



25 August 2017

Productivity Commission
Level 2
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Superannuation: Assessing Competitiveness and Efficiency

I attach a brief submission from Cbus in response to the Issues Paper.

Our comments relate to the approach taken by the PC, the default system, and insurance.

If any matter needs clarification, please contact James Bennett

Yours sincerely,

David Atkin

CEO, Cbus

1. Introduction

Cbus welcomes the opportunity to comment on the Issues Paper.

Established in 1984, Cbus is the industry superannuation fund for the construction, building and allied industries. Cbus recently received recognition for its 11 years as a platinum rated fund by independent ratings agency *SuperRatings*. Cbus is run only to benefit members, and doesn't pay commissions to sales agents or financial advisers.

Cbus also invests back into the construction and building industry, which not only provides strong long-term investment returns, but helps boost our economy and create jobs within the industry.

Cbus has over:

- 750,000 members
- 136,000 employers
- \$40 billion in funds under management

Cbus has provided input into the submissions of Industry Super Australia (ISA) and the Australian Institute of Superannuation Trustees (AIST).

2. PC Approach

Cbus does not believe that superannuation is 'just another financial service' - nor should it become one. Superannuation is a social and economic policy involving deferred wages. Responsibility for investing workers retirement savings should not be auctioned to the lowest bidder. This approach will lead to a simplistic emphasis on low fees that may compromise investment outcomes as more passive, less expensive investment strategies are sought. We note the research by ISA earlier this year showing that a system which prioritises low fees would not lead to enhanced member outcomes.¹

If superannuation becomes conceptualised and consequently treated the same as other commercial financial products, such as banking or insurance, then it will become subject to the same market forces that have produced numerous consumer problems over the last decade. We believe that many of these problems have been caused by the problematic culture that exist within these entities; indeed, all of Australia's big 4 banks have been implicated in significant scandals, revealing both a structural conflict in the heart of their commercial model and the fact that market based disclosure models of consumer protection are ineffective at ensuring sound outcomes

¹ *Risky business: Why the proposed models would not protect members*, Industry Super Australia, April 2017.

for Australians. These two factors, and particularly an honest and evidence based assessment of consumer behaviour, must provide the context for any assessment of the superannuation system, or attempt to redesign the selection of default funds.

The Issues Paper also seems to ignore the choice and self-managed sectors, preferring to focus on the default system that has performed well. This overlooks the key source of underperformance in the superannuation landscape.

The culture and values of industry super funds and not-for-profit funds are different because they exist to benefit fund members only. Industry super funds are characterised by an absence of divided loyalties and member focused decision making structures. Consistent with global best practice, Australian not-for-profit super funds are governed and driven to deliver the best outcomes for members.

The motives and historic performance of many institutions seeking to gain access to greater numbers of default fund members should be viewed sceptically and critically. Bank-owned funds continue to advocate a position based on a discredited view of market-based competition and disclosure-based regulation that seems designed to extract value from members rather than value for them.

The philosophy of ‘profit for members’ has consistently delivered and outperformed ‘profit for shareholders’ funds.² We submit that too often the mantra of ‘competition’ has largely resulted in consumers being sold into poor performing products which often jeopardises their future retirement incomes.

Employer associations and trade unions play a significant role on the boards of many funds and they ensure that members’ best interests are paramount in the administration of their superannuation. We believe this is a key reason why the industry super fund model has consistently outperformed superannuation offerings from the for-profit sector. It is also a consequence of their role in the superannuation system that significant investment decisions and strategies have been implemented that not only benefit individual members through higher net returns, but look to long term capital formation that provides real-economy benefits and for Cbus members, employment in a thriving sector.

It should also be noted that the best performing superannuation or pension systems in the world are industrially based, and they are not Chile or New Zealand. They are Denmark and the Netherlands.³

The superannuation industry has a critical role to play in the Australian economy as a stable long term investor and as the custodian of deferred wages for its members. It also eases pressure on the age pension.

