QANTAS SUPER

LOOK FORWARD

Address
Level 2, A Wing
10 Bourke Road Mascot
NSW 2020 Australia
Qantas Super Helpline
1300 362 967 (within Australia)
+61 3 8687 1866 (outside Australia)
Fax 03 9245 5827
www.qantassuper.com.au

11 July 2018

Karen Chester
Deputy Chair
Productivity Commission
Level 12, 530 Collins Street
Melbourne VIC 3000

Dear Ms Chester

Qantas Super's submission on the Productivity Commission's draft report "Superannuation: Assessing Efficiency and Competitiveness April 2018"

Qantas Superannuation Limited (**Qantas Super**) is the corporate trustee of the Qantas Superannuation Plan (**Qantas Super Plan**) and is a wholly owned subsidiary of **Qantas Airways Limited**.

The Qantas Super Plan was founded in 1939 and principally exists to provide superannuation products and services to the employees of Qantas Airways Limited. As such, the Qantas Super Plan is not open to the general public.

Our purpose is to help our members be confident in their financial future, so they can enjoy retirement. And as a corporate super fund that is exclusive to one employer group in one industry, we aim to do so by tailoring the best products and services to meet our members' specific needs. For example:

- we explicitly take a "safety first" approach to investing;
- we tailor our insurance design to the needs of airline industry employees;
- we provide workplace advice to members at no additional cost; and
- we help our members directly elect representative directors to the board.

The Productivity Commission's report "Superannuation: Assessing Efficiency and Competitiveness" has far reaching draft recommendations. While Qantas Super supports some of these recommendations, we also think some can be improved, and we do not support some others. We have therefore prepared this submission and for the avoidance of doubt, this submission is made by Qantas Super, not by Qantas Airways Limited.

If you have any questions in relation to our feedback, we would be pleased to discuss these with representatives of the Productivity Commission.

Kind regards

Michael Clancy
Chief Executive Officer
Qantas Super

EXECUTIVE SUMMARY

The table below describes Qantas Super's position at a high level with respect to the Productivity Commission's draft recommendations. These positions are described more fully in the main body of this submission. We have deliberately focused our feedback on those draft recommendations where Qantas Super has a strong and differentiated contribution to bring to the debate.

In addition to the specific responses below, we offer the following general observations:

- The Australian superannuation system is a multi-decade old industrial and political construct, which has evolved into a finely balanced mix of compulsion & choice, and paternalism & individualism. Moreover, the superannuation industry is populated by organisations who have fundamentally different philosophical purposes for participating in the industry. These characteristics certainly present their challenges, but they also drive the rich tapestry of the industry, which has resulted in the Australian superannuation system being the envy of many other countries around the world. When making recommendations about the superannuation system, we'd encourage the Productivity Commission to recognise that individual aspects of the system cannot be locally optimised without impacting, often negatively, other beneficial features of the system;
- Among the distinguishing features of the current superannuation system are that it is a) Trustee led, b) the primary focus is on acting in the best interests of members, and c) in many instances super funds focus on discrete universes of members (e.g., industry specific, corporate specific, region specific). Provided super funds can achieve sufficient scale, this has allowed them to get to know their members well and design tailored products & services to meet their specific needs. There is a real risk that this critical characteristic would be substantially diminished were the Productivity Commission's recommendations to be fully implemented; as many super funds would strive to become generalists, in an effort to have broader appeal, rather than remain specialists; and
- In arriving at its draft recommendations and findings, the Productivity Commission has placed much weight on its analysis of past investment performance. We believe there are significant and material risks in relying on past investment performance analysis to support findings that inspire system recommendations. In particular, we'd encourage the Productivity Commission to move to evaluating investment performance on a risk adjusted, after fees & after taxes basis, and to do so over time periods where the results are statistically meaningful. While past investment results must be analysed and understood, we need to resist the allure of over relying on them for future decision making.

<table>
<tr><th>PRODUCTIVITY COMMISSION'S DRAFT RECOMMENDATIONS</th><th>QANTAS SUPER'S VIEW</th><th>QANTAS SUPER'S HIGH LEVEL POSITION</th></tr>
<tr><td>DRAFT RECOMMENDATION 1
DEFAULTING ONLY ONCE FOR NEW WORKFORCE ENTRANTS</td><td rowspan="2">Do not support</td><td rowspan="2">We have commented on DRAFT RECOMMENDATIONS 1-3 as a package.
We believe these recommendations are:
• not proportionate to the issues the Productivity Commission is trying to address;
• an unnecessary affront to the long standing reciprocal relationship between an employer and its employees; and</td></tr>
<tr><td>DRAFT RECOMMENDATION 2
'BEST IN SHOW' SHORTLIST FOR NEW MEMBERS</td></tr>
</table>

PRODUCTIVITY COMMISSION'S DRAFT RECOMMENDATIONS	QANTAS SUPER'S VIEW	QANTAS SUPER'S HIGH LEVEL POSITION
DRAFT RECOMMENDATION 3 INDEPENDENT EXPERT PANEL FOR 'BEST IN SHOW' SELECTION		• not fair and reasonable in the circumstances. Therefore, we do not support these recommendations. We have suggested an alternative approach in the main body of this submission.
DRAFT RECOMMENDATION 4 MYSUPER AUTHORISATION	Qualified support	In principle, we agree with the proposal to strengthen the MySuper authorisation rules. However, we strongly disagree with the idea of using of investment performance in the way described by the Productivity Commission to revoke a super fund's MySuper authorisation.
DRAFT RECOMMENDATION 5 REGULATION OF TRUSTEE BOARD DIRECTORS	Qualified support	In principle, we agree with the proposals to improve governance. However, we strongly disagree that APRA should be provided with the outcomes of overall Board and individual Director performance evaluations. This is excessively intrusive and will thwart the very objective the Productivity Commission is hoping to achieve.
DRAFT RECOMMENDATION 6 REPORTING ON MERGER ACTIVITY	No comment	No comment
DRAFT RECOMMENDATION 7 CAPITAL GAINS TAX RELIEF FOR MERGERS	Support	We agree with the recommendation.
DRAFT RECOMMENDATION 8 CLEANING UP LOST ACCOUNTS	Qualified support	We support the general principle of identifying lost accounts and reuniting these with a members most recent active account. However, we strongly believe that the majority of lost super accounts should be reunited with a members most recent active account directly from one super fund to another. Lost accounts should only be sent to the ATO as a last resort.
DRAFT RECOMMENDATION 9 A MEMBER-FRIENDLY DASHBOARD FOR ALL PRODUCTS	No comment	No comment
DRAFT RECOMMENDATION 10 DELIVERING DASHBOARDS TO MEMBERS	No comment	No comment

PRODUCTIVITY COMMISSION'S DRAFT RECOMMENDATIONS	QANTAS SUPER'S VIEW	QANTAS SUPER'S HIGH LEVEL POSITION
DRAFT RECOMMENDATION 11 GUIDANCE FOR PRE-RETIREES	No comment	No comment
DRAFT RECOMMENDATION 12 EXIT FEES AT COST-RECOVERY LEVELS	No comment	No comment
DRAFT RECOMMENDATION 13 DISCLOSURE OF TRAILING COMMISSIONS	No comment	No comment
DRAFT RECOMMENDATION 14 OPT-IN INSURANCE FOR MEMBERS UNDER 25	No comment	This recommendation appears to have been overtaken by proposals in the 2018 Federal Budget.
DRAFT RECOMMENDATION 15 CEASE INSURANCE ON ACCOUNTS WITHOUT CONTRIBUTIONS	Do not support	This recommendation appears to have been overtaken by proposals in the 2018 Federal Budget. However, we strongly believe that 13 months of inactivity is too short a time to cease cover. This will inadvertently impact workers on maternity leave, long term sick leave, leave without pay, etc. The period should be at least 24 months rather than 13 months.
DRAFT RECOMMENDATION 16 INSURANCE BALANCE EROSION TRADE-OFFS	Support	We agree with the recommendation.
DRAFT RECOMMENDATION 17 INSURANCE CODE TO BE A MYSUPER CONDITION	No comment	No comment
DRAFT RECOMMENDATION 18 INSURANCE CODE TASKFORCE	No comment	No comment
DRAFT RECOMMENDATION 19 INDEPENDENT REVIEW OF INSURANCE IN SUPER	Do not support	We disagree with this recommendation. We strongly believe the review into insurance in superannuation recommended by the Productivity Commission would be a waste of Federal Government, regulator, and super fund resources, would unnecessarily create uncertainty for super funds and their members, and would stymie near term investment into insurance benefit design.

