional factors are relevant in how changes should be selected or implemented, specifically that changes should reflect:

- the unique place that the superannuation system has in Australian working life, and
- the capacity for the superannuation industry to be an important source of capital for long term investment in the Australian economy.

Attached are our more detailed comments on the key recommendations and findings that impact our members. Please do not hesitate to contact Jane Barrett if you have any queries in relation to our submission.

Yours sincerely

Robbie Campo

Group Executive

Brand, Advocacy, Marketing & Product

13 July 2018

EXECUTIVE SUMMARY

Cbus welcomes the main findings of the Productivity Commission Draft Report, demonstrating that industry superannuation funds and other not-for-profit funds are superior performers and that net returns matter most. The default system has served superannuation members well over many years. Cbus is strongly concerned that dismantling the current default system, supported by industrial-based structures, will be detrimental to members' net benefit.

Any reform of our superannuation system should seek to address underperformance, fee erosion and provide for the protection of all members. An urgent priority for our superannuation system is the evaluation and more targeted regulatory intervention of Choice products and Self-Managed Superannuation Funds (SMSFs).

Cbus is supportive of merit-based selection of funds to ensure only high quality funds are offered to members as default funds. However, it is critical that unintended impacts of the proposed recommendations are considered. In its current form, Cbus does not support the draft recommendations which will see a move to a "one size fits all" system of generic superannuation funds competing across the economy. The draft recommendations fail to address the impact on those funds, such as Cbus, which have a strong industry affinity and focus that offer products, insurance and service offerings and investment approach specifically tailored to the member demographic and industry. Hazardous industries occupy a unique position which must be catered for in the consideration of any changes to default fund arrangements.

While Cbus supports the overarching policy objectives of protecting super savings from undue erosion by insurance premiums and ensuring Australians are not paying for insurance they do not need; we strongly caution against the blanket application of insurance exemptions. Cbus is very concerned that the recommended changes to default insurance coverage would remove access to insurance for members that need cover, who rely on the cover and who claim successfully against that cover. It is essential that the insurance recommendations exclude those that work in more hazardous industries who are unable to obtain other insurance cover in more generic funds.

SECTION 1: GENERAL COMMENTS

Serving the interests of superannuation fund members

Cbus is supportive of merit-based selection of funds to ensure high quality funds are offered to members as default funds. Cbus is a leading superannuation fund. Our Growth fund (Cbus MySuper) has consistently outperformed our retail competitors, and been top quartile across all time periods and market conditions (See Attachment 1 for further information). Cbus is proud to have delivered an average of 9.24% per year to our members over the past 33 years.

Notwithstanding these achievements, Cbus does not see investment performance as the sole criterion in evaluating what is in the interests of superannuation fund members.

The interests of superannuation fund members are not homogenous across industries. The current system has created an environment in which some funds – and Cbus is one of them – are specifically responsive to the unique needs of their industry. The Draft Report makes a number of observations about system efficiency and performance followed by a number of recommended changes to the regulatory environment. While changes being advocated may create more certainty and potentially better financial returns for some cohorts, it is critically important that the unintended impacts of proposed changes are not overlooked.

In their current form, the draft recommendations would have negative consequences for participants in industries (such as the industry Cbus services) whose funds are highly specialised, offering products and services (including insurance) tailored to their industry and member demographic. The recommendations would undermine Cbus' ability to provide products and insurance tailored to members and the hazardous conditions they work in, which would detrimentally impact the benefits derived by Cbus members.

Insurance within the superannuation system provides significant value and is an important element of the superannuation system – particularly for those members working in physically demanding and hazardous occupations such as those in the building and construction industry.

In addition to insurance there are a number of ways in which Cbus has tailored its products and services to meet the challenges and needs of the construction workforce. Some of these specialisations would be virtually impossible for another superannuation fund / insurer to duplicate if the current situation is dismantled and their absence could have catastrophic outcomes for employees in some circumstances. These include:

Product or Service Feature	How Cbus tailors to the Building and Construction Industry
Insurance	Highly tailored insurance products which use the group buying power of the fund to provide value for money cover to cohorts who would be unable to obtain affordable cover individually, conditionally or at all. The terms of Cbus' insurance are unique in the insurance market in Australia and has been negotiated to respond to the needs of our membership, including age definitions, coverage of high risk working conditions and occupations, more generous definitions, generous acceptance of pre-existing conditions, and non-conditional coverage of suicide.
Investment	Our investment approach adopts a long-term perspective which is reliant on the strong and stable cash flows available under the current default system. Cbus allocates a proportion of our portfolio into direct illiquid investment classes which enhance members' net outcomes over the

	<p>longer term and ensures we harness the benefit of a stable and relatively youthful membership. This approach is informed by and helps to address the lower average balances accumulated by building and construction workers over their working life. The demographic of Cbus' membership has also informed our avoidance of lifecycle investment products, which our research demonstrated did not protect members from downside risk but did deprive them of the benefits of exposure to growth assets. Our wholly owned subsidiary, Cbus Property, is also an important and internationally unique property development and funds manager which exploits our industry expertise and member alignment, to deliver strong and stable returns to members. An incidental benefit of Cbus Property is the creation of employment within the industry.</p>
Workplace service and literacy programs	<p>Cbus supports members through a range of member support services including through workplace literacy and servicing models. Our workplace servicing model has evolved based on the needs/demography/educational background of our membership and their greater reliance on face to face servicing, engagement and educative programs. The fact that Cbus has experienced the highest level of member satisfaction in the superannuation industry reflects the success of the workplace servicing model.</p>
Member communications	<p>Our member communications reflect our members' needs, interest areas, working environment and levels of literacy (financial and otherwise). Our capacity to provide tailored member communications informs our choice of channels, imagery, language and content, segmentation and themes. For instance, we have evolved our member statement program to deliver simplified and multichannel member statements with retirement income estimates, based on member behaviour, research and testing.</p>
Retirement	<p>Cbus helps members prepare for retirement with a number of specific products and services. Cbus offers a Transition to Retirement product and Super Income Stream for fully retired members. Cbus assists members with retirement planning, via a suite of calculators, retirement seminars and access to an appointment with a Financial Planner through our partnership with the FPA.</p>
Partnerships with industry participants	<p>Cbus has strong relationships with a number of union and employer associations. Working together, Cbus uses this relationship to ensure our products and services are</p>

	available for consideration across the building, construction and allied industries.
Product	Our product range reflects our members' needs over their working life and into retirement. This includes the provision of products to suit those in employment and self-employment.

