



Productivity Commission Report

Superannuation: Assessing Competitiveness and Efficiency

Mine Wealth + Wellbeing Submission

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About Mine Super

Mine Wealth + Wellbeing Superannuation Fund (**Mine Super**) is a profit to members, public offer superannuation fund dedicated to serving the retirement needs of all Australians. Mine Super (formerly known as AUSCOAL Superannuation) has been delivering exceptional retirement outcomes to members for 75 years. Mine Super offers its members a comprehensive range of superannuation and pension products in addition to insurance and access to financial advice. Mine Super was awarded a Platinum rating by SuperRatings along with Chant West's Five Apples for both super and pension products in 2017. Mine Super employs over 165 staff and manages \$10 billion in assets for more than 65,000 members.

Executive summary

Mine Super welcomes the opportunity to provide a submission to the Productivity Commission (**PC**) in relation to the PC's Draft Report on *Superannuation: Assessing Competitiveness and Efficiency (Issues Paper)*. We hope that this submission (**Submission**) is afforded adequate consideration and assists government in its enquiry.

The following is an outline of the key points contained within this Submission:

- Mine Super believes that the current superannuation system largely supports the objectives stipulated by the PC.
- Mine Super does not support the PC's narrow focus on costs, fees and returns when assessing competitiveness and efficiency (as this does not capture the broad and complex needs of all members).
- Mine Super is of the view that default funds should change with employment, unless a member makes an active choice to stay with their existing fund.
- Mine Super submits that insurance is a significant element of superannuation that requires consideration in any default model, as well as the broader superannuation system.

This Submission represents Mine Super's Stage Three response to the Issues Paper. This follows on from Mine Super's earlier Stage One submission in relation to the Members Default Utility Function (**MDUFv1**) being developed to assist the superannuation industry with retirement outcomes modelling. Mine Super also provided a submission to the PC in relation to alternative default models during Stage Two. Some key points from Mine Super's Stage One and Two Submissions have been included in this Submission for context and completeness.

Stage Three Submission

In this Submission, we propose to provide information in relation to:

- the overall objectives of the PC arising out of the Issues Paper;
- cost, fees and net returns;
- default fund members; and
- insurance in superannuation.



Objectives

Mine Super is of the view that the current superannuation system largely provides for the objectives stipulated by the PC in its Issues Paper. Mine Super agrees and supports the broader objective of improving efficiency and competitiveness within the Australian superannuation system. Mine Super is also supportive of increased competition, provided it does not result in a significant concentration of funds within the superannuation system (similar to the Australian banking system).

Mine Super also acknowledges the considerable improvements made to the superannuation system in the recent past. The system is significantly more competitive today as a result of enhanced member choice, the introduction of MySuper and implementation of robust product disclosure requirements. Measured (as opposed to material) changes will continue to improve retirement outcomes for all Australians.

In achieving efficiency and competitiveness, Mine Super is of the view that the following areas should be considered carefully by the PC:

- **(superannuation guarantee contribution):** increasing the superannuation guarantee contribution rate (SGC) would improve retirement outcomes through the compounding of higher balances, reducing future reliance on the government age pension and decrease the disparity between individuals on defined benefit schemes and those on defined contribution plans;
- **(employer administration):** the administrative burden on employers should continue to be minimised to support members to make more informed choices in relation to superannuation and insurance;
- **(enhanced SMSF oversight):** oversight for members who have established a self-managed super fund needs to be increased. This will reduce investment risk that can negatively erode retirement outcomes in circumstances where members do not have access to appropriate expertise;
- **(insurance):** appropriate insurance is a key element of the superannuation system. The majority of Australians hold inadequate levels of insurance to manage their obligations should their immediate personal circumstances change and the role of government is not to underwrite individual choice; and
- **(innovation):** there is further work to be undertaken to develop innovative solutions to improve member engagement tools and retirement products for an ageing member demographic. These initiatives will require substantial effort and focus from superannuation funds in the short to medium term (as this is more complex than developing solutions that focus on delivering the highest returns at the lowest cost).