PRODUCTIVITY COMMISSION'S DRAFT RECOMMENDATIONS	QANTAS SUPER'S VIEW	QANTAS SUPER'S HIGH LEVEL POSITION
DRAFT RECOMMENDATION 20 AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY	No comment	No comment
DRAFT RECOMMENDATION 21 AUSTRALIAN SECURITIES AND INVESTMENTS COMMISSION	No comment	No comment
DRAFT RECOMMENDATION 22 SUPERANNUATION DATA WORKING GROUP	No comment	No comment

FEEDBACK ON DRAFT RECOMMENDATIONS

MODERNISING THE SUPER SYSTEM

DRAFT RECOMMENDATION 1 DEFAULTING ONLY ONCE FOR NEW WORKFORCE ENTRANTS	Default superannuation accounts should only be created for members who are new to the workforce or do not already have a superannuation account (and do not nominate a fund of their own). To facilitate this, the Australian Government and the ATO should continue work towards establishing a centralised online service for members, employers and the Government that builds on the existing functionality of myGov and Single Touch Payroll. The service should: • allow members to register online their choice to open, close or consolidate accounts when they are submitting their Tax File Number when starting a new job • facilitate the carryover of existing member accounts when members change jobs • collect information about member choices (including on whether they are electing to open a default account) for the Government. There should be universal participation in this process by employees and employers.
DRAFT RECOMMENDATION 2 'BEST IN SHOW' SHORTLIST FOR NEW MEMBERS	A single shortlist of up to 10 superannuation products should be presented to all members who are new to the workforce (or do not have a superannuation account), from which they can choose a product. Clear and comparable information on the key features of each shortlisted product should also be presented. Members should not be prevented from choosing any other fund (including an SMSF). Any member who fails to make a choice within 60 days should be defaulted to one of the products on the shortlist, selected via sequential allocation. The ATO should embed the shortlist and accompanying information into the centralised online service.
DRAFT RECOMMENDATION 3 INDEPENDENT EXPERT PANEL FOR 'BEST IN SHOW' SELECTION	The Australian Government should establish an independent expert panel to run a competitive process for listing superannuation products on the online shortlist. This panel should select from products submitted by funds that meet a clear set of criteria (established beforehand by the panel) and are judged to deliver the best outcomes for members, with a high weighting placed on investment strategy and performance. The panel should have flexibility to select up to 10 products, with the exact number at the discretion of the panel based on the merit of each product and what is most tractable for members, while maintaining a competitive dynamic between funds for inclusion. The panel should be comprised of independent experts who are appointed through a robust selection process and held accountable to Government through adequate reporting and oversight. The process should be repeated, and the panel reconstituted, every four years.

COMMENT	We have commented on DRAFT RECOMMENDATIONS 1-3 as a package. The Qantas Super Plan is a corporate superannuation fund that is open only to employees, and former employees, of Qantas Airways Limited and their partners. The Qantas Super Plan was founded in 1939, more than 50 years prior to the mandated superannuation system we know today. Qantas Super was therefore not created to comply with an act of Federal Parliament, but has its very long term roots in the beneficial and reciprocal relationship between an employer and its employees. This can be, and is in the case of Qantas Airways Limited, Qantas Super, and their respective employees/members, a positive and constructive relationship. In the Qantas Super Plan's 1939 founding document, Qantas Airways Limited's Chairman wrote: "Co-operation is the keystone of commercial success. The wisest policy, however efficiently directed, must fail unless it is supported by the conscientious effort of every member of the organisation. The Company has always recognised the value of its Employees' service by endeavouring to make working conditions as congenial and remunerative as possible. Now, by the introduction of a Pension Scheme this recognition goes beyond the field of active service to provide for your years of retirement." This 1939 Pension Scheme: • was mandatory for employees to join; • had an Advisory Committee made up of four employees: representing Executive Staff, Flying Staff, General Staff, and Engineering Staff; • the Company and the Employee both made equal 5% contributions to the employee's pension account; • included life insurance for employees in the event of their death before retirement; and • allowed for special payments to be made to employees who could no longer work due to sickness or accident. These important elements remain in Qantas Super's offer to its members today. We understand that the Productivity Commission is particularly keen to address the following two issues: • unintended multiple accounts: and • entrenched underperformance. However, we believe DRAFT RECOMMENDATIONS 1-3 are excessive in scope and impact given that in DRAFT FINDING 2.1, the Productivity Commission itself observed that the "majority of members and assets in the system are in products that have performed reasonably well". We believe these recommendations are also an unnecessary affront to the long standing reciprocal relationship between an employer and its employees. Specifically, with respect to DRAFT RECOMMENDATIONS 1-3 we believe the 'best in show' approach does not work as: • It is built on a rationale that has "foundations of sand", as it explicitly assumes that past performance is indicative of future performance over 10ish year periods, and it is not. It might be an unfortunate truth, but it is a truth nonetheless, that past performance really is not indicative of future performance. We have made detailed comments that support this view in our responses to DRAFT FINDINGS 2.1 and 2.3;

	• If as a result of the above point, investment performance was de-weighted as a criteria to distinguish super funds, the proposed expert panel would be hard-pressed to fairly separate the top 10 'best in show' and the next (say) 40-50 super funds (i.e., funds rated Platinum and Gold by SuperRatings), as they will all have strong products and service offerings; • It unfairly discriminates against super funds that are not public offer super funds (e.g., especially Corporate or Public Sector funds), who are well placed to provide tailored superannuation solutions to their discrete universe of members; • It also unfairly "tips the scales" in favour of those selected and has the unintended consequence of creating over the medium term, a self-fulfilling prophesy in terms of who the winners and losers are in the superannuation industry. We have made detailed comments that support this view in our response to INFORMATION REQUEST 12.1; and • It will have additional unintended consequences, such as dramatically higher branding and marketing costs across the super industry. See our response to INFORMATION REQUEST 12.1. In summary, we believe these recommendations are: • not proportionate to the issues the Productivity Commission is trying to address; • an unnecessary affront to the long standing reciprocal relationship between an employer and its employees; and • not fair and reasonable in the circumstances. Therefore, we do not support these recommendations. We believe a much better default system alternative, which addresses unintended multiple accounts, and entrenched underperformance, but builds on the strengths of the existing superannuation system is: • The MySuper authorisation regime should be strengthened, largely in alignment with DRAFT RECOMMENDATION 4, such that the Federal Government, regulators, and the industry itself are satisfied that all super funds with a MySuper authorisation are quality super funds; and • To the extent that more needs to be done to address the "persistent 'tail' of relatively high fee (mainly for profit) choice products with total fees exceeding 1.5 per cent of assets each year", this issue should be dealt with directly through regulation; and • The default superannuation arrangements within enterprise agreements should be maintained. Having default superannuation arrangements within enterprise agreements has produced beneficial results for the majority of superannuants and the Productivity Commission has not convincingly demonstrated that the 'best in show' approach will materially improve on this outcome. To be listed in an enterprise agreement, a super fund must have a MySuper authorisation and therefore must meet the strengthened regulatory requirements; and • The ATO and employers should work together and use technology to better inform superannuants when joining a new employer, about a) the superannuants existing super account(s), and b) their new employers default superannuation fund(s), and c) require the superannuant to make a choice for future Superannuation Guarantee

contributions. The superannuant could also choose any other MySuper authorised super fund, or an SMSF, if they so wish; and

- Informing their employer of a super fund choice should be a hard requirement on new employees, in the same way that most employees have a hard requirement to inform their new employer of the bank/credit union account into which their pay will be electronically transferred. If the new employee does not make a choice as to their bank/credit union account for income and their super fund account for their super contributions, the new employee's pay and super contributions must both be paid into a suspense account until these details are provided by the employee to the employer.