Superannuation's connection with the industrial framework

At a fundamental level, Cbus and its industry partners see superannuation as an integral part of the workplace, tied to working conditions and the industrial landscape.

Through the historic 1983 Accord between the ACTU and the Government, Australian workers made a wage sacrifice of 3% in order to produce a scheme that would generate a more secure post-working future. Various changes since that time have contributed to create the current system, a system that has helped millions of Australians transition into retirement at a lower cost to the Australian State.

The superannuation system was put in place to help manage the burden of an ageing population and the strain it would place on the Australian economy in the form of welfare payments and other types of aged and disability care.

Superannuation is generally a work-financed benefit and should remain in the ambit of the existing industrial-based default super system providing a sound safety net for workers. The need to retain a strong connection with the industry makes it logical to retain the link with the existing industrial framework for the allocation of default funds. This includes preserving the capacity for Awards and Enterprise Bargaining Agreements (EBAs) to be used as the primary mechanism to nominate default funds with oversight by an expert panel within the Fair Work Commission (**FWC**).

Unions and employers as well as their peak bodies have, and should continue to have, an important and central role in the default system. They have served member interests well in co-operatively managing default funds that address member demographic and occupational experience, insurance needs, service requirements, investment preferences and financial literacy levels. In addition, FWC has the necessary skills, experience, independence and transparency, as well as the existing architecture, to apply a quality filter to support the selection of default funds. The appropriate judicial and legislative framework is already in place and the expert panel at the FWC could be reconstituted to short list the best performing super funds.

Board representation by industry participants in industry funds has created a culturally different product which enhances competition and provides a unique commercial point of view aligned with enhancing member outcomes. Arguably the most significant competitive pressure in the system over the past two decades has been generated by the combination of lower fees, strong returns and stronger member focus provided by industry superannuation funds. For example, the constituent members of the Cbus board and their connection to the building and construction industry have ensured our product suite and investment philosophy is tailored to its membership.

The economic contribution of superannuation

The amount invested in Australian superannuation is now approximately \$2.6 trillion¹ and last year, Australia edged ahead of the Canadian pension scheme to rank as the world's fourth largest pool of retirement savings.²

To put this into perspective, Australian superannuation assets comprise nearly 78% of all managed funds in Australia³ and are more than half as much as the total assets of Australian banks.⁴

With its ability to invest for the medium to long term (subject to liquidity requirements) Cbus, and funds like it, are providing access to capital for new asset classes, enhancing efficiency in the Australian financial market.

Cbus, for example, has focused on investing in infrastructure and property because, from an investment perspective, it has been one of the outstanding success stories of the Australian economy. Our wholly owned subsidiary, Cbus Property, which contributes to local economies through high quality property developments, achieved a return of 24.3% last year compared to an industry average of 12.05%. This is the third year in succession it has achieved returns above 20% and it has generated returns averaging 15.95% per year since inception.

Cbus Property is an internationally unique property developer and funds manager which, because of deep industry insight and expertise and alignment of long term member interests, has evolved a commercially successful and sustainable investment model which generates strong and sustained returns after fees on behalf of our members. It combines inhouse expertise in both property development and fund management to oversee all stages of property development. We submit that such an innovative and successful model would not have been possible without the coincidence of factors unique to an industry super fund serving the construction industry.

An incidental benefit of this strong investment performance of Cbus Property is supporting employment opportunities for thousands of building and construction workers.

Cbus is currently implemented a strategy to expand our direct investment allocations and to further exploit our comparative expertise and track record in property development and investment into other asset classes.

Ensuring the superannuation system is able to enhance members' long term outcomes through the provision of capital into the economy, particularly through these types of direct

¹ <http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/5655.0Main+Features1Mar%202018?OpenDocument>

² Willis Tower Watson Global Pension Assets Study, 2018:

<https://www.willistowerswatson.com/en/press/2018/02/global-pension-assets-reach-record-level-in-2017>

³ <http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/5655.0Main+Features1Mar%202018?OpenDocument>

⁴ <https://www.apra.gov.au/media-centre/media-releases/apra-releases-quarterly-adi-performance-statistics-december-2017>

investments, should be an explicit consideration in redesigning default arrangements in our super system.

SECTION 2: SPECIFIC RECOMMENDATION RESPONSES

PC RECOMMENDATIONS	CBUS COMMENT
Draft Recommendation 1: Defaulting Only once for new workforce entrants	Cbus does not support the recommendation in its current form. Further detail below.
Draft Recommendation 2: Best in Show Shortlist for New Members	Cbus does not support the recommendation in its current form. Further detail below.
Draft Recommendation 3: Independent Expert Panel for Best in Show Selection	Cbus does not support the recommendation in its current form. Further detail below.
Draft Recommendation 4: MySuper authorisation	Cbus supports in principle. Cbus would emphasise that any decision by APRA to revoke a MySuper authorisation should be based on the MySuper outcomes test and a net benefit measure. This will be effective in removing funds which underperform over the long term, and provide the “long list” from which industry appropriate funds can be shortlisted by the FWC. Cbus supports reporting to APRA annually on how many MySuper members were switched to a higher-fee choice product within the same fund.
Draft Recommendation 5: Regulation of trustee board directors	<p>Agree in principle, but subject to the following comments. Cbus is fully transparent in relation to our Board review processes and skills. Cbus has a long-established process of conducting an external triennial review of our Board and Committees, which is reported to APRA. Cbus has a skills matrix which it reports on at an aggregate level with more detailed information on our directors’ experience and skills provided on our website.</p> <p>Cbus is supportive of the removal of the current SIS legislation restriction on independent directors. However, it considers that having the right skills around the Board table is the most important factor and it should be left to Funds to determine the number of independent directors that is appropriate for their particular circumstances.</p>

