



Association of
Financial Advisers

Response to Draft Report:

Default superannuation funds in modern awards

Submission: Association of Financial Advisers Ltd

3 August, 2012

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Default Superannuation Funds in Modern Awards
Productivity Commission
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Melbourne VIC 8003

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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 supports 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 with respect to the draft report on Default superannuation funds in modern awards and to present at the public hearing on Tuesday 31 July 2012. This submission has been prepared by the AFA on behalf of its members.

The role of modern awards in establishing default funds is a particularly significant issue for the superannuation industry. We have previously welcomed your inquiry and recognize the comprehensive nature of the draft report.

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 broadly supportive of the recommendations put forward in the draft report and the recognition of the deficiencies in the current system.

The current model for the selection of default superannuation funds is not based on merit, is not transparent and as the Productivity Commission has highlighted, leads to an inequitable outcome that is very much biased in the favour of industry funds. The lack of necessary competition in this area is an important issue that needs to be solved quickly for the benefit of employers and members of employer superannuation funds.

The superannuation marketplace has changed significantly in the context of the Future of Financial Advice legislation and the MySuper proposals. There have already been significant developments in the wide availability of commission free products that now means that there are a number of retail, wholesale and corporate superannuation products that are extremely cost competitive. Any review in this area needs to take into account the current competitive reality.

This draft report represents a comprehensive consideration of the key issues and poses some sensible recommendations for consideration by the industry and government.

Options for the Selection of Default Superannuation Funds in Modern Awards

In our previous submission, the AFA recommended the complete removal of superannuation from modern awards so that employers would have the flexibility to appoint the most appropriate default superannuation fund. We acknowledge that this was not part of your scope, nor what you have recommended. You have set out 4 options for the operating model for the selection of default funds. We believe that option 1, where all MySuper products would be available to employers, is a good workable model.

We also recognise that there may be a desire to make this process of the selection of a default superannuation fund, a more manageable exercise for employers, by limiting the number of funds that are available for an employer to select from. In this context we believe that option 4 would be the most appropriate, as this enables the decision making to be placed in the hands of an independent body. We oppose Option 3, as we do not believe that Fair Work Australia has the necessary superannuation knowledge in order to effectively manage this process. We also have reservations, in the context of the recent public criticism of Fair Work Australia with respect to their handling of a recent high profile matter.

Selection Criteria for Default Superannuation Funds in Modern Awards

With respect to the recommended criteria for the selection of default funds, the AFA would like to make the following points:

- When it comes to investment performance, it is important to appreciate that past performance is no indicator of future performance. What is essential is an understanding of the reasons for historical out-performance and whether this is genuine and whether it is sustainable and risk effective. Over the last 10 years we have seen one high profile industry fund, go from the top of the list to the bottom. The key issue behind this was the level of holdings of unlisted assets, where valuation was challenging but also somewhat imprecise.
- In looking at products, it is not possible to look at fees alone. There are a range of qualitative factors that need to be taken into consideration. Poor service outcomes in terms of processing payments or roll-overs, are important indicators of funds that lack adequate capability. Equally important is the issue of daily unit pricing. Crediting rates are less costly, but lack the same level of equity between new, remaining and leaving members.
- When it comes to corporate governance, we support enhancements in this area. It is not just about controls, but also about disclosure. One area of disclosure that we would like to see enhanced is related party transactions.
- The AFA also strongly supports the move towards independent directors.
- One issue of scale that needs to be considered is the capital backing in order to address and resolve events of a significant matter that might potentially impact the viability of the fund. Sufficient capital to overcome any operational risk eventuality is important.
- Whilst we note your recommendation with respect to intra-fund advice, it is important to recognise that advice for members might come from both the fund (via intra-fund advice) or from an adviser. Some funds will operate a model that supports intra-fund advice, whilst others will favour a greater reliance upon financial advisers. We would not like to see an outcome that works to the disadvantage of advisers who work in the area of corporate superannuation and focus upon supporting employers and their employees.

Employer Flexibility to Select a Default Superannuation Fund

Giving the employer the option to appoint a fund that is not listed in the award, where the member is no worse off, makes very strong sense. This introduces some level of flexibility that has been removed from the system under the Fair Work Act. Organisations can vary greatly and a default superannuation plan that has been selected in a modern award for a particular industry may not suit the employees within that organization. Employers need to make decisions with respect to the best outcome for their employees, and there will be many cases where this requires flexibility.

In order for this mechanism to work and actually be used, it will be critical that there are objective measures set for what is meant by “no worse off”. If the bar is too high and involves too much risk, then it is unlikely that many employers will take this option on. We believe that advisers are well positioned to support employers in this decision, where the rules are very clear. It is also important to recognise that this decision is one that is made at a point in time and cannot be subject to review based upon the benefit of hindsight. To support advisers in this, all the information that is provided for selection to be included in a modern award, would need to be publicly available information.

In the draft report, the Productivity Commission has asked for guidance on mechanisms to enable an assessment of “no worse off”. There are a number of commercially available superannuation fund assessment providers, where funds are rated on a range of criteria. These fund assessments are often used by Financial Advice licensees as the mechanism for determining which products are on the Approved Product List. In the AFA view, the assessments produced by these specialist service providers could be the basis for a “safe harbour” standard for employers and financial advisers to use.

Other Considerations

We would also like to express our concern about the frequency of reviewing the funds in the award and the inability to add a new fund in-between formal reviews. If a new and improved product appears in the marketplace, then employees would largely be prevented from accessing this. There needs to be a mechanism to add a new fund in a fashion that avoids excessive complexity or bureaucracy.

In terms of the timeframe for moving forward on this issue, we would like to make the point that 2014 is still a long way off. This timeframe means that the current structural competitive advantage available to industry funds will remain in place for a significant further period. We reject the calls from some parties, for a significant delay in implementing any change, in order to assess the impact of MySuper. This is an important issue, where the current model is significantly deficient, and change is required as soon as possible. We believe that the Government should be capable of moving sooner than 2014, even if this is limited to the ability of employers to nominate a default fund that is not listed in an award.

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 support the direction that the Productivity Commission has set in the draft report and look forward to reviewing the final report and seeing change delivered in this area.

Richard Klipin

Chief Executive Officer
Association of Financial Advisers Ltd