This approach has the following advantages over the proposed 'best in show' recommendation:

- It builds on the strengths of the current superannuation system and is a targeted change that is proportionate to the desired issues that need to be addressed;
- It embraces an enhanced MySuper authorisation process, which when combined with APRA's increased focus on outcomes, will deal with any underperforming super funds;
- It eliminates unintended multiple accounts by requiring employees to choose a super fund each time they start working for a new employer, in the same way that they choose a bank/credit union account for their salary each time they start working for a new employer;
- It avoids "tipping the scales" to the benefit of a small number of super funds, which are no more likely to deliver better investment results in the future than many other super funds;
- It supports industry specific, or corporate specific, or region specific super funds to continue to offer superannuation products & services that are specifically designed to meet the needs of their discrete universe of member. This is a core and beneficial feature of the existing superannuation system; Trustees have the opportunity to know their members well and design tailored products & services to meet their specific needs;
- It requires superannuants to make choices from a range of quality super fund options, but presents them with some specific options which are appropriate for them. To the extent that making a choice encourages engagement, the recommended approach achieves this; and
- There are also societal benefits to having a broad and diverse MySuper and choice super ecosystem and this approach preserves those benefits. To name a few:
  - The Federal Government will not be, and/or will not be seen to be, "tipping the scales" to favour of a small number of winners via the proposed expert panel and therefore avoids the agency risk of vicarious or other liability if one or more of the funds fails to perform;
  - Super funds already own a significant proportion of listed and unlisted equity in the Australian economy. Over the medium to long term, the 'best in show' approach would concentrate yet more flows and more assets into the hands of a very narrow list of super funds, which in turn would concentrate vast economic power and influence in those super funds. This would not be a positive outcome for society generally; and
  - In a domain like investment management, which is central to what members expect of their super funds, and where success comes from a combination of skill and luck, from a system diversification perspective it

<table>
<tr><td></td><td> <u>is better to have new workers feed into a broad array of high quality super funds, rather than into a narrow list of super funds</u>.
****
If despite the points made above, and other submissions with respect to the draft report, the Productivity Commission continues to recommend the ‘best in show’ approach, <u>we strongly recommend that this recommendation be modified such that</u>:

where a super fund is not public-offer, and exists for the sole purpose of providing superannuation benefits to a specific universe of employees (e.g., the Qantas Super Plan, which exists as a super fund solely for the current and former employees of Qantas Airways Limited, and their partners); and
where that super fund meets the enhanced MySuper authorisation requirements;
then that super fund should be added to the list of ‘best in show’ funds to complete the list of highlighted super funds for new employees of that employer group; and
where the new employee makes no super fund choice, the employee should be defaulted into the corporate super fund.

****
Next year the Qantas Super Plan will celebrate its 80th year of providing superannuation benefits and services to its members. We believe the beneficial and reciprocal relationship between an employer, and its employees, is as important in 2018 as it was in 1939. We therefore hope that Qantas Super will be able to continue to provide superannuation benefits and services to the employees of Qantas Airways Limited for many years to come, and that its ability to do so is not prejudiced by the Productivity Commission’s final recommendations. </td></tr>
<tr><td>DRAFT RECOMMENDATION 4
MYSUPER AUTHORISATION</td><td> The Australian Government should legislate to allow APRA to apply the MySuper outcomes test.
Authorisation rules for MySuper should be further strengthened to require funds to:

obtain independent verification — to an audit-level standard — of their outcomes test assessment, comparison against other products in the market, and determination of whether members’ best interests are being promoted, at least every three years
report to APRA annually on how many of their MySuper members switched to a higher-fee choice product within the same fund.

Funds that fail to meet these conditions — or persistently underperform (for five or more years) an investment benchmark tailored to their asset allocation by a material margin, as determined by APRA — should have their MySuper authorisation revoked.
After implementation, the Australian Government should commission an independent review, every five years, of the effectiveness of the MySuper authorisation rules (including the outcomes test) at meeting their objectives. </td></tr>
<tr><td>COMMENT</td><td>In principle, we agree with the proposal to strengthen the MySuper authorisation rules.</td></tr>
</table>

	We do however reiterate the points made in DRAFT FINDINGS 2.3, which is that while we should acknowledge past investment results, we also need to resist the allure of relying on them for future decision making. Specifically, we strongly disagree that "Funds that … persistently underperform (for five or more years) an investment benchmark tailored to their asset allocation by a material margin, as determined by APRA — should have their MySuper authorisation revoked." This would be a trigger for APRA to have serious conversations with the Trustee but revoking a super fund's MySuper authorisation based on (at best) medium term past performance is completely inappropriate. By way of example, please see Attachment 1. This attachment shows investment performance for the 5 year period to 31 December 2012 and then the 5 year period to 31 December 2017 and colour codes the investment results for each period into quartiles. For example, Attachment 1 shows that "ASGARD Emp Super – SMA Balanced" delivered first quartile returns in the first period and fourth quartile results in the second period, and "Local Government Super Accum - Balanced Growth" delivered a fourth quartile result in the first period, and a second quartile result in the second period. This clearly shows that investment performance results and rankings are not stable over the time periods suggested. And despite it seeming like long time, if two 10 year periods of data were available, we expect it would show the same pattern of results. It might be an unfortunate truth, but it is a truth nonetheless, that past performance really is not indicative of future performance.
DRAFT RECOMMENDATION 5 REGULATION OF TRUSTEE BOARD DIRECTORS	The Australian Government should legislate to: • require trustees of all superannuation funds to use and disclose a process to assess, at least annually, their board's performance relative to its objectives and the performance of individual directors • require all trustee boards to maintain a skills matrix and annually publish a consolidated summary of it, along with the skills of each trustee director • require trustees to have and disclose a process to seek external third party evaluation of the performance of the board (including its committees and individual trustee directors) and capability (against the skills matrix) at least every three years. The evaluation should consider whether the matrix sufficiently captures the skills that the board needs (and will need in the future) to meet its objectives, and highlight any capability gaps. APRA should be provided with the outcomes of such evaluations as soon as they have been completed • remove legislative restrictions on the ability of superannuation funds to appoint independent directors to trustee boards (with or without explicit approval from APRA).
COMMENT	In principle, we agree with the proposals in DRAFT RECOMMENDATION 5 to improve governance. However, we strongly disagree that "APRA should be provided with the outcomes of such evaluations as soon as they have been completed". This is excessively intrusive and will thwart the very objective the Productivity Commission is hoping to achieve. Presumably the Productivity Commission and APRA want super funds to conduct genuine board and director performance appraisals, where directors and management make fiercely honest observations. This will not happen if directors and

	management know that those fiercely honest observations and the resulting recommendations will not remain confidential to the super fund board and/or the individual director.
DRAFT RECOMMENDATION 6 REPORTING ON MERGER ACTIVITY	The Australian Government should require trustee boards of all APRA-regulated superannuation funds to disclose to APRA when they enter a memorandum of understanding with another fund in relation to a merger attempt. For mergers that ultimately do not proceed, the board should be required to disclose to APRA (at the time) the reasons why the merger did not proceed, and the members' best interests assessment that informed the decision.
COMMENT	No comment.
DRAFT RECOMMENDATION 7 CAPITAL GAINS TAX RELIEF FOR MERGERS	The Australian Government should legislate to make permanent the temporary loss relief and asset rollover provisions that provide relief from capital gains tax liabilities to superannuation funds in the event of fund mergers and transfer events.
COMMENT	Agree.
DRAFT RECOMMENDATION 8 CLEANING UP LOST ACCOUNTS	The Australian Government should legislate to: • ensure that accounts are sent to the ATO once they meet a definition of 'lost' • empower the ATO to auto-consolidate 'lost' accounts into a member's active account, unless a member actively rejects consolidation • allow a fund to exempt a 'lost' account from this process only where the member has provided an explicit signal that they want to remain in that fund (prior to the account meeting the definition of 'lost') • reduce the 'lost inactive' activity threshold from five to two years • require that all accounts held by Eligible Rollover Funds, regardless of their lost status, are sent to the ATO • prohibit further accounts being sent to Eligible Rollover Funds.
COMMENT	We support the general principle of identifying lost accounts and reuniting these with a members most recent active account. However, with the technology available today and in the future, we believe that the vast majority of lost super accounts can and should be reunited with a members most recent active account directly from one super fund to another. Lost accounts should only be sent to the ATO when no more recent active account can be identified for a member. It should therefore be the exception rather than the rule that accounts are sent to the ATO.
DRAFT RECOMMENDATION 9 A MEMBER-FRIENDLY DASHBOARD FOR ALL PRODUCTS	The Australian Government should require funds to publish simple, single-page product dashboards for all superannuation products. ASIC should: • prioritise the implementation of choice product dashboards to achieve full compliance by 1 July 2019

