

CORPORATE SUPERANNUATION ASSOCIATION Inc.

ABN 97 799 893 065

PO Box 112
Collins Street West
MELBOURNE VIC 8007

Email: corpsuper@netspace.net.au
Website: www.corsuper.com.au

10 July 2018

Ms Karen Chester and Ms Angela MacRae
Superannuation
Productivity Commission
Locked Bag 2, Collins St East
Melbourne VIC 8003

Dear Ms Chester and Ms MacRae

Response To Draft Report: Superannuation – Assessing Efficiency and Competitiveness - April 2018

We refer to the invitation for the Corporate Superannuation Association to provide comments on the above Draft Report on Superannuation – Assessing Efficiency and Competitiveness (April 2018) (the *Draft Report*).

The Corporate Superannuation Association

Established in 1997, the Association is the representative body for large corporate not-for-profit superannuation funds and their employer-sponsors. The Association now represents a total of 18 funds controlling \$53 billion in member funds, held in a total of some 274,000 individual accounts. Of these funds, 10 have outsourced trustee services but maintain significant employer interest through policy committees.

In general, these funds are sponsored by corporate employers, with membership restricted to employees from the same holding company group, but we also include in our membership three multi-employer funds with similar employer involvement and focus. A number of our funds have defined benefit divisions.

Some of the smaller funds have their place in the pension fund structures of international groups, hence play an important role in the care and welfare of the worldwide workforces of these groups.

References to "chapter" and "page" in the following are to chapters and pages in the Draft Report, unless otherwise indicated.

CORPORATE SUPER ASSOCIATION

The Special Contribution of our Funds to the Quality of Superannuation in Australia

In brief, our funds contribute the following unique features:

- Superior governance as a result of the close oversight of the funds by closely related employers and workforce;
- Absence of commercial ownership and conflicts of interest between beneficiaries and owners of the governing interests;
- More generous benefits because of employer interest in employee welfare;
- Greater suitability of benefits because of greater trustee knowledge of workforce needs; and
- Superior performance, and lower fees and costs, as a result of the above.

Data on Corporate Funds and their Particular Benefits

In our discussion at the Commission's hearing in Melbourne on 21 June 2018, you sought data on the number of corporate funds still in existence; and the extent to which employers provide benefits in excess of minimum Superannuation Guarantee (SG) levels, and bear the cost of insurance and administration.

Corporate funds still in existence

Whilst the number of stand-alone corporate funds has materially declined, those that remain are, typically, substantial funds with many members and sophisticated governance and management. An important further point is that whilst stand-alone funds are reduced in number, the funds for many significant employers still exist as identifiable sub-funds within master trusts and umbrella funds, and as stand-alone entities under the trusteeship of external bodies.

External trusteeship

Of all corporate funds, the number that remains is obscured in APRA statistics by the classification of all funds with externally provided trustees as "retail". This misrepresents the nature of these funds whose sponsoring employer has decided to outsource the provision of trustee services, but has retained the fund characteristics and benefit structure.

There is a variety in these arrangements, but many such employers retain an interest in the activities of the fund and continue to contribute at more than basic levels.

Sub-funds in grouped arrangements and master trusts

Many employers that have transferred their members into sub-funds within master trusts or in grouped funds serving common industries, continue to provide the benefits previously provided when the fund was a stand-alone fund.

There are many corporate sub-fund arrangements in master trusts and industry funds that have outsourced, but retained their own designs within the larger structure, and continue to provide benefits above SG minimum. These additional benefits include the provision of insurance, and sometimes administration fees.

There are many sub-funds in the major corporate and defined benefit capable master trusts, run by Mercer, Plum, Russell, Aon, AMP, Equisuper and SunSuper, that have employer supported arrangements for insurance. We do not have statistics for all these groups, but Mercer report that there are approximately 220 employer sub-plans in the Mercer Master Trust.

CORPORATE SUPER ASSOCIATION

Tailored MySuper

There is a number of tailored MySuper arrangements (large employer sponsored tailored sub-plans within MySuper plans operated by professional trustees such as AMP and Mercer). In 2015, at the time of a Treasury review, there were 13 such arrangements. By their nature, with a minimum membership of 500, these plans cater for the employees of large employers, and exist because of the desire of these employers to provide tailored MySuper arrangements for their workforces but within a structure provided by a professional trustee.

