

**Productivity Commission Report Into How  
To Assess the Competitiveness And  
Efficiency of The Superannuation System  
ACTU Comments on the Draft Report**

9 September 2016

## Contents

Introduction .....	3
General Comment on the Report.....	3
The ACTU’s Approach to Assessment .....	4
ACTU’s View on the System-Level Objectives.....	6
ACTU’s View of the Use of Indicators .....	8
Segmentation .....	9
Retirement System Comments .....	9

## Introduction

1. In April 2016 the ACTU lodged a Submission into the first stage of Productivity Commission's Review into the Effectiveness and Competitiveness of the Superannuation System. In turn, the Commission has issued a Draft Report into Assessment Processes in August 2016 and invited interested parties to comment on the Draft Report by 9 September 2016.
2. The ACTU wishes to take the opportunity to provide comment and does so through this Supplementary Submission.

## General Comment on the Report

3. Whilst the Productivity Commission seeks to frame its study into the Superannuation system in terms of a framework in which the current policy settings are a given, the tenor of the Draft report is very much framed using the Government's Objective for superannuation – as providing income in retirement to substitute or supplement the Age Pension – as a primary motivation that the way competitiveness and efficiency in the system can be achieved is through a model which assumes that all measures of efficiency can only be derived through a competitive model.
4. The ACTU is cautious about this approach. Our view is that the scope of the Review is such that competitiveness and efficiency should be substantially viewed through a thorough investigation of whether the introduction of alternative approaches actually improves the position of key stakeholders to the Government's Objective. The ACTU previously identified those key stakeholders as being the members of the superannuation system and the Government itself and the ACTU still contends that efficiency should be measured through tangible outcomes to these stakeholders.
5. The ACTU is also concerned that much of the underlying assumptions behind the study are based on a view that Government policy is well defined and easily relied upon to determine what parameters the system should operate under. The ACTU, in its submission on the Objective of Superannuation, highlighted the need for a re-think of many of these policy parameters, to try to establish a narrative on which the key policy implications might have some structure and cohesion. Our work in this regard, in our view, highlighted the lack of cohesion in the system at the moment.

6. In particular, we would draw the Commission's attention to one of the supportive features referred to in our proposals for the Objective of Superannuation, being "Investment of funds on a long-term risk-adjusted basis in which the dual objectives of investing in the members' best interests and investing in the national interest are able to be addressed in as complementary a manner as is possible". This issue is essentially what makes superannuation an industrial and social contract between employers, workers and the Government and has the effect of significant stabilising benefits to the economy.

## The ACTU's Approach to Assessment

7. The ACTU believes that the only meaningful approach to assessment is an approach which looks at the benefits the stakeholders will obtain from changes to the system.
8. To this end, the ACTU believes the appropriate starting point for a study is to establish a base line model from which to assess whether alternative approaches, which may promote various levels of competition and efficiency, and seek to determine quantitatively and qualitatively whether these approaches actually improve the system through delivering superior outcomes to the base model.
9. The ACTU's view of what this base model is that it should be a composite or average based upon the model which was originally established in the 1980's to accept occupational superannuation. Despite some thirty years of activity, this model is still relatively homogeneous in its operations – it has a simple design, high levels of consistency in administration and insurance costs and also a relatively high level of consistency in asset allocation. The ACTU contends it would be a relatively simple process to develop an approach which represented the base case for this model.
10. The ACTU also contends this base model should be based solely on the fund model which was developed for occupational superannuation – what is generally described as the not for profit or industry fund sector.
11. A number of other features recommend this approach. Despite a reasonably significant number of evolutionary developments which have provided different approaches to the base model, the original occupational superannuation model is still overwhelmingly the most commonly and widely used form of fund for Australian workers. The ACTU estimates that of the approximate 10 million people in the Australian non-Government workforce, in excess of 6 million workers

dominantly use industry funds as the method of maintaining their superannuation savings.