	• revise the dashboards to simplify the content and provide more easily comprehensible metrics (drawing on robust consumer testing) by end 2019 • immediately publish all available MySuper and choice product dashboards on a single website, with the information clearly and readily accessible from the area of myGov that allows for consolidation of accounts.
COMMENT	No comment.
DRAFT RECOMMENDATION 10 DELIVERING DASHBOARDS TO MEMBERS	The Australian Government should require the ATO to present the relevant (single page) product dashboard on a member's existing account(s) on its centralised online service. The Government should also require all superannuation funds to actively provide their members with superannuation product dashboards when a member requests to switch from a MySuper product to a choice product within the fund. This should include: • the dashboard for the MySuper product • the dashboard for the choice product the member wants to switch to.
COMMENT	No comment.
DRAFT RECOMMENDATION 11 GUIDANCE FOR PRE-RETIREES	The Australian Government should require the ATO to guide all superannuation members when they reach age 55 to: • the 'Retirement and Superannuation' section of ASIC's MoneySmart website • the Department of Human Services' Financial Information Service website.
COMMENT	No comment.
DRAFT RECOMMENDATION 12 EXIT FEES AT COST-RECOVERY LEVELS	The Australian Government should legislate to extend MySuper regulations limiting exit and switching fees to cost-recovery levels to all new members and new accumulation and retirement products.
COMMENT	No comment.
DRAFT RECOMMENDATION 13 DISCLOSURE OF TRAILING COMMISSIONS	The Australian Government should require superannuation funds to clearly inform, on an annual basis, all members who are subject to trailing financial adviser commissions. This information should include the amount of commissions paid and a notice that trailing commissions are now illegal for new members. All funds should publicly disclose the extent of trailing commissions and number of affected members in their annual reports and provide this information to ASIC.
COMMENT	No comment.

DRAFT RECOMMENDATION 14 OPT-IN INSURANCE FOR MEMBERS UNDER 25	Insurance through superannuation should only be provided to members under the age of 25 on an opt-in basis. The Australian Government should legislate to require trustees to obtain the express permission of younger members before deducting insurance premiums from these members' accounts.
COMMENT	This recommendation appears to have been overtaken by proposals in the 2018 Federal Budget. No comment.
DRAFT RECOMMENDATION 15 CEASE INSURANCE ON ACCOUNTS WITHOUT CONTRIBUTIONS	The Australian Government should legislate to require trustees to cease all insurance cover on accounts where no contributions have been obtained for the past 13 months, unless they have obtained the express permission of the member to continue providing the insurance cover.
COMMENT	This recommendation appears to have been overtaken by proposals in the 2018 Federal Budget. However, <u>we strongly believe that 13 months of inactivity is too short a time to cease cover</u>. This will inadvertently impact workers on maternity leave, long term sick leave, leave without pay, etc. <u>The period should be at least 24 months rather than 13 months</u>.
DRAFT RECOMMENDATION 16 INSURANCE BALANCE EROSION TRADE-OFFS	APRA should immediately require the trustees of all APRA-regulated superannuation funds to articulate and quantify the balance erosion trade-off determination they have made for their members in relation to group insurance, and make it available on their website annually. As part of this, trustees should clearly articulate in their annual report why the level of default insurance premiums and cover chosen are in members' best interests. Trustees should also be required to provide on their websites a simple calculator that members can use to estimate how insurance premiums impact their balances at retirement.
COMMENT	Agree.
DRAFT RECOMMENDATION 17 INSURANCE CODE TO BE A MYSUPER CONDITION	Adoption of the Insurance in Superannuation Voluntary Code of Practice should be a mandatory requirement of funds to obtain or retain MySuper authorisation.
COMMENT	No comment.
DRAFT RECOMMENDATION 18 INSURANCE CODE TASKFORCE	The Australian Government should immediately establish a joint regulator taskforce to advance the Insurance in Superannuation Voluntary Code of Practice and maximise the benefits of the code in improving member outcomes. The taskforce should: • monitor and report on adoption and implementation of the code by funds • provide guidance on and monitor enhancements to strengthen the code, particularly implementation of standard definitions and moving to a short-form annual insurance statement for members • advise the industry what further steps need to be taken for the code to meet ASIC's definition of an enforceable code of conduct.

	The code owners should be given two years to strengthen the code and make it binding and enforceable on signatories before further regulatory intervention is considered. The taskforce should annually report findings on industry progress on the code. Both ASIC and APRA should be members of the taskforce, with ASIC taking the lead.
COMMENT	No comment.
DRAFT RECOMMENDATION 19 INDEPENDENT REVIEW OF INSURANCE IN SUPER	The Australian Government should commission a formal independent review of insurance in superannuation. This review should evaluate the effectiveness of initiatives to date, examine the costs and benefits of retaining current insurance arrangements on an opt-out (as opposed to an opt-in) basis, and consider if further regulatory intervention or policy change is required. The review should be initiated within four years from the completion of this inquiry report, or earlier if the strengthened code of practice is not made enforceable within two years.
COMMENT	We strongly disagree with this recommendation. There have been many and various reviews into the superannuation system in recent years and none have seriously contemplated removing insurance from superannuation. Indeed, most recently the Parliamentary Joint Committee on Corporations and Financial Services released its report into the Life Insurance Industry in March 2018, and that reports authors observed that: "Evidence to the committee from a broad range of stakeholders strongly supported the opt-out model for life insurance within group superannuation, particularly as a means of addressing the problem of under-insurance. Nevertheless, concerns were raised in relation to the opt-out model, particularly for those with low super balances such as low-income earners, women, and young people." [1] It is no small thing that the authors of this report "strongly supported" the opt-out model for insurance in superannuation and the 2018 Federal Budget has already made significant recommendations to address issues around insurance in superannuation for people with low super balances and young people. We believe the review recommended by the Productivity Commission would be a waste of Federal Government, regulator, and super fund resources, would unnecessarily create uncertainty for super funds and their members, and would stymie near term investment into insurance benefit design. Therefore, we strongly recommend that DRAFT RECOMMENDAITON 19 be removed.
DRAFT RECOMMENDATION 20 AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY	APRA should (in addition to draft recommendations 4 and 16): • require all APRA-regulated superannuation funds to conduct formal due diligence of their **outsourcing arrangements**, at least every three years, to ensure the arrangements provide value for money. Each fund should provide a copy of the assessment to APRA (including the fees paid and the comparator fees) • report annually to the Council of Financial Regulators on the progress stemming from the application of the MySuper scale test (and then the outcomes test, once legislated) in bringing about **fund mergers**

[1] "Life Insurance Industry", Parliamentary Joint Committee on Corporations and Financial Services, March 2018, page 11.