² Industry Super Australia (2016) ISA submission to the Productivity Commission, May 2016; Industry Super Australia (2016); Living in an Empirical World, October 2016.

³ <http://www.globalpensionindex.com/news/2016-melbourne-mercero-global-pension-index-media-release/>

We submit that changes should be delayed until the system has been allowed to absorb and solidify the raft of changes that have occurred in recent years. We note that the FSI expressed similar sentiments when it recommended that change not be considered until 2020 when *MySuper* would have matured and could be properly assessed.

In addition, the existing default system has delivered above-average long term performance and was recently reviewed and revised; however, the system has not yet had an opportunity to proceed because the Fair Work Commission Expert Panel has not been appointed by Government.

Current default system has performed well

It is important to remember that:

- superannuation is deferred wages and an industrial matter;⁴ and
- international evidence clearly shows industrially based systems are the best performers around the world.⁵

The foundations of superannuation were built from the leadership of trade unions and agreement with employers to provide superannuation for all workers. Their shared purpose to provide innovative funds which are run only to profit their members (rather than shareholders) has delivered consistently better returns. Unions and employers, and their peak bodies, have specialist knowledge of the labour force and the industries in which members are employed, patterns of workforce participation and labour mobility, a knowledge of employer preferences and capabilities, employee financial literacy, the insurance needs of the workforce and the need to generate long-term and sustainable investment returns through patient and innovative investments.

They also bring a significant competitive counter-balance to the profit-driven interests of the finance sector, instead seeking to embed culture and values that are completely focused on the best interests of fund members.

They have played and they should continue to play a central role in the default system.

Selection of default funds

We are pleased that the Commission has acknowledged that a quality filter is needed, and that the filter should be stronger than simply *MySuper*.⁶

Cbus supports the selection of default funds by a government body that has the necessary skills and expertise and note that the FWC architecture already exists to

4 The claim that superannuation was not an industrial matter was dismissed by the High Court - [160CLR 341 \(15 May 1986\)](#)

5 *Living In An Empirical World, The Best Retirement Income Systems in the World Rely on Industrial Defaults* – Industry Super Australia Submission re: Alternative Default Models Issues Paper - <http://www.industrysuperaustralia.com/assets/Submission/PC-submission-on-alternative-default-FINAL.PDF>

6 Page 132, DEFAULT SUPERANNUATION IN MODERN AWARDS - “The Stronger Super and related reforms provide an effective foundation to promote disclosure and comparability of default superannuation products and funds but, given the uncertainty surrounding the likely number, mix and quality of *MySuper* products, there needs to be a ‘quality filter’ to distinguish among them.”

perform this role Constructing a brand-new entity would be wasteful and risks delivering a system which reduces the outcomes of members.

We submit that the proposed FWC expert panel process, and the 'quality filter' adopted in the *Fair Work Act*,⁷ should be allowed to operate before any overhaul of the current system is contemplated. In addition, we believe that this is appropriate and consistent with the objectives of transparency or competition, for any alternative model to be assessed against the FWC model.

The FWC is a quasi-judicial body accustomed to applying the rules of natural justice, has deep expertise in employment related matters and making its decisions having regard to its legislative remit and the substantial merits of the matter before it. Its processes are open, low cost and all the evidence before it is in the public domain. Its reasons for decision are made public, and its decisions are subject to judicial review.

Any quality filter for default status should include arrears process

Funds seeking default status should be required to have a rigorous arrears collection process in place.

The level of non-compliance with payment of the superannuation guarantee, as estimated recently by the joint ISA & Cbus report is \$3.6 billion.⁸

This is a staggering amount of unpaid superannuation that creates;

1. A delayed and detrimental impact on individuals' retirement savings, robbing them of the benefits of investment earnings and compound interest;
2. An immediate and negative effect on the collection of government revenue through lost taxation – eg 15% of \$3.6 billion is \$540 million;
3. A greater strain on the age pension and other Government services which leads to greater strain on the Federal Budget.