PC RECOMMENDATIONS	CBUS COMMENT
	Cbus would query whether an annual external assessment would be excessive and a longer time frame should be contemplated.
Draft Recommendation 6: Reporting on merger activity	Agree in principle.
Draft Recommendation 7: Capital gains tax relief for mergers	Agree as would remove an impediment.
Draft Recommendation 8: Cleaning up lost accounts	Cbus considers that the ATO should undertake a matching exercise and where a member has an active account in another fund, advise Fund A to transfer to Fund B unless the member has stated they want to remain in Fund A.
Draft Recommendation 9: A Member-friendly dashboard for all products	Agree
Draft Recommendation 10: Delivering dashboards to members	Agree
Draft Recommendation 11: Guidance for pre-retirees	Agree
Draft Recommendation 12: Exit fees at cost-recovery levels	Agree
Draft Recommendation 13: Disclosure of trailing commissions	Agree
Draft Recommendation 14: Opt-in Insurance for Members under 25	<p>Overall, Cbus supports the objective of ensuring that an appropriate level of insurance is provided to members having regard to their needs, removing unnecessary insurance coverage due to multiple accounts and minimising erosion of superannuation accounts from insurance premiums.</p> <p>However, Cbus does not support the Productivity Commission draft recommendations relating to insurance exemptions for under 25-year olds and those who have not received contributions for more than 13 months. Cbus strongly believes there should be consideration</p>
Draft Recommendation 15: Cease insurance on accounts without contributions	

PC RECOMMENDATIONS	CBUS COMMENT
	<p>given within the insurance recommendations to exclude those who work in more hazardous industries and are unable to obtain other insurance cover in more generic funds.</p> <p>Further detail below.</p>
Draft Recommendation 16: Insurance balance erosion trade-offs	Agree in-principle but would need more detail of the controls and assumptions that would be utilised. The calculator should focus solely on the insurance premium cost.
Draft Recommendation 17: Insurance code to be a MySuper condition	Agree
Draft Recommendation 18: Insurance code taskforce	Agree but note the Code commences from 1/7/2018 and funds have three years to comply. Timings specified need to contemplate this and be practical.
Draft Recommendation 19: Independent review of insurance in super	Cbus questions the benefit of another review
Draft Recommendation 20: Australian Prudential Regulation Authority	Agree – but formal due diligence of outsourcing arrangements should be conducted on a five-year basis. Usually administration and insurance contracts are for a period of five years. It would be unnecessary to conduct a review twice during the same period. We also question whether the proposal to report annually to the Council of Financial Regulations on the progress stemming from the application of the MySuper scale test (and then the outcomes test, once legislated) in bringing about fund mergers should be extended to three years.
Draft Recommendation 21: Australian Securities and Investments Commission	Agree
Draft Recommendation 22: Superannuation data working group	Agree

Recommendations 1-3: Default Fund Selection

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.

Cbus Position

While implementation of default arrangements could be facilitated through a centralised, online service Cbus does not support the recommendation in relation to defaulting *once only*.

Specific industry groups have specific needs and a once only default arrangement will not serve those needs. This principle affects both the initial allocation and the arrangements that govern moving employment.

There are significant differences between Cbus members and members of the general workforce. Hazardous industries occupy a unique position which must be catered for in the implementation of any changes to superannuation default funds. There are other demographic features of building and construction workers to which Cbus has responded to in creating tailored products and offerings.

There is a high risk that a member who started work in another industry (who is allocated a default fund 'for life'), and who subsequently moves to a hazardous/blue collar industry such as building and construction, will end up with insurance that excludes coverage of hazardous occupations resulting in the member not being covered for TPD and death. Their 'once only' default fund will be unsuitable for their eventual occupation and it is unlikely they will be aware of that fact. In addition, as documented above, there are many other ways in which Cbus' offering is tailored to the needs of our membership which would be undermined by the introduction of a "default for life".

With a fund for life, if a fund moves off the "best in show" list, the member is likely to stay with that fund, even if it is no longer providing superior returns. The fund will remain "for

life” even if it moves off the top ten list so a member will have neither the benefit of the higher returns nor the industry specific coverage.

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.

Cbus Position

While Cbus can see the desirability of enhancing the likelihood of employees getting superior returns, and would itself be likely to qualify as ‘Best in Show’, the current recommendations would mean that if a member fails to make a choice within the 60 days, they would be defaulted to one of the products via sequential allocation without consideration of the industry they are working in and their specific product/insurance needs.

In this regard, a construction worker might be allocated to a fund that excludes them from insurance cover, or failed to offer them the more generous terms and scope which Cbus has negotiated having regard to our members’ specific needs. Cbus has a number of tailored services for workers in the building and construction environment, including a tailored workplace servicing program, member communications, product range and investment approach which leverages our member demographic and connection with the industry.

Any default system must take account of the unique features of the relevant industry in which a person works, particularly when it comes to hazardous industries.

Regarding the number of funds, it has not been demonstrated that the differences between funds could adequately be captured by nominating only ten funds.

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.

Cbus position

Any selection process should be grounded in the industrial relations system

Cbus acknowledges the importance that returns have for members; it is crucial that members’ long term returns are maximised. The Productivity Commission, throughout its hearings and its draft report, emphasised the need to cater to members’ *long-term* interests, consistent with its articulated role “to help governments make better policies, in the long term interest of the Australian community.” We are strongly supportive of default criteria being skewed towards long term returns.