	• undertake a systematic assessment of the costs to funds of the thousands of **legacy products** in the superannuation system. If the evidence demonstrates that they represent a significant cost in accumulation, APRA should further refine trustees' obligations for member transfers so these products can be rationalised • embed **product-level reporting** within its reporting framework as soon as practicable (no later than 18 months) to enhance visibility of actual member outcomes across all APRA-regulated funds and to bring reporting for the choice segment into line with the MySuper segment. APRA should also expedite efforts to address inconsistencies in reporting practices.
COMMENT	No comment.
DRAFT RECOMMENDATION 21 AUSTRALIAN SECURITIES AND INVESTMENTS COMMISSION	ASIC should (in addition to draft recommendation 9): • proactively set and enforce standards for the meaningful disclosure of information to members on superannuation products and insurance policies (in addition to product dashboards). Information should be simple, comparable and easy for members to understand • require all superannuation funds to publicly disclose to current and prospective members the proportion of costs paid to service providers that are associated with related-party outsourcing arrangements • proactively investigate (questionable) cases where mergers between superannuation funds stalled or did not proceed • review exit and switching fees faced by existing members, with a focus on whether these fees are related to the underlying performance of the product, and whether they unreasonably impede members moving to products that better meet their needs.
COMMENT	No comment.
DRAFT RECOMMENDATION 22 SUPERANNUATION DATA WORKING GROUP	The Australian Government should establish a superannuation data working group, comprised of APRA, ASIC, the ATO, the ABS and the Commonwealth Treasury (with Treasury taking the lead). This group should: • identify ways to improve the consistency and scope of data collection and release across the system, with a focus on member outcomes • evaluate the costs and benefits of reporting changes, including strategies for implementation • identify areas where legislative or regulatory change may be necessary to support better data collection • report annually to the Council of Financial Regulators on its progress, and on the data analytics capabilities of each regulator.
COMMENT	No comment.

FEEDBACK ON DRAFT FINDINGS AND INFORMATION REQUESTS

INVESTMENT PERFORMANCE

DRAFT FINDING 2.1	APRA-regulated funds have delivered investment returns to members over the past two decades (net of all fees and taxes) of 5.7 per cent a year, on average. The majority of members and assets in the system are in products that have performed reasonably well. But there is significant variation in performance within and across segments of the system which is not fully explained by differences in asset allocation. Not-for-profit funds, as a group, have systematically outperformed for-profit funds. While retail funds dominate the 'tail' of underperformance, industry and corporate funds also reside in the tail.
COMMENT	We note the Productivity Commission's draft finding that the "majority of members and assets in the system are in products that have performed reasonably well". We'd also note that the most recent Melbourne Mercer Global Pension Index[2] concludes that the Australian pension system is the third most robust pension system in the world; based on an assessment of the relative adequacy, sustainability, and integrity of the pension systems evaluated. These outcomes have been achieved because of the solid foundations upon which the superannuation system was established and through regular reviews and incremental improvements to the system over many years. It is not surprising that the Productivity Commission found that there is "significant variation in performance within and across segments of the system which is not fully explained by differences in asset allocation". In general, Australian super funds adopt an active approach to investment management. As each super fund, and its various investment service providers, make investment decisions to try to outperform their benchmarks, and perform better than its competitors, it follows that some investment decisions will prove to be correct, and some will not. In The Importance of Asset Allocation, the author observes, "The time has come for folklore to be replaced with reality. Asset allocation is very important, but nowhere near 90 percent of the variation in returns is caused by the specific asset allocation mix. Instead, most time-series variation comes from general market movement, and Xiong, Ibbotson, Idzorek, and Chen (2010) showed that active management has about the same impact on performance as a fund's specific asset allocation policy."[3] Therefore, active investment management will drive variation in investment performance. Moreover, especially in unlisted asset classes, there is a high degree of dispersion in actual returns from the benchmark return. For example, in The Performance of Private Equity, the author observes "There is also a considerable cross sectional variation in the performance of funds. Just over 60% of funds earn a positive IRR spread against the S&P 500,

2 "Melbourne Mercer Global Pension Index", Australian Centre for Financial Studies

3 "The Importance of Asset Allocation", Roger G. Ibbotson, Financial Analysts Journal, Volume 66, Number 2.

	and the average fund did much better than the median, suggesting that excess returns are mainly driven by positive outliers."[4] Even in an asset class as seemingly straight forward as Cash, APRA's recent communication to RSE Licensees about cash investment options' non-cash holdings[5] is a perfect example of how asset class investment returns should not be expected to be homogeneous. It is also not surprising that over the long run, and on average across the industry, "Not for profit funds, as a group, have systematically outperformed for profit funds", as they have one very significant advantage, in that they do not need to earn a profit on behalf of their shareholders. Therefore, in principle, not for profit funds that are operating at sufficient scale ought to be able to charge their members a lower fee, and therefore generate a commensurately higher net return, for the same set of products & services.
DRAFT FINDING 2.2	The SMSF segment has broadly tracked the long-term investment performance of the APRA-regulated segment on average, but many smaller SMSFs (those with balances under $1 million) have delivered materially lower returns on average than larger SMSFs. The difference between returns from the smallest SMSFs (with less than $50 000) and the largest (with over $2 million) exceeds 10 percentage points a year.
COMMENT	No comment.
DRAFT FINDING 2.3	There is wide variation in performance in the default segment that is not fully explained by differences in asset allocation. About 1.7 million member accounts and $62 billion in assets are in MySuper products that underperformed conservative benchmarks over the 10 years to 2017. This suggests that many members are currently being defaulted into underperforming products and could be doing better. If all members in these underperforming products received the median return from a top-10 MySuper product, they would collectively be $1.3 billion a year better off. Being in an underperforming product means that, on retirement, a typical worker (starting work today) is projected to have a balance 36 per cent lower (or $375 000 less to retire with).
COMMENT	As noted in our response to DRAFT FINDING 2.1, it is no surprise that differences in asset allocation do not fully explain the variation in investment returns. The work the Productivity Commission has done in collating investment results is admirable, however there are significant and material risks in relying on past investment performance analysis to justify findings that inspire system recommendations. The Productivity Commission's draft finding that because some funds have underperformed their benchmark, "This suggests that many members are currently being defaulted into underperforming products and could be doing better" is

4 "The Performance of Private Equity", Chris Higson, Rüdiger Stucke, Coller Institute of Private Equity, London Business School

5 "Cash Investment Options' Non-Cash Holdings: Industry Guidance", APRA, 29 June 2018

	circular and misleading. Just because some super funds have underperformed for a period (even a 10ish year period), does not mean that all of these super funds are entrenched underperformers. And indeed, the short fall hurdle selected by the Productivity Commission of 25 bps is very small and appears highly subjective. Is there statistical rigour in why this hurdle has been selected? For example, if a different hurdle were selected, say 50bps rather than 25bps, the number of apparently underperforming funds would reduce materially. Experienced practitioners and academics alike know that success in investment management is driven by both skill and luck; and paradoxically, because of the vast resources & capabilities of professional investors, luck plays a bigger part in realised investment outcomes than most are prepared to admit. The global investment industry is made up of hundreds of thousands of well educated, experienced, highly financially motivated, full-time, and professional investors. And research shows that over the past 50+ years these professional investors are responsible for an ever-larger proportion of asset ownership and transactions in financial markets; “The proportion of equities managed by institutional investors hovered around 5% from 1900 to 1945. But after World War II, institutional ownership started to increase, reaching 67% by the end of 2010.”[6] As global financial markets have become dominated by these well-resource and skilful professional investors, markets have become increasingly price efficient. Ironically, this leads to it becoming more and more difficult for skilful managers to consistently add value through investment outperformance. It follows that a capable investment team, implementing a sensible investment approach, for the duration of a given business cycle (i.e., say 7-10 years), may still deliver investment results that are unfortunately lower than the benchmark and lower than the median competitor. And yet that same team, implementing the same process, may outperform over the next 5-10 year period. It is also the case that an inadequate investment team, applying a naive investment approach, will sometimes just get lucky. Analysing investment performance over 10ish year periods (what in most walks of life one might think of as long term) is unfortunately just not long enough to distinguish skill from luck. In “Winning the Loser’s Game” the author notes that, “After careful statistical analysis, quantitative expert Barr Rosenberg estimated that it would require 70 years of observation to show conclusively that even as much as a 2% annual incremental return resulted from superior investment management skill rather than chance.”[7] To bring this closer to home, Qantas Super has done some modelling of the Australian equity manager universe. The key question is, how long would it take based on investment return data to be 95% confident that a typical Australian Equity manager, who has an average tracking error of 2.5% is able to generate excess returns of 1%? The statistical answer to this question is 24 years! Understanding the points above is crucial to making well founded and effective recommendations about future system design that will themselves not lead to negative unintended consequences.

6 “Institutional Investors and Stock Market Liquidity: Trends and Relationships”, Marshall E. Blume and Donald B. Keim, The Wharton School, University of Pennsylvania

7 “Winning the Loser’s Game”, Charles Ellis, 5th edition, page 102.