Superior Support and Benefits

In our membership we have eight funds with in-house trustees that range in assets between \$710 million and \$21 billion.

We also represent ten funds that are under professional trusteeship, where the employers sustain a strong interest in the functioning of the fund.

The following information has been provided by the professional trustee which acts for ten funds in our membership.

- One fund is pure defined benefit (**DB**), so the employer automatically pays for insurance, because the insured conditions are covered as part of the defined benefits;
- four are hybrid DB/defined contribution (**DC**), where the employer pays for insurance for DC as well as DB; and
- five are hybrid DB/DC, where the employer pays for insurance for DB members, but members pay for the insurance for DC.

The insurance provided is death and total and permanent disablement (**TPD**) insurance. It is more common, where insurance is paid for by the employer, for disability income benefits (**IP**) cover to be provided by employer-owned policies, rather than provided through the fund.

For the DC, the payment of insurance is on top of SG minimum, where financed by the company.

The following information is provided in respect of our stand-alone funds

<i>Fund</i>	<i>Contribution level (employer)</i>	<i>Benefit structure</i>	<i>Insurance paid by</i>	<i>Administration costs paid by</i>	<i>Insurance cover</i>
1	13%	DB and DC	Employer	Employer	Death, TPD, IP
2	12%	50% DB, 50% DC	Employer	Employer	Death cover multiple of salary depending on age. IP separate employer policy
3	13%, plus for some DB categories - employee 5%	DB and DC	Employer for DB	Employer for DB	Death, TPD, IP

CORPORATE SUPER ASSOCIATION

A further three funds of our membership receive contributions from several employers and have a variety of benefit structures, many including defined benefits.

It is intrinsic to the provision of defined benefits that the employer funding includes administration and insurance costs. The support levels in the defined benefit sub-funds of these larger funds are typically of a similar level to those in the table above. Many of the funds also provide defined contribution support in excess of minimum SG levels.

Choice: Proposed Modification to the Commission's Approach

We acknowledge the care and research undertaken by the Commission to determine the best and most competitive way forward for superannuation arrangements in Australia.

We seek a modification in the current proposals for defaults, in order to avoid annihilating value in efficient performers whose products are well tailored to specific workforces and industries but whose plans would be barred from participation or obscured in the new entrant choice line-up.

This is because the Commission's approach to fund choice for new workforce entrants, further discussed below, would result in the available field for default funds being limited to public offer funds. The result would be that the majority of corporate funds would be excluded from the field and that the carefully tailored and valuable arrangements for new entrants to the workforce in our funds would be made inaccessible, other than new entrants who hear of the fund and are sufficiently engaged to enquire into, and take advantage of, the specific benefits available through our funds.

Presentation of the choices for new entrants via the proposed MyGov portal

We see potential difficulty in the proposed presentation to new entrants to the workforce of the line-up of the ten "best in show", backed up by the second listing of all MySuper products. Those of our funds that are not public offer would not be eligible to compete for the short-list of ten, as it would presumably not be desirable to place a restricted entry fund on the list. The listing of all MySuper funds amongst the available choices would be problematic because, again, some would be open only to employees of a particular employer or group or industry.

We urge that consideration be given to individual-specific filters to this listing process. The gateway could, we hope, be tailored to show three lists:

1. the list of ten "best in show",
2. the list of restricted entry funds available to that particular person by virtue of his/her employment (details of employment would previously have been input to the system), and
3. the list of all public offer MySuper products.

We believe that this approach provides the opportunity for employees easily to find their employer-sponsored fund in the line-up and to consider this as one of their options.

Some Issues with the Field of Ten "Best in Show"

Choice from field of up to ten

Whilst the criteria for the proposed expert panel to make this determination at a particular time are to be carefully devised, and the whole field is to be re-evaluated every 4 years, issues raised include the following:

CORPORATE SUPER ASSOCIATION

- A common, simple design that allows for easy comparisons will not produce a product that meets employee needs, as there will be no effective differentiation between products. In short, employees with guided choice would be directed towards very bland and undistinguished (even if performing well on their terms) product offerings.
- The funds offering the "competitive" products will be concerned above all with short-term performance – over 4 years. They will not be motivated to seek the advantages of collective investment over a long time horizon, and overall returns across the competitive group will be impaired.
- It remains to be seen whether the choice of up to ten funds will be of value to a cohort of employees who are disengaged.

