



CORPORATE SUPER SPECIALIST ALLIANCE

Appendix “C”

Answers to Issues Paper questions

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

Many employers will seek advice from a Corporate Superannuation Specialist advisor or a superannuation consultant. They would generally prepare a tender document, and would include comparisons of fund fees, features and benefits. If there are only a small number of funds (or only one fund) nominated in the award then choice is restricted and the employees are not necessarily able to enjoy the best outcomes.

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

From our experience many employers will seek advice from a Corporate Superannuation Specialist advisor or a superannuation consultant. This process would generally come down to preparation of a tender document, and would include comparisons of fund fees, features and benefits. Insurance features, design and automatic acceptance limits are often an area of focus when comparing funds.

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?

From our experience most of the employers we deal with have chosen to take advantage of grandfathering arrangements and very few have changed their default funds to those nominated in their award.

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

Transparency and contestability are critical elements in any marketplace, including default superannuation. Contestability is more important than transparency because if there is restricted choice transparency does not assist in getting the best outcomes.



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Many funds that are nominated in awards are not transparent, as they do not have fee or investment structures that are easy to understand.

If a product is superior, market forces attract advisors and investors to it. Advisors cannot offer advice on investments that have no research available to support their recommendations.

There is currently not contestability or competition with default superannuation funds listed in Modern Awards. Increased competition invariably leads to a lowering of costs and an increase in quality.

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? If not, what are the barriers to transparency and contestability?

The current process of default fund selection is opaque. It is restricted to a small number of (predominantly Industry) super funds. We do not feel that there is a level playing field between industry and retail funds as many retail funds are not mentioned in many of the awards. In a lot of instances the awards only nominate Industry Funds as default funds.

What are the effects of these barriers on member outcomes?

We believe that members are not able to achieve the best possible outcomes because choice is restricted. Competition is stifled and therefore cost savings do not necessarily flow through to fund members. In some instances the fees charged by listed default funds are not as competitive as other funds, and some of these funds have increased fees in an environment where fees are generally falling.

Are employers best placed to choose one default fund among those listed in awards? If so:

- ***do employers need assistance in choosing between funds listed in awards? What type of assistance do they require and who should provide it?***

Employers would often need assistance to choose an appropriate default fund, as this is an area of specialised knowledge. A specialist group like the CSSA would be well positioned to assist employers to make decisions on default funds as CSSA members are familiar with the employer superannuation marketplace and



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with the features, benefits and fee structures of all the various funds. They have the ability to compare funds objectively and to recommend which funds might best suit the employees of an organisation. They can also help with transitioning funds, with employee education, etc.

- ***is some mechanism required to ensure that employers act in the best interests of their employees when making this decision? If so, what?***

From our experience employers do generally act in the best interest of their employees. There is really no motivation for them to not do so. If they are compelled to use a MySuper fund as a default fund then there must be some comfort from the Government's viewpoint that they are acting in their employee's best interest, as the Government is legislating the framework for the design of MySuper. If this were not the case then there would be absolutely no point in formulating the MySuper legislation.

We would still suggest that the comparison of funds and the decision on which fund to proceed with, along with the implementation of appropriate investment and insurance options, are decisions best made with the assistance of a specialist such as a CSSA member. Educating employees of their options and the features and benefits of their superannuation funds are also critical roles which can be outsourced by employers to CSSA members. Education is crucial if we are to empower people and assist them in being engaged with their superannuation, with a goal to help ensure that they have sufficient funding for their retirement income needs.

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

A specialist group like the CSSA would be best positioned to assist employers to make decisions on default funds as CSSA members are familiar with the employer superannuation marketplace and with the features, benefits and fee structures of all the various funds. They can provide comparisons of funds on a "like for like" basis and then assist with the implementation of the fund. Of course there would need to be a mechanism for any consultant, such as a CSSA firm, to be paid for the services they provide.

IMPACT OF MYSUPER

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?



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If MySuper legislation is passed into law and all default superannuation funds must be MySuper funds then it is very clear to us that there will certainly be no need to nominate default funds in awards as any MySuper fund would, by design, be suitable as a default fund. MySuper funds are designed specifically to be default funds and must meet the legislated standards.

We don't see why the picture would change over time.

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?

We do not believe that any additional criteria would be necessary. If this were to be necessary then it really negates the whole purpose of legislating the design of MySuper funds. All required criteria should be included in the legislated MySuper design.

MYSUPER “PLUS” CRITERIA

Investments

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?

