

Productivity Commission

DEFAULT SUPERANNUATION FUNDS IN MODERN AWARDS



SOUTH AUSTRALIAN WINE INDUSTRY
ASSOCIATION INCORPORATED

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DATE:	3 August 2012

About the South Australian Wine Industry Association

The South Australian Wine Industry Association (SAWIA) is an industry employer association representing the interests of wine grape growers and wine producers throughout the state of South Australia.

SAWIA is a not for profit incorporated association, funded by voluntary member subscriptions, grants and fee for service activities, whose mission is to provide leadership and services which underpin the sustainability and competitiveness of members' wine business.

SAWIA membership represents approximately 96% of the grapes crushed in South Australia and about 36% of the land under viticulture. Each major wine region within South Australia is represented on the board governing our activities.

SAWIA has a strong track record as an industry leader and innovator in many areas. SAWIA proactively represents members and the greater wine industry with government and related agencies in a wide variety of aspects of business in the wine sector.

Scope of inquiry

The Productivity Commission has been asked to undertake an inquiry into default superannuation funds in modern awards.

The scope of the inquiry is outlined below:

The Commission will look at the criteria for designing, selection and ongoing assessment of superannuation funds eligible for nomination as default funds in modern awards

The criteria will be transparent and objective and could have regard to the following:

- *The investment strategy of the default investment option of the fund vs. risk and expected return*
- *The net-of-cost investment performance of the default investment option*
- *Level of fees incurred by members*
- *The scale of the fund and the level of services provided to members*
- *The suitability and cost of insurance provided by the fund*
- *The governance of the fund*
- *The fees incurred and other impacts on members if they cease employment with an employer*

The commission will also take into account any administrative and compliance impact on employers, their representatives and, unions, superannuation funds and decisions of Fair Work Australia

Interaction with MySuper will also be taken into consideration when undertaking the inquiry.

Basis of Submission

SAWIA's members appreciate the role that the superannuation guarantee legislation in Australia plays in ensuring that people make provision for an income for their future retirement. While employers play a pivotal part in providing for the administration of superannuation guarantee contributions for employees our employer members see the responsibility of choosing a fund (and justifying that choice) resting with the individual employee. In circumstances where an employee for whatever reason, does not nominate their choice of superannuation fund, then the employer must be able to direct the employees' superannuation payments to some 'default' fund in order to comply with their legal obligations. However in having to take this action an employer should not have to 'wear' the responsibility of choosing the 'default' fund and justify this to the employee, as is proposed by the

Productivity Commission's draft report. In our view what is needed is an education campaign to empower people to be engaged about their superannuation and take responsibility for making choices about their superannuation, including what fund they want their contributions to go in to.

Recommendations of the Productivity Commission

The Productivity Commission's draft report was released on 29 June 2012 to assist interested parties and participants in preparing a submission to the public inquiry into Default Superannuation Funds in Modern Awards.

SAWIA's submission comments specifically in relation to the following Draft Recommendations from the draft report.

Draft recommendations, findings and information requests

Reforming the selection process

DRAFT RECOMMENDATION 8.2

Employers selecting default funds for employees to whom the superannuation provisions in modern awards apply should be able to choose a fund not listed in the relevant award. However, in this circumstance, employers should be required to justify their choice, if called upon, by demonstrating that:

- *the factors for consideration identified by the Commission were taken into account when making the decision*
- *their employees are at least no worse off than if the employer had chosen a fund listed in the relevant award.*

DRAFT RECOMMENDATION 8.3

Grandfathering provisions relating to superannuation should be removed from all modern awards.

Employers choosing default funds

SAWIA strongly opposes draft recommendation 8.2. Draft recommendation 8.2 seeks to place the onus on the employer to ensure an employee is no worse off than if the employee had chosen a fund listed in the relevant award. SAWIA strongly advocates that there should be no obligation for the employer to demonstrate any of the requirements listed in the draft recommendation. These requirements should be the responsibility of the fund, and the **employee** should satisfy themselves that they are no worse off in the employer's default fund, as be the case for any fund they nominate.

With the limited resources of businesses in the current economic climate, it cannot solely be the responsibility of the employer to determine which superannuation fund contributions are paid into for employees. This places employers in the role of Financial Planners. Imposing these additional requirements onto employers, further removes the responsibility from employees, which may in turn make employees more apathetic about their choice of superannuation fund.

SAWIA employer members state they do not have the knowledge to be able to compare superannuation funds and measure the 'bells and whistles' against other funds when they lack the expertise to do so. This is the role of a financial planner, further each individual employee has different needs depending on their age, personal circumstances and stage of life.

SAWIA submits that the funding allocated to implement the Strong Super and MySuper programs could be better spent in developing and delivering education to employees which result in greater engagement and in turn allowing them to make more informed decisions regarding their superannuation funds.

SAWIA strongly recommends that any requirement to comply with the 'no worse off rule' should be the responsibility of individual superannuation funds, not the employer. In order to receive super guarantee contributions, the funds should demonstrate their compliance with these rules.

Grandfathering provisions in modern awards

SAWIA does not support draft recommendation 8.3 contained in the draft report. Whilst there appears to be little evidence regarding whether the grandfathering provisions in modern awards are widely used, feedback from our members supports the retention of grandfathering provisions in modern awards and would like the status quo maintained.

Some wine industry employers have established superannuation funds that have in some cases operated for decades. Any removal of the grandfathering provisions from modern awards would create an additional administrative burden for many employers

SAWIA believes employers are relieved of any requirement to move employees from a grandfathered superannuation product to a MySuper product in the event this recommendation was to become final. The responsibility of choosing any alternate superannuation fund is solely with the employee. Even with the retention of the grandfathering provisions an employee remains able to move to an alternative superannuation fund of their choice.

If the Productivity Commission's final recommendation is to remove the grandfathering provisions then SAWIA strongly recommends a transitional period of at least 12 months be adopted so that employers can get advice regarding their default fund and communicate the change to employees.

Conclusion

SAWIA main objective is to support its members in operating their businesses whilst maintaining compliance with a number of different regulations and legislation governing business operations and employment. SAWIA maintains that any implementation of new superannuation initiatives must ease rather than exacerbate administrative and cost burden already imposed upon employers. Any improvements to provide greater transparency of the superannuation system are warranted and strongly encouraged, especially any improved tools that provide employers and employees the opportunity to easily compare superannuation funds. SAWIA submits that the current superannuation system is working well, but should be improved with further education and support, to make choice of superannuation fund the responsibility of the people themselves.