

Awards and enterprise agreements

For what proportion of the workforce do the default superannuation provisions in awards directly apply?

Estimate 65%.

To what extent do default superannuation provisions in awards influence which superannuation fund (or funds) is listed in enterprise agreements?

There is a strong link.

Does the superannuation fund nominated in an enterprise agreement in any way impact on the assessment of the 'better off overall' test?

No.

Superannuation funds listed in modern awards

How do employers currently choose between funds when there is more than one default fund listed in an award?

They will most likely choose the fund that most of their employees are members of already. If it is a new business the employer will most likely choose the fund that he/she has some experience with. Relevant employer associations or Business Enterprise Centres may also provide guidance. It is very rare for an employer to research the benefits (i.e fees, etc) of a fund and base their choice on that data.

How do employers currently choose a fund when there is no default fund listed in an award?

Most choose a fund that they have had a relationship with in the past. Employers also take recommendations from advisors such as their accountant / bookkeeper or the relevant employer association.

To what extent have employers made use of the grandfathering clause as opposed to choosing a fund from those listed in the relevant modern award?

Most employers are unaware of the changes and continue to use the existing fund if that fund is nominated in the Award.

A new default investment product: MySuper

What are the anticipated effects of MySuper on the superannuation industry in the short and long term, particularly in relation to the pace and extent of consolidation?

The concept of the MySuper product is aimed at lowering overall costs for superannuation funds. Its aim is to offer a simple, low cost default superannuation product with features designed solely with the interests of members in mind.

From 30 June 2013 Funds will not be able to accept SG contributions for default members unless they have a registered MySuper product.

Regardless of MySuper intentions to improve simplicity, transparency and comparability of default superannuation products, the creation of such a product will be costly and the timeframes and requirements for implementation are farcical.

There will be pitfalls and adverse consequences will occur as superannuation funds continue with day to day operations in tandem with the major reforms.

The key dates for the implementation of MySuper are unreasonable which may result in short-cuts adversely affecting product offerings.

As far as consolidation is concerned the Government's unwillingness to offer CGT concessions to merging funds is a major impediment that makes it difficult to justify.

Are the criteria for MySuper sufficient?

Are the criteria required of MySuper products sufficient for the selection and ongoing assessment of superannuation funds eligible for nomination as default funds in modern awards? If so, why? Does the picture change over time, as the MySuper reforms drive change and consolidation in the industry?

Yes, to the extent that the criteria provides a good basis to assess overall service and value for money. The picture is unlikely to change over time as the primary focus is standardising the product to ensure low fees and a minimum level of service.

Is there a case for introducing a set of criteria over and above those required for MySuper products for funds to be eligible for nomination as a default fund in modern awards?

Yes, specific consideration should be given as to whether the fund is a 'multi-industry fund'.

Selection criteria for default superannuation funds in modern awards

To what extent do workers covered by different awards have different investment needs? Should any such differences be taken into account in the selection of default superannuation funds for inclusion in awards? If so, how?

Investment needs are relative to an individual's financial objective. No, a fund should offer sufficient range of investment options to enable an individual to allocate their money across asset classes.

Should the investment strategy, investment return target and level of risk of the default investment option be factored into the selection of default superannuation funds for inclusion in awards? If so, how?

No. If the fund has secured authorisation through MySuper criteria then these points are covered off.

Should lifecycle investment strategies be considered? If so, how?

At the discretion of each superannuation fund.

Should a fund's investment management expertise be factored into the selection of default superannuation funds for inclusion in awards, and if so, how?

No. Debate would arise on how one would rate 'expertise', is expertise defined as the fund performance over 5yrs or 10yrs or perhaps the number and resumes of the fund's investment team?

How relevant is a fund's past net performance as an indicator of its potential future performance? What weight, if any, should be placed on the past performance of a fund in assessing its suitability for inclusion as a default fund in awards?

Past fund performance is not a sound basis to indicate future performance. A member's net performance is also impacted by timing of cashflows. Suitability for inclusion could allow for exceptions such as if a fund has significantly underperformed peers over a 10 year period.