However, in addition to this consideration, Cbus supports a selection process for default funds that is grounded in the industrial relations system – including allocation through Enterprise Bargaining Agreements – not the one proposed. We retain a strong commitment to the industry in which our members are situated and that grounding enables the fund to tailor its products and services to a hazardous sector.

For this reason, we continue to support that the Expert Panel should be constituted within the FWC framework, as it has the necessary skills, experience, independence and transparency, as well as the existing architecture, to apply a quality filter to support the selection of default funds. The appropriate quasi-judicial and legislative framework is already in place and the expert panel at the FWC could be reconstituted to short list the best performing super funds for a given industry. Their task would be aided by the removal of MySuper authorisation of any chronically underperforming funds, which will see the number of available default funds contract. We would express caution about a panel which is accountable to the Government of the day being more likely to be politicised.

Significantly reducing the number of default funds (reducing to the number of ten) risks reducing competition and increasing costs for consumers

The current system has enabled industry funds to tailor their products and services to the unique demographics of their industry. If more customer segments are added to generalised funds, it may drive up the costs of servicing customers. Competition will also drive up marketing costs as funds compete to get members to actively choose rather than default.

Arrears should be considered in any measure of best in show

Cbus also notes the significant challenge of non compliance with superannuation obligations. ATO and industry reports document that these non-compliance practices are more prevalent in the building and construction industry. Given the problem of unpaid super across the economy it is important that any default funds have processes and protections to ensure that superannuation contributions are actually paid.

Recommendations 14 and 15: Insurance

- **Draft Recommendation 14 – opt-in insurance for members under 25**
- **Draft Recommendation 15 – cease insurance on accounts without contributions**

Cbus position

Overall, Cbus supports the policy objective of ensuring that an appropriate level of insurance is provided to members having regard to their needs, removing unnecessary insurance coverage due to multiple accounts and minimising unnecessary erosion of superannuation accounts from insurance premiums.

Cbus believes insurance within superannuation provides significant value and is an important element of Australia's economic and social policy landscape provided by our superannuation system, especially for those working in physically demanding and hazardous occupations such as the building and construction industry. We know from research and industry engagement that insurance is a valued asset for our members. And we know that both unions and employer associations strongly support the connection of insurance and superannuation, particularly for a high risk industry like building and construction.

While Cbus supports the overarching policy objectives of protecting super savings from undue erosion by insurance premiums, we are very concerned that the recommended changes would remove access to insurance for members that need cover, who rely on the cover and who claim successfully against that cover.

Cbus does not support the Productivity Commission draft recommendations relating to insurance exemptions for under 25-year-olds and those who have not received contributions for more than 13 months. Cbus strongly believes there should be consideration given within the insurance recommendations to exclude those who work in more hazardous industries and are unable to obtain other insurance cover in more generic funds.

Risks of Opt-in Versus Default

It is our belief that making life and TPD insurance "opt-in" for under 25s will significantly reduce the number of under 25s who are protected by that insurance. It is a well-known phenomenon in psychology and behavioural economics that choice architecture, or how a decision is framed, affects the decision that is made. In addition, due to the higher risk cohort covered by our policies, there will be many who currently are covered by our default policy who, if excluded, will be refused cover or only allowed conditional cover in an opt-in system. In addition, our current generous accommodation of pre-existing conditions is unlikely to be sustainable were these changes to be made, to the detriment of all our members.

Cbus therefore strongly resists the assumption that members who are excluded by the proposed changes can simply "opt-in". Such an assumption fails to consider the unique benefit provided to our membership through our default arrangements. Failure to opt in could also have economic consequences on the Government bottom line. If a member is involved in an accident and is uninsured, as a result of the changes prescribed, they'll have

no choice but to utilise the welfare safety net provided by the Government. So members who would otherwise access insurance coverage will become a cost to the Government budget.

Impact of the recommendations

The proposed measures will prevent trustees from providing default insurance (requiring it to be on an opt in basis) to accounts of:

- new members aged under 25 years
- those who have not received contributions for more than 13 months unless they have obtained express permission of the member to continuing to provide insurance cover.

When we compare the present arrangements with this scheme, the following consequences are predicted:

Now	If recommendations implemented
Membership	
Members under the age of 25 and members with no contributions in the past 13 months are insured by default	Insurance for these groups is at risk. Fewer people will be insured and their families will remain uncovered. Cbus members in these categories need, rely upon and claim against their insurance, and due to the higher risk nature of the industry will be constrained in being able to obtain opt-in cover on the same terms or at all.
Eligibility	
Everyone who joins the fund is automatically covered when basic eligibility requirements are met; there is no detailed application process.	<p>The scope of cover would become more restrictive with increased underwriting and/or exclusion of pre-existing conditions.</p> <p>If Cbus members are required to opt in to insurance cover, we estimate that around 25-30% of members will be refused cover or only provided conditional cover (reflecting the patterns for members seeking extended underwritten cover currently).</p> <p>In addition, if we are unable to maintain coverage of pre-existing conditions, some restrictions on cover will not be known until a claim is lodged and the history of the individual is uncovered. In this situation members will think they are covered when in</p>