	In the face of this ambiguity, the Productivity Commission should do what the best professional investors do. Which is to acknowledge past investment results, but resist the allure of relying on them for future decision making, despite the urge to do so. Assessing skill is necessarily different in different domains, and critically this applies to investment management. Michael Mauboussin put it well when he wrote, "If you want to become world-class as a violinist or a chess player, areas where little luck is involved, you need roughly 10,000 hours of deliberate practice. What's crucial is that your results, as you improve, will be a reliable indicator of your skill. As a result, feedback in these domains can be clear and unequivocal. If you compete in a field where luck plays a role, you should focus more on the process of how you make decisions and rely less on the short-term outcomes. The reason is that luck breaks the direct link between skill and results – you can be skilful and have a poor outcome and unskilful and have a good outcome. Think of playing blackjack at a casino. Basic strategy says that you should stand – not ask for a hit – if you are dealt a 17. That's the proper process and ensures that you'll do the best over the long haul. But if you ask for a hit and the dealer flips a 4, you'll have won the hand despite a poor process. The point is that the outcome didn't reveal the skill of the player, only the process did. So, focus on process."[8] The Productivity Commission is also proposing to find that superannuants would "collectively be $1.3 billion a year better off" if they were invested in "the median return of a top-10 MySuper product". This is a misleading and provocative conclusion which should be disregarded. The median return of the top-10 MySuper products is an inappropriate point of comparison as a) it is unknowable in advance, b) it is not an investment choice available to members, and c) it might be an unfortunate truth, but it is a truth nonetheless, that past performance really is not indicative of future performance.
DRAFT FINDING 2.4	There is wide variation in performance in the choice segment that is not fully explained by differences in asset allocation. Over $50 billion in assets are in investment options that underperformed conservative benchmarks over the 12 years to 2016. Many choice members could be doing a lot better.
COMMENT	Australian adults are not forced into choice products. Provided the playing field is fair, Australian adults should be allowed to be responsible for their own choices; the good ones and the bad ones. As noted in our response to DRAFT FINDING 2.1, it is no surprise that differences in asset allocation do not fully explain the variation in investment returns. Active investment management will also drive variations in investment performance.
INFORMATION REQUEST 2.1	Are the assumptions underpinning the Commission's benchmark portfolios sound? If not, how should they be revised, and what evidence would support any revisions?
COMMENT	As noted in our response to DRAFT FINDING 2.3, the work the Productivity Commission has done in collating investment results is admirable, however there are there are significant and material risks in relying on past investment performance analysis to justify findings that inspire system recommendations.

[8] "Why Greater Skill Leads To More Luck", Michael J. Mauboussin, Business Insider Australia, December 2012. This idea is further explored in the book by the same author "The Success Equation: Untangling Skill and Luck in Business, Sports, and Investing".

INFORMATION REQUEST 2.2	Aside from administration fees, asset allocation and tax, what other factors might explain differences in investment performance against benchmark portfolios of the superannuation system, as well as segments such as for-profit and not-for-profit? What evidence is available to test the influence of such factors?
COMMENT	As noted in our response to DRAFT FINDING 2.1, it is no surprise that differences in asset allocation do not fully explain the variation in investment returns. Active investment management will also drive variations in investment performance. Also, as noted in our response to DRAFT FINDING 2.3, the work the Productivity Commission has done in collating investment results is admirable, however there are there are significant and material risks in relying on past investment performance analysis to justify findings that inspire system recommendations. Also, not all portfolios are solely return maximising. Indeed, a blinkered focus on investment returns alone is to be discouraged. At Qantas Super, our return objectives, are subject to specific risk and liquidity constraints. These constraints are important and real. Our job is not to shoot for the highest possible absolute return for a given asset allocation range. It is to deliver the CPI+ return and risk objectives stated in our Product Disclosure Statement[9], and to do so in a way that delivers the most efficient risk/return outcome for members for a given risk level. To the extent that the Productivity Commission's final findings include measures of investment returns, these investment returns should be risk adjusted (e.g., using Sharpe Ratios[10] rather than raw investment returns) as risk is just as important as return. APRA's recent communication to RSE Licensees about cash investment options' non-cash holdings[11] is a timely example of why both return and risk are important in developing a complete picture of a super fund's investment performance, especially relative to other super funds.

FEES AND COSTS

DRAFT FINDING 3.1	Despite regulator endeavour, there remain significant gaps and inconsistencies in how funds report data on fees and costs. This harms members by making fee comparability difficult at best, and thus renders cost-based competition largely elusive.
COMMENT	ASIC has expanded the disclosure obligations in this regard with the recent implementation of RG 97. The RG 97 regulations are more broadly encompassing than just about any fees & costs disclosure regulation anywhere in the world. While the implementation of RG 97 has been fraught, the intent is sound.

9 " Product Disclosure Statement" and "Investment Guide", Qantas Super, both most recently issued 29 September 2017

10 "Sharpe ratio", Investopedia

11 "Cash Investment Options' Non-Cash Holdings: Industry Guidance", APRA, 29 June 2018

	This regulation is currently subject to an independent review, which will no doubt result in changes to improve the regulation and disclosure. These regulations should be allowed time to mature after this review is completed before any further material changes are contemplated.
DRAFT FINDING 3.2	Superannuation fees in Australia are higher than those observed in many other OECD countries. In aggregate, total fees — for administration and investment management services, and in both accumulation and retirement — have been trending down as a proportion of assets, from 1.3 per cent in 2010 to 1.1 per cent in 2016. Fees have fallen markedly for retail funds, albeit they remain higher (at least for choice products) than the (largely unchanged) fees for industry funds. Among APRA-regulated funds, the MySuper and SuperStream reforms have likely acted to reduce fees (including some likely competitive spillover to choice products), albeit this is difficult to attribute directly given growth in average fund scale and the impact of other fee drivers. While dispersion of product-level fees has decreased over the past decade, there remains a persistent 'tail' of relatively high-fee (mainly for-profit) choice products with total fees exceeding 1.5 per cent of assets each year. This tail comprises about 14 per cent of member accounts and 15 per cent of system assets.
COMMENT	One powerful way for the Federal Government to reduce the costs of superannuation accounts to superannuants would be to control the constancy of superannuation system changes. This is not to say that the system should not be changed, but rather that changes should be managed in a way which is appropriate for a policy area that is long term in nature and has bipartisan support in principle (albeit there is much debate about the details). That is, all material regulatory changes to the superannuation system – whether driven by Federal Parliament, APRA, ASIC, or Federal Government initiated independent reviews – should be integrated and initiated on a 5 year cycle, with the industry given an appropriate period (of up to say 3 years) to then implement the changes. This would enable all proposed system changes to be thoroughly examined, costs/benefits appropriately weighed up, and implementation plans developed in a coherent and consistent manner. The unrelenting constancy of (albeit well intentioned) changes to the superannuation system in recent years has cost billions of dollars to implement, may well have resulted in higher operational risks for some funds, and these costs & risks are ultimately borne by super fund members. Moreover, the often unrealistic timetable to implement changes (leading to short term fixes rather than long term solutions being implemented), and late in the day deferral of go-live dates (leading to an inefficient misallocation of resources), has meant that these changes have not been implemented as cost effectively as they could have been. In addition, to the extent the Productivity Commission is seriously concerned with "a persistent 'tail' of relatively high fee (mainly for profit) choice products with total fees exceeding 1.5 per cent of assets each year", this should be directly dealt with rather than indirectly dealt with.
DRAFT FINDING 3.3	Reported costs for SMSFs have increased over recent years and, for those with over $1 million in assets, are broadly comparable with APRA-regulated funds as a percentage of member account balances. By contrast, costs for low-balance SMSFs are particularly high, and significantly more so than APRA-regulated funds. These high costs are the primary cause of the poor net returns experienced by small SMSFs on average. However, the number of new SMSFs with very low balances (under $100 000) has fallen from 35 per cent of new establishments in 2010 to 23 per cent in 2016.

