

**united  
voice**



**THE PRODUCTIVITY COMMISSION INQUIRY INTO**

**SUPERANNUATION:**

**ASSESSING EFFICIENCY AND  
COMPETITIVENESS**

**AUGUST 2017  
INITIAL SUBMISSION**



## INTRODUCTION

United Voice is a union of 120,000 workers organising to win better jobs, stronger communities, a fairer society and a sustainable future. Our members work across a wide variety of industries, including aged care, health, early education and care, education, property services, hospitality and manufacturing. We do the essential work that keeps Australia running, every hour of the day, every day.

It is common for our members to be trapped in a cycle of precarious employment, low pay and insecure work. Many of our members are award-reliant, earning less than two-thirds of the median wage. Some have difficulty saving for life's emergencies, let alone for their retirement. Consequently, they rely on default fund allocation to protect their retirement savings. United Voice plays an active and critical role in representing workers' interests, including in relation to superannuation, across a range of industries.

Traditionally, superannuation was limited to white-collar workers. Workers who were low-paid, blue-collar, women or casualised (which broadly characterises the membership profile of our union) were generally excluded from superannuation until the advent of the Superannuation Guarantee.

From the early 1980s, our union has fought for better access to superannuation entitlements and has played a significant role in ensuring that superannuation is provided (almost universally) across the workforce, first through the award system and then through the compulsory Superannuation Guarantee. United Voice continues to advocate for a more equitable superannuation system, and is active in seeking to address the issue of unpaid superannuation.

As employee representatives on a number of industry superannuation funds relevant to our coverage, and as an interested party to award proceedings at the Fair Work Commission, we advocate for our members' interest in protecting our strong default superannuation system.

It is in this capacity that we provide these comments on the Issues Paper for the third stage of the inquiry – as advocates for both our members and award-reliant workers, and in support of the current default superannuation system that has demonstrably delivered superior outcomes Australian workers.

We have had the benefit of reading the Australian Council of Trade Unions' submission and support their submission in its entirety. Our comments below are made in response to specific questions by the Productivity Commission.



## KEY POINTS

- **We currently have the third best retirement income system in the world.** Any proposed reforms need to be carefully balanced against the very real risk of negatively impacting on the current system, jeopardising the retirement savings of millions of workers.
- **Superannuation is an employee's deferred wages.** Accordingly, and as a matter related to employment, selecting and prescribing default funds should remain within the industrial relations system. It has thus far provided strong protections to employees who rely on the default allocation of funds to select high performing funds.
- While reduction of administrative fees charged to members is desirable, fees cannot be looked at in isolation. **A sole focus on fees charged to members does the system a disservice and can be misleading.** The focus should properly be on maximising returns to members in their retirement and limiting the ability of funds to spruik inferior products to potential members by undue focus on fees, without adequate disclosure of fund performance.
- The tailoring of costs and fees to different segments of the market is likely to increase predatory behaviour and increase the complexity of the system. In any case, the current system already caters to different member segments to maximise net returns.
- **The Fair Work Commission remains the most appropriate body for adjudicating and selecting default products free of politicisation and bias.** The transparency and judicial nature of the tribunal's selection process maintains public confidence that the superannuation system works in the best interest of fund members and not the financial services sector.



## DISCUSSION

Along with voluntary savings and the aged pension, superannuation is one of the three pillars of our retirement income system, designed to ensure that working Australians retire with an adequate income.

Unofficially, the fourth pillar of our retirement income system is home ownership. For many Australians, home ownership is the critical factor in determining how comfortable they will be in retirement.

With the rate of home ownership continuing to decline as housing prices soar and as wages stagnate, many Australians face retiring in poverty and therefore relying more heavily on government support in retirement.

This is the reality of our members. In a 2013 survey of 26,000 United Voice members, members overwhelmingly expressed concern about the adequacy of retirement incomes, particularly in the context of cost of living pressures such as housing and utility costs. They are worried that they will not be able to afford to retire.

Many of our members depend on a strong default superannuation system and industry funds to effectively manage their retirement savings.