Cost, fees and net returns

Mine Super supports a holistic approach to measuring the benefits of superannuation and believes that members should have access to choice based on their life stage and individual preferences. Mine Super does not support the PC's narrow focus on costs, fees and returns when assessing competitiveness and efficiency (as this does not capture the broad and complex needs of members).

In relation to costs, fees and net returns, Mine Super is of the view that:

- **(retirement outcomes):** a narrow focus on achieving the highest returns at the lowest cost could inhibit the industry delivering the best retirement outcomes for members. The management of



- risk and the design of longevity solutions for the post-retirement phase needs to be contemplated together with cost, fees and net returns in the accumulation phase;
- **(member demographics):** the PC should take into account member demographics when performing comparative analysis (for example, industry funds representing high-risk occupations will incur higher occupational based insurance premiums); and
 - **(transparency):** costs and fees have remained largely opaque with a number of superannuation funds continuing to report minimal investment, administration and operating expenses to the regulator. This behaviour could impede meaningful product comparisons until addressed through enhancement of the existing disclosure regime (through RG97).

Specific member nuances should be taken into consideration when comparing net returns, costs and fees. For Mine Super, these nuances include (but are not limited to) the requirement to support members that live and work in remote Australia and complex insurance design (which is explained in further detail below). The PC's proposed approach largely ignores the benefit of the breadth of services related to a particular industry (education, insurance offering, geographical reach and technical industry expertise) that superannuation funds provide to improve overall engagement with superannuation.

Default fund members

Mine Super is supportive of increasing the efficiency of the superannuation system for default members and believes that there is room for a number of providers in the system. Limiting default providers as proposed, however, could result in cost driven competition that may lead to significant concentration, stifle future innovation and lead to poor member outcomes.

Mine Super agrees with the concept of one default product per member at any one time. Any recommendation, however, that a default product be assigned only once is flawed on the basis that:

- this approach does not take into account early work force participation where members may not be in established careers and the superannuation fund therefore is not representative of their long term career goals;
- new members predominantly join the workforce at a life-stage when they have lower levels of financial literacy and are:
 - less likely to make an informed decision in relation to selecting an appropriate default superannuation fund;
 - more likely to make a significant change in employment to a different industry in the near term (which may require significantly different service offerings and different insurance arrangements); and
 - more susceptible to short term inducements and marketing activity that may not take into account their long term interest;
- it would further entrench member disengagement and an ongoing lack of involvement and interest in superannuation where active choice is discouraged;
- further burden would be placed on government to manage unintended consequences (described above) which shifts focus and effort away from the maximisation of retirement income; and
- it would potentially unwind sound industry and regional based engagement models between members and superannuation funds.



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In summary, Mine Super agrees with the broader concept of one default fund per member. We do, however, advocate for a default model where members:

- only hold one default account at any one time;
- are strongly encouraged to make an active choice at the time of change in employment (supported by fund comparison tools provided by the existing default fund, new fund, the industry or government); and
- are moved to the new fund in the absence of an active choice.

Insurance in superannuation

Access to insurance (and group insurance in particular) is critical to the financial wellbeing of all Australians and their families. Insurance acts as a safety net from the significant impacts that can occur from the loss of life, disability or loss of income to members with dependents or large financial obligations. Mine Super is a good example to illustrate this point on the basis that members primarily work in underground or open-cut mining environments. At an industry level, these employment conditions are largely regarded as dangerous by insurers due to the heavy machinery which members operate and the workplace dangers they are exposed to. Without group insurance, Mine Super’s members would face difficulties in accessing an appropriate level of coverage across life, disability and illness at a reasonable cost in the absence of Mine Super’s ability to provide improved accessibility through group insurance arrangements. In 2017, Mine Super’s claim ratio is above 90%.

If insurance is compared purely on a cost basis, Mine Super’s insurance would likely be deemed expensive against other funds (on the basis of the reasons described above). Adequate context to the mining work environment and the likelihood of risks associated with injury need to be considered and disclosed when comparing differences in premium cost. Mine Super therefore recommends caution when proposing a move towards cost-driven comparisons of funds. Mine Super does appreciate, however, that the PC may find difficulty in comparing the costs and benefits of insurance in superannuation (due to the complexity of insurance design and large number of providers).