12. In addition alternate models of superannuation – such as that operated in the retail sector – are predominantly based on a different approach to the manner in which their superannuation product is constructed – they are almost universally managed to a basis in which a standard fee is the dominant factor to which the arrangement is constructed and this fee arrangement then influences much of the (consistent) character of the rest of the offering – including the structure and level of administration service provision, asset allocation, investment fee arrangements and the like. It would, for instance, be a relatively simple task to measure the different outcomes achieved from the two types of arrangements to see whether there a case existed, based on the issue of whether there is any discernible benefit to the average member, for warranting consideration of whether retail superannuation had any meaningful role to play in the determination of default funds.
13. The same might be said for any alternative approaches which might emerge in the Second Stage of the Commission’s work in looking at potential alternative models for default determination.
14. The ACTU is also concerned that the lack of a base model approach lends itself to an exercise in comparing the relative efficiency of many incidental factors and a comparison amongst options which provide almost unnecessary level of complexity. The ACTU finds it difficult to understand how recommendations on default approaches might be made within this latter approach compared to an approach which systematically looks at the real costs and benefits of moving from an established regime.
15. The ACTU is further concerned about the use of competition principles alone in that this approach could impede an equity principle which needs to be inbuilt into fund offerings, to ensure amongst other things, workers whose income cycles are uneven over the course of their working lives (such as women during periods of child birth and or carers during periods of child rearing) and workers whose job security in industries subject to global market exposure and technology (and who are hence less secure in their employment) are supported as best the system can. The increasing use of new employment engagement methodologies further creates insecure work. All these factors affect the ability to fund sufficient balances to fund adequate retirement income and ultimately workers with inadequate balances are forced back on to the "welfare" support system.

16. The ACTU has also had regard for the work done by ISA in Measuring Overall System Efficiency Based on Member Outcomes and is supportive of this framework as a means of looking at an ongoing system to ensure it continues to improve its own operating efficiency.

## ACTU's View on the System-Level Objectives

17. The ACTU acknowledges the Commission has developed 5 system-level Objectives for the superannuation system. In the absence of acceptance of the ACTU's primary submission, that the method of assessment for alternative default approaches should be as outline above, it is appropriate for the ACTU to comment on those system-level Objectives and the accompanying proposals to test a wide variety of Indicators tin respect of competitiveness and efficiency.
18. The ACTU's view is that the principal Objective should be Objective 4.2, namely that the system should maximise net returns on member contributions and balances over the long term. The ACTU believes other Objectives, where relevant and maintained, should be measured in the light of the impact they have on this Objective.
19. The ACTU believes this approach to measurement should also be the basis of assessment for its preferred approach to assessment as set out above.
20. In support of this position, the ACTU believes the measure articulated under Objective 4.2 is the principal factor on which the success of any superannuation system should be evaluated. Our approach to this review has been to seek to ensure that any outcomes or conclusions meet have a real effect on the principal stakeholders to the system – the member participants and the Government. Net return to members over the long term is clearly the measure which has most impact on these parties – the success of the system depends upon the optimisation of member balances in the long run. Essentially any other measure should be seen in a light as only being relevant to the extent that an explicit decision is made to dilute the maximising of balances because of fundamental public policy considerations.
21. To the extent that other measures are proposed, the ACTU provides its comments on those Objectives, but with the overarching comment that they are worthy Objectives only if they do not detract from the principal Objective. The ACTU believes this should be the method of assessment of the utility of other Objectives – do they detract from the outcomes achieved for the principal objective and if so,

they should then only be considered as viable Objectives if they determined to be worthy of inclusion for public policy purposes.

22. In respect Of Objective 4.1, the ACTU questions the value of this Objective. Our assessment is that this is an Objective which is not about the benefit of the stakeholders but an Objective that relates largely to operative parties within the system. To be maintained as an Objective, the ACTU would say that its role should only exist to the extent that there is some evidentiary basis that competition amongst suppliers can, has or will be of value to the system. Our primary submission asserted there is no real evidence of this having been a factor in the system to date; indeed the advent of retail funds in a substantial way in the past five years has not added value given that retail suppliers have consistently sought to compete by establishing their structures aimed at a fixed price in which they believe they can compete with industry funds – hardly a feature of competition yielding an efficiency and more of a case of oligarchic structures attempting to fix a rate for operation in the industry.
23. The ACTU does not dismiss Objective 4.3 in that it believes member preferences and their needs should be a factor in the development of the system. Initially the ACTU would contend that this has largely manifested itself through the design features of a highly successful default regime and the fact that an overwhelming majority of participants have supported that structure is evidence of its durability. Nevertheless if alternative approaches were needed to better fulfil member needs, the ACTU would say this should be part of an industry wide assessment and the adoption of approaches best suited to those needs and the incorporated into the default model. The ACTU does not support a system which caters to every permutation of what member needs and preferences might be. With any such arrangement, there should be a fundamental cost/benefit analysis of those preferences. The ACTU believes a significant number of these preferences can be met with little cost to the system – be it provision of information in alternative and timely arrangements, investment choice options and the like. However if the cost of providing ultimate flexibility is to add substantial additional costs to the system – and that means the majority of participants to the system need to accept sub-optimal net returns – then the value of that level of flexibility should be questioned.
24. The ACTU supports Objective 4.4, the inclusion of insurance (at least cost and we would say at optimal value) as a desirable Objective of the system. The ACTU accepts that the default arrangements for insurance within superannuation are the most widespread and important means of providing meaningful death and disablement insurance across the workforce and that the removal of insurance would see a significant number of Australians place their or their families' standard of living at risk if it was removed.