Now	If recommendations implemented
	fact they are not and complaints will arise. This will lead to a position of concern within the community due to the uncertainty of cover.
Volume buying	
<p>Due to the strength of its volume buying position, Cbus can provide a competitively priced insurance product to its members. Cbus uses its scale to insure workers who would otherwise not be able to get cover, or who would only receive modified cover with other retail providers.</p> <p>Group insurance on a default opt-out basis pools risk over members' various life stages and has significantly simplified underwriting arrangements.</p>	<p>Eroding the group buying position of this specialised form of insurance will have negative consequences for existing and future members.</p> <p>Cbus' insurer has advised that if another fund did not have cover suitable for members in high risk/hazardous conditions and wished to set up a separate category of cover (black collar/higher risk) then the premiums are estimated to be double the rate of the Cbus Industry manual category.</p> <p>For Cbus' existing insurance arrangements, it is estimated that premiums for remaining members will rise by approximately 20%.</p> <p>These premium rises will negate the lifetime savings of excluded periods of cover.</p>
Coverage	
<p>The creation of a large default pool of coverage enables Cbus to provide generous coverage of our members notwithstanding the higher risk of our insured pool of members.</p>	<p>Demography and hazardous work environments mean most members would not be able to access cover through other insurers; affordably, conditionally, or at all, due to exclusions of occupational groups and working environments (i.e. many policies exclude those working over 10 metres, occupational categories common in the building and construction industry, provide no or only conditional cover for suicide).</p> <p>Cbus has recently commissioned an independent benchmarking of our insurance products by Rice Warner Actuaries. The findings confirm that Cbus delivers a unique scope of cover based around member's needs and highlights, "Cbus may be the only option to obtain insurance cover, or one of a very</p>

Now	If recommendations implemented
	<p>limited number of options for members working in a range of high risk occupations. We believe this is a particularly valuable service to these members.”⁵</p>
Payouts	
<p>Rules surrounding payouts on claims are appropriate to the industry, in line with Cbus’ buying / negotiating power.</p>	<p>Cbus has accepted more than 90% of insurance claims (and 88% just for total & permanent disablement claims) on an annual average basis across the last five years (totalling \$1.1 billion in benefits to members or their beneficiaries). Payout ratios for opt-in cover are typically much lower than for default cover.</p> <p>Certainty of commencement of cover rules would be threatened generating uncertainty and disputes.</p> <p>Importantly, due to the high proportion of younger men in Cbus’ membership (93.9% male in the 15 to 24 age bracket), we tragically experience a higher rate of suicide. 14% of death claims for under 25-year-olds have related to suicide. A further 32% are awaiting coronial review where suicide is likely to be represented, thus increasing the overall suicide percentage.</p>

Why Cbus does not support the recommendations

The policy rationale for prohibiting the capacity for trustees to offer default insurance for these cohorts is that the exclusions will prevent the offering of insurance (and associated cost) that members do not need, rely on or have the capacity to successfully claim against. However, the experience of Cbus is that the majority of young and inactive Cbus members:

- *do* have a personal situation requiring the relevant cover
- *do* rely on cover and would not be able to get cover responsive to the industry or relevant demographics elsewhere and

⁵ This report is currently being finalised.

- *do* use the relevant cover.

In addition, we believe that the price increases which will result from these legislative changes will mean that over their life, members will not be better off in terms of retirement savings. Our estimates are that members will end up paying as much in premiums over their working lives, but for a less beneficial scope/period of cover.

In the circumstances, Cbus opposes changes to the current arrangements.

Young, new and inactive Cbus members *need* our group default cover

- Cbus members work in hazardous and physically demanding environments. They need both death and TPD cover, even at a young age.
- Cbus members are primarily male and blue collar, and skew towards a younger demographic. They tend to start full time work at a younger age, and most assume financial responsibilities for others from 21 years of age.
- The policy rationale for excluding inactive members is that they will have an active account elsewhere which will provide them with insurance. However, inactive Cbus members do not typically have other super funds or insurance; as they are inactive because they have become self-employed, are working as a contractor and not receiving superannuation, are in between jobs (which is common due to the sessional nature of engagement in the construction industry) or are retired (commonly involuntarily) but still picking up some work.
- Cbus recently undertook a major review of our insurance cover and retendered our group arrangements. The terms of coverage were revised to reflect members' needs-including the removal of default cover for members under 21 years (death cover).

Young and inactive Cbus members could not easily get the same cover elsewhere; they *rely* on our group default cover

- As demonstrated in the table above, securing insurance comparable to the product offered by Cbus is highly challenging and would be more so if the changes recommended were implemented. This was confirmed by an independent benchmarking exercise recently undertaken for Cbus by RiceWarner Actuaries.⁶
- Our policies provide generous scope and terms tailored to our membership – for instance:
 - the definition of total and permanent disability recognises the limited options for an injured construction worker in obtaining other types of work
 - work test conditions accommodate longer breaks from work
 - policies include automatic acceptance of pre-existing conditions
 - unconditional cover for suicide is included to takes into account the increased risk of mental health and suicide for men in construction (this feature is one which very few funds offer).
- The default nature of coverage is significant. Group pooling enables broad coverage and automatic acceptance of cover (i.e. covering pre-existing conditions). Opt-in cover is inevitably more expensive and more likely to be conditional.

⁶ This report is currently being finalised.

Young and inactive members successfully *claim* against Cbus' default group insurance

- Cbus accepts around 90% of insurance claims made by members, which is above the industry average. We have paid out \$1.1 billion of cover to members over the past five years.
- The cohorts targeted in these recommendations are strongly represented in Cbus' claims history over the past five years. It is important to note that notwithstanding lower TPD claim rates for young members, the Trustee has determined that it is important for all young members to be covered for TPD insurance, given the risk inherent in the industry and the serious life impacts and financial devastation for members who incur an injury or condition which prevents them from working again. Independent actuarial assessment provided in the RiceWarner Report confirms that Cbus members have a high average tenure in the fund, reinforcing the need to provide continuous coverage of TPD cover including from the point of membership commencing. Deferred commencement of TPD cover to an older age will result in many members having restrictions or being excluded from automatic cover (either temporarily or permanently) when it is available as a result of physical and health issues arising during the deferment period.
- The following table sets out our claims experience over the past five years (claims paid over the last five years with a date of event that occurred within the five year period) for each of the groups that will be directly affected by these recommendations and is further evidence of their reliance on insurance.