Fees

Should fees be factored into the selection of default superannuation funds for inclusion in awards and if so, how? For instance, are there circumstances in which paying higher fees could serve the interests of members of default funds? Does this differ across industries? Should maximum fees be set for funds that are selected for inclusion as default funds in awards?

No, the process for authorisation of a MySuper product factors in fees.

Insurance and other member services

Should default superannuation funds be required to provide maximum or minimum levels of life and TPD insurance? How should the cost of this insurance be factored into the selection of default funds for inclusion in awards?

Yes, a minimum 'default' level of life and TPD. The provision of a 'default' amount should be factored in however the cost does not need to be factored in provided members can opt-out or reduce the 'default' cover.

To what extent do workers covered by different awards have different needs for life and TPD insurance? How should any such differences be factored into the selection of default superannuation funds for inclusion in awards?

Workers across different awards have varying needs for the amount of Life and TPD cover however most insurance offerings provided by funds allow members to apply for higher levels of cover. Applying for higher cover is often subject to underwriting so impracticable to incorporate as a factor.

Should income protection insurance be factored into the selection of default superannuation funds for inclusion in awards and, if so, how?

Yes, just the fact that it is an option that can be taken up.

Should the scope and cost of the member services offered by a superannuation fund be factored into the selection of default superannuation funds for inclusion in awards and, if so, how? Should default funds that are selected for inclusion in awards be required to provide a particular standard of service?

No, services are considered as part of the process for authorisation of a MySuper product.

To what extent do workers covered by different awards have different service needs? Should any such differences be taken into account in the selection of default funds and, if so, how?

No, services are considered as part of the process for authorisation of a MySuper product.

Governance

What impacts are the additional trustee duties likely to have on the performance of MySuper products?

Little impact expected in relation to performance.

Beyond the Stronger Super reforms, are there any particular aspects of fund governance that should be considered in the selection of default superannuation funds for inclusion in awards? No.

Would being selected as a default fund in an award affect fund governance and operations? No.

Scale

Is there an ideal 'fund size' for default superannuation products?

No, although a reasonable starting point would be \$1bn.

How do factors like the ability to market and communicate with industry participants impact on the question of scale?

Not considerably as communication through websites and other avenues reduces the scale argument.

Is there a need for fund scale to be factored into the selection of default superannuation funds for inclusion in awards beyond that already implicit in the MySuper rules? No.

Is there a clear relationship between fund scale and returns for members?

No, it is not the case that the returns increase in sync with fund size increase.

Other criteria

Are there any other criteria that should be used to assess whether a fund is suitable for inclusion in modern awards?

Yes.

1. Fund affiliation and links with the relevant State that the Award relates to e.g. a Tasmanian fund with members in industry areas relevant to the Award would take precedence over a fund from another State as the fund supports TAS economy and businesses.

2. A fund should ideally be not-for-profit where member interests are put ahead of shareholders.

Are there net benefits to having additional criteria?

What would be the costs, the benefits and the net benefits of introducing a set of criteria over and above those already set out for MySuper products for funds to be eligible for nomination as a default fund in modern awards?

Who would incur the costs?

Who would the benefits accrue to? Would they be confined to those for whom a modern award applies? Or would they flow through to other MySuper products and/or choice products to drive widespread improvement in the superannuation industry? Would they flow through to taxpayers by lowering the burden on public funding for pensions?

Would the criteria need to vary by industry?

Are these criteria needed now, or would it be better to wait to see the full effects of MySuper on the industry? If so, how long might this take?

A sensible approach would be to maintain the existing modern award default fund provisions, allow for the industry to adjust to the MySuper changes over the next 2 years and reassess then.

Implementation issues

Are transparency and contestability desirable features of a default fund selection process? Yes.

Is the current process for listing default superannuation funds in awards transparent? Is it competitive? Is there a level playing field between industry

and retail funds? Is there a level playing field between domestic and international funds and should there be?

Yes, the playing field is level for funds. International funds should not be considered.