COMMENT	No comment.
DRAFT FINDING 3.4	Higher fees are clearly associated with lower net returns over the long term. The material amount of member assets in high-fee funds (about 10 per cent of total system assets), coupled with persistence in fee levels through time, suggests there is significant potential to lift retirement balances overall by members moving, or being allocated, to a lower-fee and better-performing fund. Fees have a significant impact on retirement balances. For example, an increase of just 0.5 per cent a year in fees would reduce the retirement balance of a typical worker (starting work today) by a projected 12 per cent (or $100 000).
COMMENT	To the extent the Productivity Commission is seriously concerned with “The material amount of member assets in high fee funds”, this should be directly dealt with rather than indirectly dealt with.

MEMBERS’ NEEDS

DRAFT FINDING 4.1	Qualitative judgments by members of superannuation funds suggest that a small share are dissatisfied with the overall performance of their fund. Members who have a poor understanding of the system and less capacity for accurately gauging the performance of their funds tend to report being much less satisfied. However, many more members indicate that the performance of funds, including their service quality, has improved over time than those who feel that performance had flagged. A sizable minority of members selecting a retirement product express equivocal or negative views about the degree to which funds meet their specific product needs.
COMMENT	No comment.
DRAFT FINDING 4.2	Many members find it hard to make comparisons between the large numbers of superannuation products available. The substantial proliferation of investment options in the choice segment (some 40,000) complicates decision making and increases member fees, without boosting net returns. A ‘no frills’ product with low fees that is allocated to a balanced (or balanced growth) portfolio is likely to meet the retirement needs of most Australians during the accumulation phase. A better designed and modernised default allocation could act as a trusted benchmark for better member decision making across the entire system.
COMMENT	With rare exception individual members are not dealing with the “substantial proliferation of investment options in the choice segment (some 40,000)”. The high choice super funds are exclusively retail investment platforms (which can have anywhere between 100 to over 2,500 investment options), and members usually find their way to these via a financial adviser. Therefore, it is generally a financial adviser that is dealing with this complexity. (And as an aside, to a very large extent, the volume of choices on retail platforms are driven by financial advisor demand for choice.) Also, many of the investment

	choices included in the 40,000 number quoted are the same investment option that is made available across multiple different platforms. Therefore, the number is likely a material overestimation. To emphasise this point, as per the APRA's "Annual Fund-level Superannuation Statistics June 2017"[12] report: • while the sum of the total number of investment options across the system is 40,203; • 39,248 of these 40,203 investment options are within Retail super funds; • the median number of investment options offered by Industry, Corporate, and Public Sector super funds is just 10; • the maximum number of investment options offered by any Industry, Corporate, or Public Sector super fund is only 48; and • the maximum number of investment options offered by any Retail super fund is 2,661. Therefore, the "substantial proliferation of investment options in the choice segment (some 40,000) [which] complicates decision making and increases member fees, without boosting net returns" is exclusively a Retail super fund problem. See the table and chart in Attachment 2 which shows the highly skewed results in terms of the number of investment options per super fund. We agree that "A 'no frills' product with low fees that is allocated to a balanced (or balanced growth) portfolio is likely to meet the retirement needs of most Australians during the accumulation phase." This has been delivered with the successful introduction of the MySuper regulations. However, better member investment decision making, for the modest proportion of Australian adults who want to do this, could be encouraged in a variety of different ways. For example: • Promotion of the existing ratings agency ratings of super funds (e.g., SuperRatings, Chant West); • A change to annual statement requirements to be more forward looking (e.g., with a focus on likely future retirement income), rather than backward looking (e.g., on transactions over the past 12 months and recent balances); • Improve the trustworthiness of financial advisers by licencing individual financial advisers (rather than licencing financial advice dealerships) and increasing educational requirements; and • Seriously tackling improving the financial capability and literacy of the next generation of Australian adults. Changing the default allocation system is far from the most direct way of improving member decision making.
DRAFT FINDING 4.3	The inclusion in MySuper of life-cycle products is questionable given the foregone returns they pose for many members' balances (with some foregoing higher returns by adjusting asset allocation as early as 30 years of age). Life-cycle products comprise around 30 per cent of all MySuper accounts, but are mostly suited to members who want to 'lock in' a lump sum for some immediate purchase after retirement. For other members, maintaining a balanced portfolio before and after retirement would maximise retirement and lifetime income. Life-cycle products are better suited to the choice segment.

[12] "Annual Fund-level Superannuation Statistics June 2017", APRA, 28 March 2018

COMMENT	We strongly disagree with this DRAFT FINDING. In principle, life-cycle products are entirely appropriate as MySuper solutions. Trustees are best placed to understand their membership and decide on the right MySuper strategy for their super fund, and the Productivity Commission is not in the same position. Trustees should continue to have the option of employing either strategy. If members are not happy with the MySuper solution provided by their Trustee, they can switch to a different investment option within the same super fund, or move their super account elsewhere to a different super fund. A Trustee's focus in setting investment strategy is not, and should not be, solely on maximising retirement and lifetime income, as this ignores financial markets risk, liquidity issues, and individual retirement timing, and would lead to a 100% growth strategy being adopted for all superannuants all the time. However, this would be a flawed solution as financial markets risk and liquidity issues are real (e.g., the Global Financial Crisis), and an individual member only gets one retirement in their lifetime. Moreover, generally the capacity to earn an income from one's own labour diminishes as you approach retirement (which serves to heighten the importance of financial markets risk). Therefore, sequencing risk becomes a critical issue in the 5-10 years prior to, and after, the members retirement date. Life-cycle funds deal directly to this risk. By way of an example, a superannuant who plans to retire soon, would have been very pleased in 2007, to be in the final 50/50 stage of a life-cycle product, rather than in a more traditional 75/25 diversified portfolio. This was a very real situation for many superannuants not that long ago; for them risk was just as important – if not more important – than returns.
DRAFT FINDING 4.4	A 'MyRetirement' default is not warranted. The diversity in household preferences, incomes, and other assets when approaching, and in, retirement means there is no single retirement product that can meet members' needs. The most important task remaining is to improve the quality of financial advice to guide members among the various complex products, especially where members may decide to make the mostly irreversible decision to take up a longevity (risk pooled) income product.
COMMENT	We agree that "A 'MyRetirement' default is not warranted". However, we'd also note that while improving the "quality of financial advice" is indeed important, in a market where MySuper Trustees may be required to offer their members a CIPR[13] option, we believe this issue is just as important. Member demand for CIPRs is likely to be low (at least initially, and perhaps permanently), as: • from a member's perspective, these products are typically more complex, less flexible, and more expensive than their alternatives; • for some super funds a CIPR may be inappropriate for a large proportion of its membership; and • competition in the Australian market for lifetime annuity and/or deferred annuity products is currently close to non-existent, and therefore pricing is less competitive.

13 "Retirement Income Covenant Position Paper", The Treasury, 17 May 2018

DRAFT FINDING 4.5	Superannuation funds make insufficient use of their own (or imputed) data to develop and price products (including insurance). This is particularly problematic for designing products for the retirement and transition to retirement stages, because this is when different strategies have the biggest payoffs for members.
COMMENT	We disagree. While we cannot speak for other super funds, we know with certainty that Qantas Super does make use of its own data, and data that can be sourced externally, to develop and price our products, including insurance.
INFORMATION REQUEST 4.1	Should life-cycle products continue to be allowed as part of MySuper? If so, do they require re-design to better cater for the varying circumstances of members nearing retirement, and how should this be achieved? What information is needed on members to develop a product better suited to managing sequencing risk?
COMMENT	Yes, life cycle products should continue to be allowed as part of MySuper. No, life cycle products do not require re-design to better cater for the varying circumstances of members nearing retirement. If they choose to use it, superannuation funds have, or can impute, sufficient information on members to help manage sequencing risk.