**I FIND IT HARD TO MAKE ENDS MEET PAYING ALL MY  
BILLS SUCH AS ELECTRICITY, CAR REGO IS DIFFICULT.  
I WORRY THAT WHEN I RETIRE I WON'T BE ABLE TO  
LIVE COMFORTABLY.**

- UNITED VOICE QUEENSLAND MEMBER, REAL VOICES (2013)





## **OUR RETIREMENT INCOME SYSTEM IS RANKED THE THIRD BEST IN THE WORLD.<sup>1</sup>**

Any recommendations of reform following this inquiry need to be balanced against the risk of producing an inferior system. At risk is the retirement savings of fund members who fall into the safety net of default super fund system.

It is therefore critical that the system produces the best long term net returns for employees otherwise future governments will be forced to increasingly support Australians in retirement.

## **MANY OF THE REFORMS SUGGESTED ARE A “SOLUTION” TO A PROBLEM THAT DOES NOT EXIST.**

Indeed, the biggest issues facing the system are unpaid superannuation and the significant gender gap which persists in superannuation savings (women retire with approximately half the retirement savings of men).

Despite acknowledgment of both these issues by respective Senate Committees in 2016 and 2017,<sup>2</sup> no reforms have yet been proposed to address these issues of systemic inequality and non-compliance.

United Voice urges the Productivity Commission to proceed with caution in recommending wholesale reforms to a proven and superior system.

1 Melbourne Mercer Global Pension Index, '2016 Melbourne Mercer Global Pension Index Media Release,' Media Release 24 October 2016, <<https://www.globalpensionindex.com/wp-content/uploads/MMGPI2016-Media-Release.pdf>>.

2 Senate Economics References Committee, 'A Husband is Not a Retirement Plan': Achieving Economic Security for Women in Retirement, 29 April 2016; Senate Finance and Public Administration References Committee, 'Gender segregation in the workplace and its impact on women's economic equality,' 7 June 2017.

## MEMBER INSIGHT



### I TURNED 50 AND SUDDENLY RETIREMENT AND SUPERANNUATION BECAME A REAL THING.

I checked my super balance and I'm lucky because for almost 20 years my employer has been paying a contribution into my super account. That's money I could never have saved because as an early childhood educator I'm not highly paid. The only reason I even have a super account is because unions fought for it. People forget that only the rich had super until 20 years ago.

Thanks to United Voice and other unions, today every Australian worker has a growing super account, funded by employers. And many of us have our super with the union-backed industry funds, which return all profits to members. We need to defend our industry funds.

When I retire I won't have to rely solely on the aged pension. I can look forward to a little more dignity and security in later life. I think our super system still needs to be improved. We need to look more closely at how inequality distorts our super system.

We all get 9.5 percent of our salary paid in super but, for those on below average wages, that's not enough. One solution is to increase wages - if we can achieve better wages, we will achieve a more equal superannuation system.

**At the end of our working lives, every Australian should have enough for a comfortable retirement.**

# RESPONSES TO SPECIFIC QUESTIONS

## 1. WHETHER THE CURRENT DEFAULT SETTINGS IN THE SYSTEM ARE APPROPRIATE OR WHETHER POLICY CHANGES WOULD BE DESIRABLE?

### WHETHER AN ALTERNATIVE DEFAULT FUND ALLOCATION MECHANISM SHOULD BE INTRODUCED THAT WOULD DELIVER NET BENEFITS?

United Voice strongly opposes any default fund allocation model that proposes to remove superannuation from the industrial relations system. It is proper and appropriate that the allocation of default funds sits within the industrial relations sphere- as a worker's deferred wages, superannuation is an entitlement of employment and thus can be nothing other than an employment related matter.

Historically, unions campaigned for decades for workers' superannuation entitlements through our award system. In exchange for wage constraints under the Accord process under the Hawke-Keating Governments, unions, on behalf of all workers, agreed to compulsory superannuation as deferred wages. Employees therefore have to be satisfied that the best possible use is being made of what is their own money.