Use of the field of ten best performers as a source of default funds

For the employees who do not exercise choice even when presented with the field of ten and further options through the MyGov portal, the solution of the default problem by allocating one of the field of ten gives rise to certain difficulties. These include:

- The choice from the field of ten of the default for a specific employee, whether random or otherwise, may lead to invidious comparisons.
- What happens when, after 4 years, a fund that appeared highly competitive and received a volume of default entrants, has declined in its performance to the extent that it is no longer in the panel of best in show and the best interests of new members are no longer served by directing them to this fund? What is now in the best interests of the members who were defaulted into this fund 4 years ago? Should they be moved? Should they be advised to move? Are there issues of liability for the Government and for the Panel? We do understand that the Commission believes that provided the allocated default fund retains its MySuper status, it will still be a very adequate fund for the employee, but we are concerned by issues of trust where the fund has, say, dropped from the top quartile (and persists with poor performance) and the disengaged member has lost money by comparison with a contemporary entrant on a similar wage.

Assisted employer models for defaults

The difficulties with the field of 10 best performers as a source of default fund have been outlined above. Despite the hazard that employees could be allocated by the employer to poorly performing funds, the employer default choice model retains the significant advantage that the employer knows its workforce, and employer selected funds may offer differentiated products suitable to that workforce. We think the focus should be on assisting employers to demand good performance from their funds, so as to eliminate the poor performers from the field.

If genuine choice is extended to all employees (and we agree that, subject to the above concerns, there may be value in providing data on the "best performers" and in providing a shortlist) we consider that the best default arrangements would still be determined by the employer.

Insurance

We have previously provided input regarding the particular role of insurance for the members of our funds. In our submission to the Commissioners dated April 2017, we highlighted the diverse needs of various occupations, and the significant economies provided by group arrangements. We now highlight further that there are certain occupations, industries and locales where it would be very

CORPORATE SUPER ASSOCIATION

unwise to make insurance coverage for under 25s an "opt-in". These include situations where the occupations are dangerous, and/or where the exposure is overseas and special coverage has been negotiated. In many such cases, the employer funds the cover and the employee's account is not charged for the cover.

In our submission in April 2017, we suggested a default requirement for life and permanent disability cover within superannuation from a specific age (25 or 30) and supported the provision of cover for all ages in occupations carrying particular physical or other (e.g. location) risk.

This remains our position, most recently stated in our submission to the Senate Economics Legislation Committee on the *Treasury Laws Amendment (Protecting Your Superannuation Package) Bill 2018* in July 2018.

Where the employer carries the insurance cost the argument for "opt-in" on grounds of account erosion is absent – the employee's account is not charged and is therefore not eroded. It is in the employee's best interest for the cover to be provided. This has been recognised in the legislation, as introduced.

We note that the Commission has expressed doubt about the suitability of income protection insurance, but in some of our funds the income protection is deliberately structured substantially to replace TPD. IP cover often provides a much higher benefit.

For example, an employee aged 40 and earning \$75,000 p.a. might typically have Death/TPD cover of, say \$300,000; that same employee would typically have 75% of income paid until age 60 – a total of \$1,125,000. This can clearly be a more valuable benefit to the employee, especially where the employer is paying for it.

Tax relief alternative

We have also highlighted previously that employers can have a very strong interest in making sure that their employees have adequate insurance cover. To that end, putting employer death and TPD insurance arrangements onto the same tax footing as group insurance superannuation arrangements in a super fund would be achievable by legislative change.

Conclusion

We have discussed above the importance of providing benefits that the employer considers valuable in the context of their employees' work environment and risks. Tailored insurance offerings and enhanced benefits based on support in excess of the minimum required are some of the benefits available in corporate employer-sponsored funds.

The assisted employee choice model, as proposed, does not permit these benefits to be provided for new entrants by default as it effectively excludes funds that are not "public offer". Such tailored fund offerings should be part of the assisted employee choice panel offerings, as the benefit to individual employees can be quite significant.

The proposals regarding opt-in for insurance coverage are also too broad. We support the current legislative proposal to apply an exclusion where the employer has funded the insurance through support in excess of SG minimum.

CORPORATE SUPER ASSOCIATION

We believe that a further exclusion should apply in circumstances where the employee's best interests are served by providing cover is for high risks, and specialised risks, and for employees in remote locations who would have difficulty accessing communications.

Yours sincerely

Mark N Cerché

Chairman

Corporate Superannuation Association