



Default Superannuation funds in Modern Awards
Productivity Commission
LB2 Collins Street East
MELBOURNE VIC 8003

3 April 2012

Dear Commissioner

Productivity Commission inquiry into the selection process for default funds within awards

HOSTPLUS provides the following submission to the Productivity Commission's inquiry with a view to highlighting a number of specific issues of particular relevance to HOSTPLUS. In addition, HOSTPLUS supports the more extensive submissions made to the inquiry by the Industry Super Network.

About HOSTPLUS

HOSTPLUS was established in 1987 as the industry superannuation fund for the hospitality, tourism, recreation and sport industries and is today one of Australia's largest industry superannuation funds with one million members and almost \$10 billion in funds under management. HOSTPLUS has a long and proud tradition of working with more than 80,000 employers involved in the fund.

HOSTPLUS is proud of its industry fund heritage and quality service offering. We provide competitive fees, don't pay commissions to financial advisers and we're run exclusively for the benefit of our members. HOSTPLUS is a consistent winner of industry performance awards and holds the highest possible ratings from the various superannuation ratings agencies.

HOSTPLUS and default funds in awards

HOSTPLUS operates within industries that are heavily award reliant. The outcomes of the Productivity Commission's review will have significant ramifications for all industries and workers, but particularly so for our sector given the nature of employment patterns and the profile of the workforce.

What our employers say

Choosing an appropriate default super fund is a task that places a legal burden of responsibility on employers, in addition to the ongoing need to ensure regular super payments are made for their employees.

We are aware that some sections within the for-profit sector of the superannuation industry have argued for a new approach to the naming of default funds within awards. This approach would either involve automatically naming all MySuper funds as default funds or automatically inserting those MySuper funds into specified awards upon application.

We submit that this approach would require employers to research and decide on a super fund for their workers from literally hundreds of different funds. For many employers this will be a task beyond their means and they will need to either enlist the services of an external consultant or hastily make a decision that may prove not to be in the best financial interests of their employees, but yet still meet their obligation to select a default fund.

We are informed by our employers that many simply do not have the time or resources to undertake such a task and fear if such a task was imposed upon them they would bear the moral responsibility for an important decision that is currently shared between industrial parties in consultation with their members.

Ultimately, employers play a critical role in managing the payment process of superannuation for workers and they have a significant responsibility in appointing a default fund for a workforce that is often not interested in, or equipped to choose their own fund. However many businesses will struggle to make this decision appropriately if they are entrusted with reviewing the merits and capability of every fund on the market.

Altering what is currently a successful model would certainly provide a financial benefit to the retail super fund and banking sectors. However, it is hard to see what benefits would flow through to the types of workers employed under an Award and, as often happens with this kind of reform, the additional workload, cost, and responsibility will fall at the feet of business.

MySuper and change

The MySuper changes as part of the Stronger Super reforms currently being introduced by the government are an important improvement to the default fund arrangements for workers.

Unfortunately these changes are not sufficient to protect those employees and employers that rely upon the default fund arrangements. We are particularly concerned with the apparent acceptance of the practice of member 'flipping', and the absence of appropriate controls over insurance costs to MySuper members.

The practice of providing artificially low prices with a view to recouping this loss and making additional profits when an employee leaves their employer, is known as 'flipping'. This is an issue of primary importance within our industries given very high employee turnover rates.

We believe it is not acceptable to allow a fund that undertakes this practice to be allowed to be named as a default fund within an award. The financial interests of an employee extend to retirement, not from employer to employer.

HOSTPLUS support for change

HOSTPLUS does support changes to the current system for the selection of default funds in awards, provided those changes are in the best interests of members. HOSTPLUS supports a process which requires funds to meet a minimum performance criteria before they can seek to be included in awards.

We recognise the placement of a fund in an industrial award provides certain commercial benefits, particularly in those workplaces where there is a lower propensity for choice to be exercised by employees. HOSTPLUS is privileged to be named in awards and believes our performance and service to members and understanding of our industry's needs justifies the selection of HOSTPLUS. More importantly, as a profit-for-members fund, any commercial benefit derived by HOSTPLUS is returned to the workers the fund serves.

Performance criteria

HOSTPLUS is also supportive of a process that introduces new standards that all funds, including HOSTPLUS, must meet before they can be included in an award. This standard should be the achievement of a minimum long-term net rate of return for members and the absence of the practice of flipping members. We are of the view these innovations will instil a level of competition in the industry based on performance which will be in the member's best interests.