Cbus Claims History

CATEGORY	NO OF CLAIMS	% OF CLAIMS	\$ CLAIMS	% of \$ CLAIMS
21-25 death*	167	4.7%	\$29,234,500	6.1%
21-25 TPD	52	1.8%	\$4,898,000	2.2%
Inactive >13 months death*	934	26.6%	\$118,737,400	24.8%
Inactive >13 months TPD	407	13.8%	\$29,288,527	13.1%

- Last 5 Years: 2013 – 2017 inclusive
- *Death includes TIB
- Inactive: no contributions received 13 months prior to claims date

SECTION 3: ADDITIONAL OBSERVATIONS

Underperforming Funds

Reforms to our superannuation system should address underperformance, fee erosion and member protection in the Self-Managed Superannuation Funds (SMSF) and retail Choice sectors. Evaluation of Choice products and SMSFs should be given a high priority.

The Draft Report finds that smaller SMSFs are far less efficient than APRA regulated funds:

[L]ow balance SMSFs report significantly higher costs (relative to assets) per member than APRA-regulated funds. While costs decline as SMSFs get larger, the differential persists for SMSFs with balances less than \$1 million (on average). This would imply that the majority of SMSF members are likely incurring costs higher than those incurred (in fees) for members of an average APRA-regulated fund – though their net returns appear to be broadly similar.⁷

Like all funds, Cbus experiences member exits into SMSFs which, given the challenges noted above by the Productivity Commission, Cbus views with some concern. Further, the number of members choosing an SMSF and departing Cbus has decreased over the past decade. While we have boosted our efforts to educate members about the differences between APRA regulated funds and SMSFs, as the member is often acting under advice, they are typically not amenable to these warnings.

However, over recent years we have seen an increase in members returning to Cbus from an SMSF. Cbus undertook research in relation to members who had rolled-in their SMSF balance to Cbus. Cbus had noticed a rise in the number of SMSF roll-ins to Cbus and conducted data analysis and phone interviews with those members to determine their reasons. The inflow amount had increased from \$17.91 million in the 2014/15 financial year to \$105.43 million in the 2017/18 financial year.

The feedback provided in relation to why members choose to leave the SMSF environment highlighted the following issues:

- Members said it was too hard and that there was too much compliance.
- Accountants often drove members to set up a SMSF without providing them with the relevant information.
- Members said that cost in terms of time, money and effort involved, starting account balance and risks tended not to be researched or clearly advised by financial advisers.
- Marginal returns which are diminished by high ongoing costs.
- SMSF wrongly tied to self-employment – members found they didn't have the capacity to run a business as well as a SMSF at the same time.

⁷ p160, Productivity Commission, Superannuation Assessing Efficiency and Competitiveness Draft Report, April 2018

- Attracted by property investment but due to low SMSF account balances this was not realised.
- Too hard to manage, particularly with regulatory changes.

The following table compares average return on assets (ROA) of SMSFs to the Cbus Growth option and the SuperRatings SR50 Balanced Index over five years to 2016 (based on an account of \$50,000). It highlights that the Cbus Growth Option returned around 20% more the SR50 Balanced Index, while the average SMSF returned 30% less than the SR50 Balanced Index. However, this comparison is likely to underestimate the underperformance of SMSFs given the lower assets being rolled out by our members.

Year	2012	2013	2014	2015	2016	Accumulated Returns after 5 years
SR50 Balanced Index	\$50,225.00	\$57,623.14	\$64,918.23	\$71,215.30	\$73,216.45	\$23,216.45
Average ROA of SMSFs ⁸	\$50,200.00	\$55,320.40	\$60,686.48	\$64,327.67	\$66,193.17	\$16,193.17
Cbus Growth Option	50,800.00	\$59,029.60	\$67,234.71	\$73,991.80	\$78,039.15	\$28,039.15

We would strongly urge that the Final Report includes recommendations which ensures members are not transferred into or left languishing in underperforming products, for instance through a very stark warning provided to members in underperforming SMSFs and choice products, including an estimate of comparative outcomes they will be likely to experience.

⁸ Comparison is based on investing \$50k on 1 July 2011 to 30 June 2016, and the comparative growth of investing in the average balanced super option, average SMSF and Cbus's default investment option. SR50 Balanced index returns represents the median return of the largest 50 super investment options with growth assets between 60% and 76%; average return on asset of SMSF is sourced from the ATO Self-managed super funds: a statistical overview 2015–2016; and Cbus Growth (Cbus MySuper) investment options returns from Cbus. Past performance is not a reliable indicator of future performance.

Lifecycle Products

Cbus agrees with the Draft Report's comments which question the merit of life-cycle products in MySuper. It is important to highlight that Cbus has conducted research on this matter and found the following:

- The investment case for de-risking (lifecycle) in the accumulation phase is not strong. It was found that de-risking provides very little downside protection over a range of de-risking periods. Generally, the foregone return during better investment periods is material and either offsets or more than offsets the protection during adverse investment periods. Even when the most favourable de-risking periods are chosen, the increase in member balances is not large (i.e. less than 10%).
- A large number of Cbus members have low to modest balances due to a shorter working life and low salary progression throughout their working life (our modelling shows that 98% of members receive some form of the Age pension, with 48% of members having 80% of their retirement income from the Age pension). Accordingly, members will be in a better position if they maximise the opportunity for growth throughout their working life, rather than managing risk at or near the end of their working life resulting in smaller lump sum to fund retirement income.
- On the back of this research, it was determined that Cbus' MySuper option would not incorporate a life-cycle investment approach. However, there is a need to cater for members who wish to choose to reduce risk as they approach retirement due to their personal preferences through other avenues such as advice.