The IR system, regulated by the industrial umpire, is able to provide strong protections for fund members, acting as a safety net to ensure that workers' entitlements are safeguarded and their retirement savings are effectively managed.

As noted above, we currently have the third best retirement income system. It shares a similar and telling characteristic with the two other systems that outrank ours - both Denmark and the Netherlands also have their default products allocated via their industrial relations system.

These top three retirement income systems prove that retaining default arrangements in the industrial relations system is a successful model which provides the necessary protections to employees through the selection of high quality funds as default arrangements for non-engaged members.

Consequently, awards and enterprise agreements are and should remain the appropriate means of selecting and prescribing default superannuation funds.





## CASE STUDY

### **THE INDUSTRIAL RELATIONS SYSTEM PROVIDES STRONG PROTECTIONS FOR FUND MEMBERS.**

For example, last year United Voice members employed by Serco Group were informed that Serco had decided to appoint Mercer Super Trust as their default superannuation fund.

This was despite the existence of an enterprise agreement in place in which the members had determined a different default fund.

Employees received an email from Mercer Super Trust informing them that they would be transferred from their existing fund to Mercer unless the employee advised otherwise.

The employees were able to rely on their bargained agreement to protect their choice and the default arrangements decided by workers as part of the bargaining process remain in place.

In this case, the existing default fund has consistently outperformed Mercer Super, and the transfer of members' money to an inferior fund would have disadvantaged workers.

The IR system thus acted as an effective safety net, ensuring that matters agreed by workers were preserved.



# RESPONSES TO SPECIFIC QUESTIONS

**2. WHAT IMPACT COST AND FEES HAVE ON MEMBERS WITH LOW ACCOUNT BALANCES, AND WHAT ACTIONS COULD BE UNDERTAKEN – WHETHER BY FUNDS OR POLICY CHANGES – TO ENSURE THAT THESE BALANCES ARE NOT ERODED NEEDLESSLY;**

**AND**

**WHETHER TAILORING OF COSTS AND FEES TO DIFFERENT MEMBER SEGMENTS COULD BE APPROPRIATE.**

Reducing fees for unnecessary services and preserving employees' account balances is desirable and many funds already adapt life and income insurance for younger members to reduce fees.<sup>3</sup>

However, the inquiry's terms of reference unduly focuses on the fees attached to servicing fund member's retirement savings.

This does the system a disservice and misleads the inquiry as it fails to properly take into account an important indicator of the system's success, being the long term net return for fund members.

The Productivity Commission should therefore be mindful that reducing fees is strikingly different from increasing net returns and fees should not be considered in isolation.

Placing the focus of the system on solely the fees charged to members is also likely to encourage predatory behaviour as funds spruik their low fees and down play their poor investment returns.

Superannuation is a long term investment - the accumulation of adequate retirement savings is the critical objective.

The current system can already cater to different member segments and all funds offer a range of investment options.

3 See Alice Uribe, 'Superannuation funds reduce default cover for younger members', Australian Financial Review, 14 August 2017.

## CASE STUDY

The Supported Employment Services Award 2010 ('SES Award') covers employers and employees in supported employment. The employees have varying levels of disability. The more significantly disabled employees are engaged in what are called Australian disability enterprises ('ADEs'), are paid a wage that is heavily reduced by a wage assessment process contained within the award.

United Voice is the main union with current and historical coverage of these workers.

AustralianSuper is the only default fund under the SES Award. AustralianSuper has had a long involvement with the disability sector through the SES Award and its predecessor awards. The SES Award makes provision for the payment of a superannuation contribution to employees with disabilities that are paid less than \$450 per month (clause 19.5).

There has been a cooperative and constructive relationship between AustralianSuper, ADEs and United Voice which has assisted this group of employees to obtain tailored access to superannuation. Historically, before the Mysuper reforms in 2014, AustralianSuper had a no insurance product for disabled workers.

One of the issues unique to this sector is that disability insurance is of no value as the worker is already disabled. A common problem due to the workers' low rate of contribution is that balances can be eroded by fees and charges.