25. The ACTU also supports the sentiments of Objective 4.5 but sees this as a matter of Government oversight through timely and comprehensive reviewing of the financial system. The ACTU believes that existing Government Regulators and Institutional Structures are also adequately equipped to ensure this Objective is maintained.

## ACTU's View of the Use of Indicators

26. The ACTU is concerned about the complexity and utility of the approach the Commission has adopted in identifying such a significant number of Indicators for consideration and with limited substance to how these Indicators might be effectively used to add value to the Commission's work. The very fact that so many Indicators are being sought to be tested almost immediately challenges whether an uncomplicated view of the efficiency of major Indicators can be obtained.
27. The ACTU supports the use of Indicators where they can be easily used in a form of cost/benefit analysis. Again, if the ACTU's approach to assessment were to be adopted, the use of Indicators on key issues under the relevant Objectives could be tested to see whether they were advantageous to the base model (and worthy of incorporation into a revised base model structure) or whether they produced significant cost and should be discarded as not consistent with the principal Objective or not of sufficient importance to warrant being included given that the level of additional costs would not be of benefit to the system. The ACTU is concerned that many of the Indicators do not appear to be a means to an end but more of an interesting feature to make commentary on the operation of the system. If Indicators are to be used, the ACTU submits they should be clear in their purpose (are we looking at a feature which is relevant to the operation of the system) and measurable to the extent that an assessment can be made on a basic cost/value exercise.
28. The ACTU is concerned that the use of Indicators as outlined in the draft Report is designed in such a way in that they will only measure the relative efficiency of competitive structures. The ACTU's view is that the measures should be able to clearly measure the impact any level of increased competition against the established default model in demonstrable cost/benefit terms.



## Segmentation

29. The ACTU has supported the case to undertake some of the Commission's work by segmenting aspects of the system and ensuring that the work on efficiency is properly relevant to that segment of the system.
30. The principal reason for this support is that the ACTU believes this will allow greater focus on the needs of those workers who participate in a system where the default arrangements are truly meant to operate. It is the ACTU's view that if individuals wish to enter into either a Choice regime or an SMSF arrangement, then they have essentially placed themselves outside of the principal hardware of the superannuation system and that decisions that impact the best interests of the operation of the system shouldn't be prejudiced or skewed by participants in these type of alternative arrangements. It is in these areas, for instance, that a number of participants might look to greater levels of member preference or the design of features which might individually suit their needs. These decisions should not influence a proper consideration of those who stay within a mainstream system for which default arrangements will have relevance.

## Retirement System Comments

31. The ACTU has some concerns that aspects of the Commission's work on seeking efficiencies within the accumulation component of the superannuation system is influenced by what is essentially an immature and evolving retirement income system. The retirement income system has been allowed to develop as an ad-hoc adjunct to the accumulation component and the ACTU would contend that little serious investigation has been conducted into what an efficient retirement component of the system might look like. To this end, it is little surprise that individuals, left to the vagaries of the market have either often been poorly advised or have retreated to risk-adverse products and have hurt the long-term opportunity to maintain the value of their superannuation balances. Consistent with this, we have also seen the development of well-marketed but poorly designed lifestyle products which have worked to the same outcome.

32. The ACTU makes two substantive comments in this regard:-

- a) That the review in to the default stage should not be overly influenced by what appears to be a series of poorly designed and inefficient products and concerns in relation to either investment approaches or longevity risks when such issues are best addressed outside the scope of this review;
- b) That we would support a recommendation which called upon Government to undertake a more substantive review of options for retirement income to ensure stability of payments in a person's retirement stage and an ability to maintain balanced investment approaches to maintain the integrity of the investments within a fund structure.

**ADDRESS**

ACTU  
365 Queen Street  
Melbourne VIC 3000

**PHONE**

1300 486 466

**WEB**

[actu.org.au](http://actu.org.au)

**D No: 94/2016**

Australian  
**Unions**  
**Join. For a  
better life.**