Retirement Income Strategy

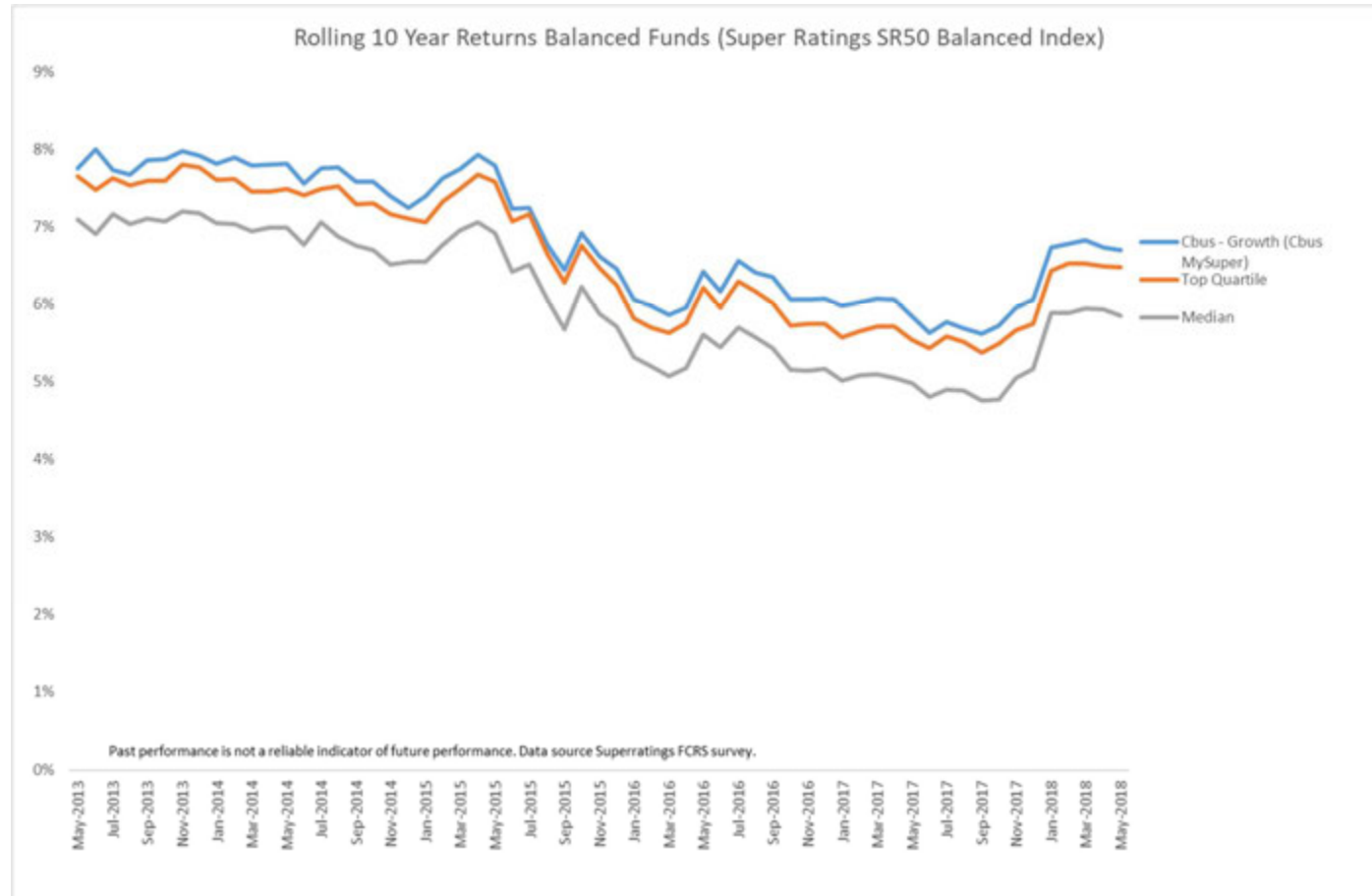
- **Draft Finding 4.4 – ‘MyRetirement’ default is not warranted**

Cbus notes the Productivity Commission draft findings that a ‘MyRetirement’ default is not warranted. Cbus agrees that it is important that trustees develop a retirement income strategy to assist members to meet their retirement income objectives. Trustees are best placed to determine this strategy, having regard to their member needs and profile.

To ensure the system is responsive to member needs, the trustee should continue to have flexibility in how this guidance is provided with no mandated longevity component. A longevity component may not suit certain members – particularly those members who have worked in hazardous industries with less favourable mortality experience and those with relatively lower superannuation balances.

Attachment 1: Cbus Performance

Cbus's 10-year returns have consistently outperformed the median balanced fund by a significant margin and been in the top quartile of peers.



Attachment 2: Cbus Investment Strategy

Our investment strategy differs from that of many superannuation funds. The strategy focuses on the long term, with investment opportunities and risks assessed from a total portfolio perspective. We believe that this long-term and integrated approach will produce favourable outcomes for our membership. In addition, through investing in the real economy, our investment activities have positive flow-on effects to the construction industry and the broader economy.



Over recent years, Cbus has progressively internalised some of its investments, with the aim of enhancing member outcomes. This has included internalisation of activities such as the management of listed equities, infrastructure, credit and cash. Internalisation provides many benefits including improving alignment of interests, enabling a total portfolio approach and lowering investment costs. Further internalisation is expected over coming years.

Another key aspect of our investment approach is a higher allocation to unlisted asset classes (e.g. infrastructure) than many superannuation funds. For example, the long-term asset allocation for Cbus' MySuper option has an allocation to unlisted assets of more than 30%, including allocations to property and infrastructure of 13% and 11% respectively. These assets have investment horizons that are closely aligned with our long-term focus.

We believe that a higher allocation to unlisted assets provides greater diversification and returns. This approach has been one of the key drivers of Cbus' very favourable medium to long-term performance. The higher allocation to unlisted assets is underpinned by a relatively young membership and strong cash flows. For example, Cbus' net contributions over the financial year to date have exceeded \$2bln. The higher unlisted allocation is also supported by detailed liquidity analysis.