Continued role for Fair Work Australia

We support an approach that involves Fair Work Australia and the industrial parties to awards. HOSTPLUS is proud of it's background. In 1987 when Award based superannuation requirements were taking shape, the AHA, along with United Voice or the LHMU as it was known then, took the collaborative step of establishing a super fund to represent and serve our particular industries.

That fund, HOSTPLUS, is now overseen by a Board made up of three representatives from the AHA, three from United Voice and three independent Directors. The structure ensures the interests of employers and workers are met and provides the fund with a strong understanding of the intricacies and employment nuances of our sectors.

As a strong contributor to our industry well outside of merely providing super services, HOSTPLUS is one of the proudest achievements the AHA and United Voice share. As employees move between jobs they can stay with HOSTPLUS and enjoy continuity of membership, while employers benefit from the ease of minimising the number of funds they need to deal with, given most industry workers will have an existing HOSTPLUS account.

Over time the collaborative efforts of employer and employee representatives have ensured that HOSTPLUS has tailored services to meet the demographic of the industry.

Our view is that the industry would be best served by allowing a limited number of default funds in awards. To be named, each fund should show it has relevance to the industries and occupations covered by the award in addition to meeting the criteria set out earlier in this paper. Importantly we also believe that the views of the industrial parties should be given considerable weight.

Following considerations of all criteria we believe it should be the role of Fair Work Australia to hear from those funds that seek to be named in awards.

Fair Work Australia should review the default fund arrangements every four years during the award review process.

Industry support

Our discussions with our members confirm most employers see default superannuation arrangements as a matter that should be dealt with within the industrial system. We believe it is appropriate that Fair Work Australia's decisions regarding the naming of default funds within awards should be guided by the informed views of the industry participants. The views of those who use and are directly affected by choice of fund legislation should be given pre-eminence.

Conclusion

HOST**PLUS** is well placed to compete within a system that has as its primary objective the financial interests of members. HOST**PLUS** operates in the interests of its members, not shareholders and believes that Australia's award default system has served workers well. Provided the legitimate interests of employees and employers remain the system's dominant concern, the system will continue to service workers well into the future.

I would welcome the opportunity to discuss the issues in these submissions.

Yours sincerely,

David Elia
CEO, HOST**PLUS**

hostplus.com.au

NATIONAL/VIC

Level 9, 114 William Street
Melbourne VIC 3000
Phone 03 8636 7777
Fax 03 8636 7799

NSW

Level 5, 477 Pitt Street
Sydney NSW 2000
Phone 02 8202 8700
Fax 02 8202 8750

ACT

Level 11, 60 Marcus Clarke Street
Canberra ACT 2601
Phone 02 6243 5183
Fax 02 6243 5143

PARRAMATTA

Level 7, 91 Phillip Street
Parramatta NSW 2150
Phone 02 9893 1822
Fax 02 9891 1771

SA

Level 1, 104 Frome Street
Adelaide SA 5000
Phone 08 8205 4965
Fax 08 8205 4970

WA

Ground Floor, 3 Plain Street
East Perth WA 6004
Phone 08 9260 4678
Fax 08 9260 4699

TAS

Level 4, 33 Salamanca Place
Hobart TAS 7000
Phone 03 6224 2922
Fax 03 6224 2347

LAUNCESTON

Suite 8, Grand Chancellor Arcade,
29 Cameran Street, Launceston TAS 7250
Phone 03 6331 4666
Fax 03 6331 4866

QLD

Level 10, 144 Edward Street
Brisbane QLD 4000
Phone 07 3225 9500
Fax 07 3225 9510

CAIRNS

Suite 80 Mezzanine level Shangi-La Executive Centre,
Pierpoint Road, Cairns QLD 4870
Phone 07 4052 7525
Fax 07 4052 7799

GOLD COAST

Shop 110/111, Pacific Fair Shopping Centre,
Hooker Boulevard, Broadbeach QLD 4218
Phone 07 5656 0900
Fax 07 5656 0999

NT

Suite 10, Centrepoint Business Centre
Level 1, 48-50 Smith Street, Darwin NT 0800
Phone 08 8443 0621
Fax 08 8205 4970