



CORPORATE SUPER SPECIALIST ALLIANCE

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Productivity Commission
LB2, Collins Street East
MELBOURNE VIC 8003

Productivity Commission Inquiry – Default Superannuation in Modern Awards

To whom it may concern,

The Corporate Superannuation Specialist Alliance (CSSA) appreciates the opportunity to submit to the Productivity Commission on Default Superannuation Funds in Modern Awards.

Our submission is made from the viewpoint of industry practitioners who are dealing with employers and their employees on a daily basis. Please find attached references from some of our clients as appendix “A”.

We have not attempted to get into technical detail as part of our submission as we do not see this as being the method by which we can add the most value to the inquiry. We feel we can best add value by relaying the outcomes of discussions we have had with employers and employees, and by passing on the observations we have made about the functionality of the current default fund arrangements, from a financial advisor’s perspective.

What employers want from their Superannuation arrangements.

From our standpoint we would suggest that the vast majority of employers want to provide the best outcomes they can for their employees. In most cases employers view Superannuation as an important part of their employee’s benefits and they appreciate the ability to be able to add value for their employees by tailoring a superannuation fund to suit their needs. Choosing a default investment strategy that will suit the majority of the workforce and providing automatic and tailored insurance benefits at various levels for various staff categories are often important aspects of tailoring funds. CSSA members are involved in educating employees around the features and benefits of their default superannuation funds, and assisting members to ensure they are taking full advantage of these features. We also assist with consolidation of accounts, general paperwork, insurance applications, claims, etc.

Many employers see their default superannuation offering as being a differentiating factor for their company, and they can use it as a tool to assist them to attract and retain staff – to become an employer of choice.



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Our opinion of the current practice of listing Super funds in Modern Awards

It is the belief of the CSSA that the current Fair Work Act superannuation provisions are not providing employers with sufficient choice and flexibility. In many cases if a superannuation fund is not nominated in an award it is practically impossible for the employer to choose to use that fund as a default fund unless they put an enterprise agreement in place, which we understand is a costly and complicated process that is not appropriate for most small to medium employers. Enterprise agreements can also have the negative side effect of removing an employee's ability to select their own superannuation arrangements under 'choice of fund' legislation.

If the employer is not happy with their existing fund they have no choice but to stay with it or to move to the fund(s) nominated in the relevant award.

We are often asked to arrange tenders for employers, to assist them to determine which superannuation plan will be best for their employees. The main factors we would consider in a tender are: fees, insurance premiums, levels of automatic acceptance insurance, administration support, insurance benefits (such as salary continuance), the suitability of investment options, investment performance, investment pricing transparency and ancillary member benefits. If an award limits the choice an employer has for their default fund it reduces their ability to provide the best outcome for their employees. This is clearly anticompetitive and it is not in anyone's best interest, other than the fund nominated in the award. If a product is superior, market forces attract advisors and investors to it.

The vast majority of employers we deal with do not want to have their choices restricted by Modern Awards. It has often been the case that, when an employer discovers that they can only choose from a short list of Industry funds, they will decide to retain their incumbent superannuation provider. This may end up providing a sub-optimal result as another provider may be able to offer better benefits, lower fees, and other enhanced features. Incumbent funds are aware of this and hence there is little incentive for them to enhance their existing offering. This often compounds the dissatisfaction that the employer has with the fund.

Inequity in workplaces due to Modern Awards nominating default funds.

Certain industries that employ a lot of casual and transient labour, such as the hospitality industry, are best advised to contribute to the relevant industry superannuation fund on behalf of most of their workers. This is common industry practice and has been since long before the passage of the fair work act in 2009. The consequence of nominating default funds in certain awards, however, is that



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many of the permanent, long term staff who also work for the employer under these awards find their superannuation contributions are being made to a fund that may well not be the best one for them. They may get access to better features and benefits elsewhere. An example of the impact of this is that an employee who is in a 'white collar' administrative role may be subject to insurance premiums that have been tailored within an industry fund to suit a workforce of predominantly 'heavy blue collar' workers. The person in the administration role may be paying two or three times more for their insurance cover than they need to.

Grandfathering issues.

Another issue we have experienced that has been to the detriment of employees has been the inability of employers to contribute to an employee's existing default fund if the employer has restructured or if there has been an amalgamation of businesses. If the new employer has not been contributing to a particular fund prior to the 12th of September 2008 they are not able to contribute on behalf of employees going forward unless the fund is nominated in the award or each individual member submits a choice of fund form. This can cause particularly difficult issues where defined benefit funds are involved, and can be very detrimental to the employee.

We therefore believe that the naming of particular superannuation funds as default funds within awards is completely unnecessary.

Consumer protection.

We do not believe that the current naming of default funds in Modern Awards improves consumer protection; in fact we believe the opposite may be the case. It is obvious that some of the funds named in certain awards have actually provided a potentially very dangerous outcome for investors, as their superannuation monies have been invested in illiquid and poor performing assets.

MySuper and default funds

The CSSA has voiced its concerns around the proposed MySuper legislation at the Parliamentary Joint Committee hearings. We do not believe that MySuper will necessarily improve the outcomes of working Australians, as it promotes disengagement with their superannuation. There is also research that was conducted by Rice Warner Actuaries in 2008, for the Financial Services Council, which illustrates that the current Corporate Superannuation Master Trust environment is a low cost environment, where fees are lower than Industry Fund fees. See appendix "B".



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That said, 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. My Super funds are designed specifically to be default funds and must meet the legislated standards.

Answers to Issues Paper questions

Our appendix "C" answers many of the questions raised in the issues paper. We have only answered questions that we feel are within our scope to answer.

Conclusion.

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.

Please feel free to contact us if you have any questions on our submission or if you would like us to elaborate more in any area.

Sincerely

Douglas Latto
President CSSA



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About the CSSA

The CSSA was formed in 2009 to represent corporate superannuation specialist advisory businesses. CSSA members provide financial advisory services to thousands of corporate superannuation funds across metropolitan and regional Australia and play an essential role in managing Australia's large and growing superannuation savings pool. CSSA members work with Australian companies and their employees to provide them with improved life insurance and superannuation outcomes via their superannuation member accounts. CSSA members provide a broad range of services to corporate super plans at four levels, – the employer level; the policy committee (representative body) level; the individual super fund member level and to super fund members collectively. These services help employers and policy committees ensure that members are getting competitive benefits and features, at a competitive price, and that members have access to general advice and information to help them improve their decisions about their retirement savings and life insurance choices.

We believe that the proactive provision of services, general advice and ultimately financial planning advice in the workplace is critical to achieving the Government's goals of improving access to financial advice and maximising retirement incomes for members.

CSSA members conduct thousands of group seminars and "one on one" meetings with members of our employer funds each and every year, taking information and advice to their workplaces to improve financial literacy.