Background

Who is Cbus

Cbus is the leading Australian Industry Super Fund for all those working in the building, construction and allied industries. Maximising the retirement outcomes of our 765,000 members is at the heart of everything we do.

Our successful member-first approach is guided by our key sponsoring organisations - the unions and employer organisation of the building and construction industry. We offer great service to over 130,000 employers, providing confidence that their employees are with a top performing fund, which continues to grow.

Cbus is committed to providing a collaborative, supportive and inclusive working environment. We hold ourselves to high standards in terms of governance, transparency, reporting and risk management and know that our members expect us to maintain high standards of integrity and fairness in the way the Fund is run.

Our members' retirement savings join a \$44 billion pool that gives them access to large scale, long-term, diverse and innovative investments, reflected in the fact that Cbus has been a top performing fund over short, medium and longer time periods. We invest responsibly to maximise long-term value for members and the society in which they work and retire. Cbus invests in developing the built environment. We are a leader in direct investment in property, creating a virtuous circle where part of our members' retirement savings is invested into their industry, creating over 75,000 jobs today and a better retirement tomorrow.

Cbus is proud to have delivered an average of 9.24% per year to our members over the past 33 years. Cbus recently received recognition for its 11 years as a platinum rated fund by independent ratings agency SuperRatings.

Summary of our product offerings

Cbus provides superannuation and retirement income products and advice to current and former workers in the building, construction and allied industries. We believe our robust default settings will enable our members to be confident and generate the best possible retirement outcomes. We offer limited product flexibility to enable members who have additional or different needs.

Our three superannuation products enable members to save for retirement with insurance protection designed for their industry in which they work. Insurance provides a vital lump sum benefit for our members and dependents when it is most needed.

Broken work patterns and relatively flat income progression through our members' working lives means our members will benefit from maximising their exposure to growth assets.

More than 90% of members are invested in our default option Growth (Cbus MySuper) which has returned 9.24%⁹ per annum over the last 33 years.

We offer three additional standard investment choice of cash savings, conservative growth, high growth. For members seeking additional choice Cbus Self Managed enables members to select their own investments from direct Australian Shares, Exchange Traded Funds, Term Deposits, Property and Infrastructure.

Cbus has a focus on keeping costs as low as possible in order to give members the best possible retirement outcomes. Our fee design is centered around fair and reasonable costs for the product and services members used on the basis of members having a typically long tenure with the fund.

According to the SuperRatings Benchmark 2018 report on a \$50,000 account balance, Cbus's fee of \$583 sits below the Not for Profit Median of \$605, the SR All Fund Median of \$627 and the Retail Master Trust Median of \$668. Our costs are competitive in the market whilst supporting our members with a full-service superannuation and retirement product offering.

Cbus Industry Super

Cbus Industry Super is our largest product in terms of funds under management, number of members and insurance liability and is dedicated to those employees in the building, construction and allied industries.

Due to the hazardous nature of building and construction occupations, insurance is a critical component of our Cbus Industry Super offer.

According to independent consultant RiceWarner Actuaries "Cbus may be the only option to obtain insurance cover, or one of a very limited number of options for members working in a range of high risk occupations. We believe this is a particularly valuable service to these members." (RiceWarner Insurance Report May 2018)

Additional modifications towards the nature of the industry in which our members work include:

- our Total and Permanent Disablement definition designed to pay claims to workers when they need it.
- no exclusion for suicide in an industry with many young male workers who are more at risk than the general population.
- Default cover for members joining the Cbus Industry super provides the member with a basic level of meaningful cover under

⁹ Since inception to 30 June 2017, based on the crediting rate, which is the return minus investment fees, the Trustee Operating Cost and taxes. Excludes account keeping administration fees. Past performance is not a reliable indicator of future performance

the manual occupation category, with premiums at a reasonable level.

A member joining the fund at 20 is provided 1 unit of death and Total and Permanent Disablement Cover at a cost of \$2.68 per week (\$52k Death and \$52k TPD) whereas an older member joining the fund at 25 who is likely to have dependents are provided with 4 units at a cost of \$10.72 per week (\$208k Death and \$156k TPD).

Members have the flexibility to increase their cover within the first six months of being provided insurance and can reduce cover at any time. Electtech, Non-manual, and Professional occupation categories provide more cover for the same unit cost with optional income protection for the latter two. Income Protection for manual workers is provided for through other industrial arrangements directly with the employer.

Cbus Sole Traders

Cbus Sole Trader provides self-employed members, either as part of a partnership or as sole traders to save for retirement and receive the benefit of insurance cover. A member joining the fund is provided 1 unit of death and Total and Permanent Disablement Cover at a cost of \$2.68 per week (\$52k Death and \$39k TPD for a 25 year old) and 6 units of income protection which ranges from \$2.28 to \$6.18 per week.

Cbus Personal Super

Cbus Personal Super provides members who are not receiving contributions from an employer or are not self-employed the option to save for retirement. Members have the choice to apply for the level of death and TPD cover they need.

Retirement income

Our retirement income products allow our pension members to transition into retirement or retire with dignity by converting their superannuation into an income stream which is typically a beneficial supplement to an age pension or any other income entitlements.

Cbus Super Income Stream offers consist of two options:

- Transition to Retirement for those reducing hours of work and easing into retirement or looking to boost retirement savings prior to retiring.
- Fully Retired for those who have ceased employment or reached age 65 and wish to commence an income stream.

Both products provide flexibility over the frequency and amount of payments with fully retired members able to request ad hoc withdrawals as necessary.

Members are offered investment choice upon commencing an income stream including our default Conservative Growth. The additional three standard investment options include cash savings, conservative growth, high growth. For fully retired members seeking additional choice Cbus Self Managed enables members to select their own investments from direct Australian Shares, Exchange Traded Funds, Term Deposits, Property and Infrastructure.