

31 July 2012

Yvette Goss
Default Superannuation Funds in Modern Awards
Productivity Commission

Dear Ms Goss

Productivity Commission Inquiry into Default Superannuation Funds in Modern Awards

I call your attention to my recent research (see attachment) which supports Recommendation 4.4 of the draft report. My research has been presented to the 20th Annual Colloquium of Superannuation Researchers at the University of New South Wales on 12 July 2012. It has also been submitted for journal publication.

The main points relevant for Recommendation 4.4 are:

- Economies of scale are only one factor among many others which can reduce cost for the operation of superannuation funds.
- There is no generally valid relationship between scale and total cost of running superannuation funds. Hence, it is inappropriate to use scale as a selection criterion, which creates a barrier to entry and inhibits market competition.
- Lower costs are irrelevant if the benefits are not passed on as lower fees and better returns for members. Large retail funds benefit from scale, but the data show their cost savings go to profit for shareholders and not to benefit for members.
- The profit factor acts as a persistent impediment to better investment returns for members and should be considered along with other factors in the selection of default funds.

Yours sincerely,
Dr Wilson Sy