Given the problem of unpaid super across the economy it is important that any default funds have process and protections to ensure that superannuation contributions are actually paid.

Insurance in superannuation

Cbus believes insurance within superannuation provides significant value and is an important element of the system, especially for members working in physically demanding and risky occupations such as those in the construction industry.

Cbus uses its scale to insure workers who would not be able to get cover, or who would only receive modified cover with other retail providers. Our members work in some of the riskiest conditions of any industry and being able to access affordable insurance through superannuation is important to them.

Specialised insurance offerings that address the specific needs of employees and employers add value through tailored product design. In high risk industries (such as

⁷ Section 156F

⁸ *Overdue: Time for Action on Unpaid Super* – Industry Super Australia & Cbus 2016.

building) workers may not have access to any appropriate or affordable insurance cover. For example, Cbus examined the insurance products associated with *MySuper* from five prominent retail funds and whether they would cover various occupations in the construction and building industry. Professions, such as dogman/rigger,⁹ labourer or scaffolder would not be eligible for death or TPD insurance if they were with any of these funds. These can be dangerous jobs; however, that is precisely why a fund such as Cbus adds significant individual and public value by covering all these occupations with appropriate insurance products.

Cbus research indicates that two-thirds of members recognise the group buying power benefit of Cbus obtaining insurance on members' behalf. In addition, three-quarters of members trust Cbus to put in place the right levels of insurance.¹⁰ Cbus was also the 3rd highest ranked fund, for our insurance options in a nationally representative sample of 6,720 Australians.¹¹

Cbus recently announced¹² a better insurance deal for members that will see premiums per unit of Death & TPD insurance cover for most members go down by 25 per cent while TPD cover increases for the majority. Default cover for 15 to 20-year old members will also be reduced, based on our analysis of members' needs and recognising that young Cbus members are less likely to have dependants or mortgages and that more super savings earlier is critical over the long term for retirement balances.

These changes recognise the different needs that members have at different stages in their lives with a focus on ensuring they've got the cover they need while maximising their retirement outcomes.

Insurance cover for members is important and our philosophy is that wherever possible legitimate claims should be paid quickly. More than 80% of our TPD claims are paid. For the 2016/17 financial year claims payments totalled \$129m for Death and \$94m for TPD. There was a total of 2,368 claims with 2,239 of these being approved. This service helps our members and gives them and their families peace of mind if they can no longer work due to illness or injury.

Cbus is also making process changes that significantly improve the member claims experience, recognising that issues around communication and administrative processes are critical during what is often an extremely stressful and difficult period.

9 A dogman or rigger specialises in the lifting/moving of large and heavy pipes and equipment. They must work together to ensure the slings are safely placed on the equipment to be lifted and that the slings are loaded onto the crane's hooking correctly. A dogman or rigger then directs the crane operator by either radio or hand signals to advise him when the load can be lifted and moved.

10 Cbus Insurance Product Development Report, EY Sweeney 2015.

11 Investment Trends May 2017 Member Sentiment & Communications Report, based on a survey of 6,720 super fund members

12 Cbus announces better insurance deal for members - 7 July 2017 - <https://www.cbussuper.com.au/about-us/news/media-release/cbus-announces-better-insurance-deal-for-members>

Cbus is proud to provide insurance services to our members; however, we also recognise that people may wish to opt out of these arrangements for a variety of reasons.

Conclusion

We support transparency, administrative efficiency and competition in superannuation where it delivers outcomes to members in the form of net returns. Consequently, the evaluation of choice products and self-managed funds should be given higher priority given their historic underperformance and inefficiency.

In relation to the allocation of default members, Cbus believes the current system should be given a proper chance to operate as intended before further assessment or alternatives are considered. This is consistent with the FSI recommendation that change not be considered until 2020 when *MySuper* would have matured and could be properly assessed.