Will expected superannuation fund consolidation have any impact on the current process for selecting default superannuation funds? Will it affect competition in the superannuation and default superannuation markets? Is it expected to improve performance and cost-effectiveness? If so, how?

No, consolidation should not impact the current process nor affect competition. Performance and cost-effectiveness is unlikely to change significantly.

When considering whether a fund is eligible for nomination as a default fund in a modern award, how should its overall performance be assessed?

Look at the medium and long term investment returns, delivery of member services (e.g. advice, administration), investment and service fees/costs, provision of insurance cover, delivery of employer services.

How should trade-offs between different eligibility criteria be made? Should different weights be placed on certain criteria? No.

Should there be a 'two tier' process where a fund must meet certain eligibility criteria, while other criteria are optional? No.

Should all funds deemed eligible for nomination as a default fund in a modern award be listed? If so, why? How would this affect the administration costs for employers choosing one fund among those listed in awards?

No, this would defeat the purpose of the Award nomination which is to simplify the process for employers. It would cause headaches for employers who would have to narrow the choice themselves.

Should there be a target number of default funds listed in modern awards? If so, why?

- What number of funds should be targeted? 3-5.
- Should this number differ by industry? If so, on what basis? No.
- How would this affect the administration costs for employers choosing one fund among those listed in awards? 3-5 keeps process easy and costs down.

· *Who should make the decision to restrict the number of funds in cases where more than the limit are found to be eligible, and how should this decision be made?* **FWA.**

· *Should the same criteria and trade-offs between criteria as for eligibility be applied, or should they differ?* **Yes, same apply.**

How should expected consolidation in the superannuation industry be taken into account? What would happen in the event of product mergers?

The merging entities would be entitled to the sum of Awards nominated.

Should some type of grandfathering clause remain in modern awards? What are the advantages and disadvantages of retaining such a clause?

Yes, funds should get preference as nominated funds.

What should be the process for applying the criteria for the selection of superannuation funds eligible for nomination as default funds in modern awards?

Retain the existing nominated funds and assess the capabilities of new applicants.

· *What would be the steps involved in the process?* **To be determined by FWA.**

· *Is there a case for an organisation other than FWA to assess the eligibility of funds against any selection criteria?* **No.**

· *What should be the role of the industrial parties to the awards? What should be the role of FWA?* **No change to current practices.**

· *What would be the administrative and compliance burden of such a process on employers and their representatives, unions, superannuation funds and FWA?* **Costly and time consuming.**

· *Is there any international experience to draw from in designing the process?* **Cannot comment.**

· *How might MySuper products that are tailored to the needs of particular large employers affect the selection of default funds eligible for nomination in awards?* **Would be treated like all funds and products.**

If funds currently listed in awards were unable to meet a stricter set of criteria, what would be the consequences for members, employers and their representatives, unions, superannuation funds and FWA?

Funds would ensure that they meet the stricter set of criteria.

What would happen in the event that a listed fund had its MySuper product license revoked by APRA for no longer meeting the MySuper requirements?

Severe consequences for the product licensee and reputation risk for the industry.

How frequently should eligibility be assessed? Every 2-3 years

Who should perform this assessment? FWA

Should the assessment process differ from the initial selection process? If so, in what way? No, funds should be able to demonstrate they meet criteria.

How should the assessment account for consolidation in the industry? We do not believe this is a relevant factor.

What would be the consequences of funds transitioning in and out of meeting the eligibility criteria for employers, members, the funds and FWA? Is there a way to manage this transition? Unlikely to occur.

Should the criteria for fund eligibility themselves be reviewed or changed over time? If so, how often and by whom?

No, except in the case of a future substantial change to the super landscape.

Are employers best placed to choose one default fund among those listed in awards? Yes

If so:

· *do employers need assistance in choosing between funds listed in awards?* No

· *What type of assistance do they require and who should provide it?* N/A

· *is some mechanism required to ensure that employers act in the best interests of their employees when making this decision? If so, what?* No, the purpose of the award nomination is to give confidence to the employer that the nominated fund is a quality offering.

If not, why not? Who or what other organisation could be better placed to make this choice? What process should be followed? N/A