Australian workplaces are often very different. Many will employ a different demographic of employees, be that by age, sex, or education standards. Different workplaces require different superannuation arrangements to reflect their demographic profile. We believe that this is very important. MySuper is proposed to provide some flexibility to tailor a plan to a workplace's requirements. The main requirement for tailoring is insurance design and investment selection. Awards can cover millions of employees, so it is not in any way logical to try to tailor investments at an award level, it is better to do so at a workplace level.

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?

We do not believe that investment strategy, investment return target and level of risk of the default investment option should be factored into the selection of default



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superannuation funds for inclusion in awards. These should be decisions that are made at a workplace level.

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

The inclusion or not of a lifecycle investment strategy should also be a workplace decision, not an award decision. The application of an award is too broad (potentially across many thousands of different workplaces) to make such tailoring effective.

Fund expertise and performance

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

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?

If past performance is considered important in assessing a fund's suitability for inclusion as a default fund in awards:

- ***over what time period should past net performance be assessed?***
- ***how should funds with no net performance record (for instance, newly merged funds or new entrants to the market) be assessed?***
- ***should net performance be assessed in absolute or relative terms? That is, should the top performing funds be selected (regardless of their absolute returns), or would funds be required to meet a particular target level of performance?***

The investment expertise and investment performance of a fund is a result of decisions made by the fund's trustees who are regulated by law. We do not feel this should be considered by an award. Past investment performance is no guarantee of future performance, and history shows us that a fund which outperforms in one year may not do so in the next.



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Promoting a fund on its past performance is often very misleading, as was the case with many funds over the past 5 years. As an example, the MTAA fund went from being one of the best performing funds to the worst performing fund amongst its peers post the Global Financial Crisis. It was heavily promoted on television as a top performing fund. This is a prime example of past performance not being indicative of future performance. This fund is nominated as a default fund in Modern Awards.

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?

We believe that market pressures should determine fees, not legislation, and that a superannuation fund should be assessed as an overall package, not just on the basis of the fees that are charged. Some funds may offer greater benefits than others, which would justify a higher fee.

Insurance

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?

The CSSA believes that it is important for there to be a level of automatic life and TPD insurance cover in all default superannuation funds, as this may be the only insurance cover that many individuals have.

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?

The amount of insurance should be determined at a workplace level rather than on an award basis, as the requirements of different workplaces may differ dramatically.



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

The Stronger Super reforms provide trustees of default superannuation funds the discretion to offer income protection insurance to members. We feel this should be encouraged within MySuper options.

The CSSA therefore suggests that if a fund meets the requirements to hold a MySuper license that no additional requirements should be necessary to be able to qualify for inclusion as a default fund in an award.

Other member services

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?

We do not consider that the scope and cost of the member services offered by a superannuation fund should be a consideration in the selection of a default fund within an award. Market forces will largely determine what services are provided and at what cost.

The CSSA believes that intra-fund advice services should be restricted to general advice and education services, and that these services should not include personal advice. We do believe all employees should be entitled to receive general advice and education, and that workplace education should be provided pro-actively to assist people to be engaged with their super, to understand and be able to plan to achieve their retirement income needs.

Proactive services are valued and appreciated by both employers and employees, as witnessed by the AFA Corporate Super Research, which is attached as Appendix "D"

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?

Our experience would suggest that the award a person is employed under would not dictate the services required at a workplace level, as various workplaces will have



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different requirements. However we do believe all employees should be entitled to receive general advice and education, and that workplace education should be provided pro-actively to assist people to be engaged with their super and understand their retirement income needs.

OPEN ENDED

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

How should trade-offs between different eligibility criteria be made? Should different weights be placed on certain criteria?

Should there be a 'two tier' process where a fund must meet certain eligibility criteria, while other criteria are optional?

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?

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

- ***What number of funds should be targeted? Should this number differ by industry? If so, on what basis?***
- ***How would this affect the administration costs for employers choosing one fund among those listed in awards?***
- ***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?***
- ***Should the same criteria and trade-offs between criteria as for eligibility be applied, or should they differ?***

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

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



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These questions seem to assume that listing superannuation funds in Modern Awards is the correct way to go. The CSSA does not believe that it is necessary to nominate default funds in awards at all, particularly in a MySuper environment. We feel that doing so would effectively negate the reason for the MySuper reforms.

If MySuper legislation is passed into law and all default superannuation funds must be MySuper funds then it is very clear to us that there will certainly be no need to nominate default funds in awards as any MySuper fund would, by design, be suitable as a default fund. If this is not the case, we do not see the point of the MySuper legislation at all.