The Mysuper reforms made it more complex to maintain a no insurance option for the sector. As part of the 4 yearly reviews of modern awards carried out by the Fair Work Commission, AustralianSuper is working with United Voice on an award variation to the SES Award that will reinstate the availability of a no insurance product for disabled workers.

This is being done in the context of also seeking an increase in the minimum contribution that is mandated by the SES Award entirely independent of general obligations created by the superannuation legislation. AustralianSuper is assisting United Voice with evidence including actuarial material demonstrating the clear benefit of a no insurance product and an increased rate of contributions for those covered by clause 19.5.

This example illustrates the types of relationship that an industry fund is able to develop partially due to the stability provided by default status within the industrial system. Funds in a more competitive environment would be less likely to have such a constructive and long term engagement with such a small but complex group of employees.

Ironically, any recommendation to tailor costs and fees to different segments of the market, including to only applying any new proposed model to new entrants, is likely to result in an increase in administration costs and fees.

Any recommendation to tailor costs and fees to different segments of the market will likely only increase predatory and misleading behaviour, as the system will increase in complexity and funds will prey on those without adequate financial literacy or understanding of the system.

United Voice warns the Productivity Commission against tailoring costs and fees to different segments of the market without properly considering the current mechanisms that adequately protect employees' interests.

# RESPONSES TO SPECIFIC QUESTIONS

## 3. HOW COULD THE PROCESS FOR CONSTITUTING THE BODY FOR SELECTING DEFAULT PRODUCTS BE DESIGNED TO DELIVER ACCOUNTABILITY (AND IS NOT JUDICIAL IN NATURE) WHILE MITIGATING THE RISKS OF POLITICISATION AND BIAS?

The Fair Work Commission (the FWC) is the most appropriate body for selecting the short-list of default fund products in modern awards. Since its inception, the FWC and its various predecessor tribunals have played a vital role in regulating and enforcing employment conditions, and dealing with industrial disputes by balancing and protecting employer and employee interests, as an independent umpire.

The FWC's independence from government and from employer and employee groups has been integral to the system's success. In particular, the transparent and judicial nature of the selection process means it is resistant to capture by the financial services sector or other interests.

The FWC hears and receives applications, weighs arguments and evidence and makes the product selection against merit focussed selection criteria in the Fair Work Act 2009. The process is transparent.

The FWC is required to publish submissions and evidence it receives, to conduct proceedings open to the public and it must publish its decisions with reasons, which allows them to be scrutinised. Any decision by the FWC is also capable of judicial review. This process maintains public confidence that the superannuation system as a whole works in the best interest of fund members.

The merit based process followed by the FWC ultimately has resulted in the establishment of a default system that is efficient, low-cost and provides superior returns for default fund members.

The suggestion to remove the selection of default funds from the FWC to the Australian Taxation Office disregards the importance of these underlying principles that ensure a fair and correct decision in relation to workers' entitlements.

The fact that the process is currently frozen at the FWC also demonstrates the industrial tribunal's suitability to adjudicate the selection of default funds free of politicisation and bias. The FWC has been unable to carry out its legislated 4 yearly reviews of default fund terms after two external expert panel members were removed by the President due to potential conflicts of interest arising from their positions as board directors on superannuation funds.

While the FWC continues to wait for government to properly constitute the expert panel, it remains the most appropriate body to administer the selection of default funds through its awards process.



## CONCLUSION

The current default superannuation system is a superior safety net. Our ranking as the third best retirement income system warns against proposing reforms that risk producing an inferior system.

This is particularly the case in relation to the proposed removal of the default model from the industrial relations system- a feature our system shares with the top two systems in the world.

The current system exists to serve employees who defer their wages to funds to manage until their retirement. It was born out a union campaign on behalf of all workers and it remains an employee entitlement.

The Productivity Commission should carefully consider the mechanisms in the current system that already cater to different member segments and which protect employees' retirement savings before recommending any changes that are likely to negatively impact workers' retirement savings.

