



Association of
Financial Advisers

Response:

**Productivity Commission –
Default superannuation funds in modern awards**

Submission: Association of Financial Advisers Ltd

20 April, 2012

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Default Superannuation Funds in Modern Awards
Productivity Commission
LB2 Collins Street East
Melbourne VIC 8003

Email: default.super@pc.gov.au

Dear Mr Woods,

Productivity Commission Inquiry – Default superannuation funds in modern awards

The Association Of Financial Advisers Limited (“AFA”) has been serving the financial advising industry for over 65 years. Its aim is to provide members with a robust united voice, continually improve practices and focus firmly on the exciting, dynamic future of the financial advising industry. The AFA also holds the client to be at the centre of the advice relationship and thus support policies that are good for consumers and their wealth outcomes.

With over six and half decades of success behind it, the AFA’s ongoing relevance is due to its philosophy of being an association of advisers run by advisers. This means advisers set the agenda, decide which issues to tackle and shape the organisation’s strategic plan.

The AFA thanks the Productivity Commission for the opportunity to provide a submission on the Default superannuation funds in modern awards Inquiry. This submission has been prepared by the AFA on behalf of its members.

The Australian Superannuation system, with approximately \$1.3 trillion in assets, is now a large industry, and in fact is the fourth largest private pension market in the world. The compulsory nature of the Superannuation Guarantee, the legislated increase in the SGC and the tax advantaged options with respect to member contributions, make the Australian Superannuation system a strong and robust industry. The role of modern awards in establishing default funds is a particularly significant issue for the superannuation industry and one where a thorough review is necessary.

Ensuring the availability of an appropriate range of default superannuation funds for employers and consumers is a critical outcome. Superannuation is typically a person’s second biggest asset behind their home. Achieving the right consumer outcomes will also be critical to the Australian economy, through achieving a reduction in the reliance on the government pension.

The AFA presents the following input with respect to default superannuation funds in modern awards.

Overall View

- The AFA is of the view that the current arrangements are unnecessarily restrictive, anticompetitive, and offer an excessive competitive advantage to Industry Funds.
- The AFA does not support the inclusion of default superannuation funds in modern awards and believes that employers should have the ability to choose the best fund for their employees.
- The Inquiry terms of reference appear to suggest that the removal of default superannuation funds from modern awards may not achieve government support. In this context, the proposal with respect to the introduction of MySuper products should facilitate the selection criteria necessary for inclusion in modern awards. MySuper product providers and products will need to be approved by APRA, which should represent a sufficient review and approval process. There is no need for any further criteria over and above the MySuper requirements. Thus all approved MySuper products should be the criteria defined within modern awards.
- The AFA is also concerned as to the qualification and capabilities within Fair Work Australia in order to undertake the default superannuation fund selection process. It would be much more cost effective to rely upon other review processes by suitably qualified personnel.

Problems with the Current System

- The current system does not provide employers with sufficient flexibility to choose a default superannuation fund. To many employers, their default superannuation fund is an important element to their employee offer. Thus a lack of choice becomes a significant disadvantage. Further, a lack of choice in terms of what is in the modern award may mean that employers choose to stay with a fund that is sub-optimal. Thus this presents a factor that impacts upon market competitiveness, as a reduction in employers reviewing their funds will lead to a reduction in product improvements.
- Often employers will have a number of different categories of employees. The funds available through the modern award, may suit some of these categories, but not others. This can result in some categories of employees being disadvantaged.
- The modern award arrangements present complications for organisations that are merged or restructured. In this context, it may no longer be possible for an employer to contribute to an employees existing default fund, following an acquisition.
- The current predominant bias towards industry funds fails to allow for the very competitive market place that now exists for corporate superannuation plans, and means that members end up in funds that have less features, lower service levels, potentially worse performing investment options and that may not be as competitively priced as possible.

Conclusion

- The AFA welcomes this Inquiry into default superannuation funds in modern awards and recognizes that this is a good opportunity to address some of the issues that currently detrimentally impact this part of the financial advice landscape. Employers need increased choice, in order to ensure that employees get the best possible outcome.
- We propose either the removal of default funds from modern awards or a mechanism where the default superannuation funds were limited to approved MySuper funds.

Richard Klipin

Chief Executive Officer
Association of Financial Advisers Ltd