MEMBER ENGAGEMENT

DRAFT FINDING 5.1	Across a range of indicators, member engagement remains low on average, though it is not realistic or desirable for members to be engaged all the time. Engagement tends to be higher among those approaching retirement, those with higher balances and owners of SMSFs. Engagement is lowest for the young and those with relatively low balances. While many Australians have good broad knowledge of the superannuation system, many lack the detailed understanding necessary for effective engagement. Low financial literacy is observed among a sizable minority (about 30 per cent) of members.
COMMENT	We agree. Qantas Super recently launched the Qantas Super CSBA Retirement Confidence Index[14]. The index measures how confident Australian adults are that they'll be able to afford a comfortable retirement. The latest Qantas Super CSBA Retirement Confidence Index result is 5.0 (based on a representative survey of 1,000+ Australian adults, on a scale of 0 to 10) – which is barely a pass mark.

14 "Qantas Super CSBA Retirement Confidence Index", Qantas Super website

	So while Australia has one of the most robust pension systems in the world, as per the Melbourne Mercer Global Pension Index[15], this has not translated into most Australian adults being confident about having a comfortable retirement. By regularly publishing the results of this survey, we hope to provoke a conversation about how individuals, superannuation funds, regulators, and the Federal Government can play a part in improving the retirement confidence of Australian adults. In the March/April 2018 survey: • A notable 31% have little to no confidence and a further 35% have only some confidence in their ability to afford a comfortable retirement. 33% of the population have a higher degree of confidence; • Australians with lower retirement confidence are over-represented by the following segments; female, lower education levels, non-owner occupier housing status, low income earners or those not currently employed, and those with no investments outside superannuation; and • Cost of living, inflation, and general economic uncertainty continued to dominate concerns. 43% of people cited cost of living as a factor, more than double the proportion who cited general economic factors (20%) or global economic factors (20%).
DRAFT FINDING 5.2	Demand-side pressure in the superannuation system is relatively weak. Most members in the accumulation phase let the default segment make decisions for them, at least when they enter the workforce. A significant minority of members (an estimated 1 million) are barred from exercising choice even if they wanted to. Fund and investment switching rates are modest, suggesting that active members (or their intermediaries) have not exerted material competitive pressure on funds. Proposed legislative changes to prohibit restrictive clauses in workplace agreements on members' choice of fund are much needed.
COMMENT	Whilst we would not describe demand-side pressure in the superannuation system as "relatively weak", we do agree that "restrictive clauses in workplace agreements on members' choice of fund" should be removed in principle. Every superannuant should have choice of fund.
DRAFT FINDING 5.3	While there is no shortage of information available to members, it is often overwhelming and complex. Dashboards should be a prime mechanism to allow for product comparison and need to be salient, simple and accessible to be effective — but most are not.
COMMENT	No comment.

15 "Melbourne Mercer Global Pension Index", Australian Centre for Financial Studies

DRAFT FINDING 5.4	The quality of financial advice provided to some members — including those with SMSFs — is questionable. Knowledge of the guidance and supports available to pre-retirees is generally lacking. In future, as members retire with higher balances and the diversity of options available expands, the need for tailored advice will grow.
COMMENT	Agree.

EROSION OF MEMBER BALANCES

DRAFT FINDING 6.1	Several proposed policy changes will promote Superannuation Guarantee payment compliance: • Single Touch Payroll being extended to small employers (with less than 20 employees) from 1 July 2019 • funds being required to report contributions to the ATO at least monthly • the ATO having stronger powers to penalise non-compliant employers and recover unpaid contributions.
COMMENT	No comment.
DRAFT FINDING 6.2	The superannuation system, primarily due to its policy settings, does not minimise the unnecessary and undesirable erosion of member balances. This erosion is substantial in size and regressive in impact. Unintended multiple accounts (one in three of all accounts) are the most egregious driver, directly costing members nearly $2.6 billion a year in excess insurance premiums and administration fees. For an individual member holding just one unintended multiple account throughout their working life, the projected reduction in their balance at retirement is 6 per cent (or $51,000). Superannuation Guarantee non-compliance is hard to estimate, but may be costing members about $2.8 billion a year. At least 2 per cent of all member accounts (about 636,000) are subject to (grandfathered) trailing adviser commissions. These commissions may cost members in excess of $214 million a year. Recent policy initiatives have improved the situation, but current policy settings are inevitably making slow progress by treating the symptoms and not the structural cause.
COMMENT	We agree that the proliferation of unintended multiple accounts is undesirable for a host of reasons, including the erosion of member balances. For good competitive reasons, super funds have had a significant incentive to run campaigns to encourage members to consolidate their unintended multiple accounts, and most super funds will have done many of these campaigns in recent

	years. As a result, the number of fund members with 3 or more accounts has decreased from 19% to 15%, and the number of people with 1 or 2 accounts has risen from 81% to 85%[16]. In addition to super funds encouraging members to consolidate their super accounts, superannuants also need to take some responsibility for wanting to make this happen. After all, individuals can and do manage how many bank/credit union accounts they maintain. The comment "the projected reduction in their balance at retirement is 6 per cent (or $51,000)" seems like a very high dollar number. A typical 21 year old on a starting income of $50,000, would not be expected to retire with anything close to the $833,000[17] quoted in the Productivity Commission's draft report. Using the retirement planning calculator on the ASIC MoneySmart website[18], this person would have accumulated around $250,000 in today's dollars in superannuation by age 67. If the $50,000 is an estimate of the amount in future dollars (i.e., dollars 40+ years from now), and the real number in today's dollars is closer to $15,000, then quoting the $50,000 figure is misleading and provocative and should be changed in the final report.

MARKET STRUCTURE, CONTESTABILITY AND BEHAVIOUR

DRAFT FINDING 7.1	The market structure of the superannuation system (as distinct from its policy and regulatory settings) is conducive to rivalry. At the retail level, there are many funds and products. At the wholesale level, while there is concentration in some service provider markets for outsourcing (like administration), a growing ability for larger funds in particular to insource all, or parts, of their service requirements adds to competitive pressure in the system.
COMMENT	No comment.
DRAFT FINDING 7.2	At the system level, fund-level regulation is a significant cost of entry and there are structural features of the system on the supply and demand side that are likely to create challenges for new entrants (including gaining scale by attracting members). However, these are not necessarily prohibitive or even high barriers to entry. In the default segment, there are high regulatory barriers to new fund entry, due to policy and regulatory settings that limit access to the market (including difficulty being listed in a modern award). There is also an absence of competition for the default market. Conversely, the choice segment is largely contestable.

16 "Super accounts data overview", ATO website

17 "Superannuation: Assessing Efficiency and Competitiveness", Productivity Commission, April 2018, page 41

18 "Retirement planner", ASIC MoneySmart website

	While the costs of exit are unlikely to deter new fund entry, barriers to fund mergers are continuing to frustrate much needed consolidation in the system, at great cost to members.
COMMENT	The recent rise of several new super funds (or white-label promoters of super funds) over the past several years (e.g., Spaceship Super, GROW Super, Zuper Super, Human Super, Student Super, GigSuper, Roll-it Super) support this view. Therefore, we agree with the proposed finding that the barriers to entry are not prohibitive in the choice market. Individuals have a great deal of choice (i.e., there are 100+ viable APRA regulated super funds, plus there is a thriving SMSF market) as to where their superannuation account is held and where their superannuation guarantee and any voluntary contributions are directed.
DRAFT FINDING 7.3	There are signs of unhealthy competition in both the choice and default segments of the superannuation system. While the choice segment is largely contestable, competition has not always translated to better outcomes for members, and product proliferation (some 40 000 investment options is unhealthy choice) and poor comparability is symptomatic of unhealthy competition. In the default segment, the risk of employer inducements (of no benefit to members) remains a concern and can work against the interests of members.
COMMENT	These proposed findings are highly subjective and opinion-loaded. Many of the investment choices included in the 40,000 number quoted are the same investment option that is made available across multiple different platforms. Therefore, the number is likely a material overestimation. Also, as per our comments on DRAFT FINDING 4.2 with rare exception, individual members are not dealing with 40,000 investment options. It is generally a financial adviser who is dealing with the range of choices on a retail platform (which can have anywhere between 100 to 2,500 investment options). To emphasise this point, as per the APRA's "Annual Fund-level Superannuation Statistics June 2017"[19] report: • while the sum of the total number of investment options across the system is 40,203; • 39,248 of these 40,203 investment options are within Retail super funds; • the median number of investment options offered by Industry, Corporate, and Public Sector super funds is just 10; • the maximum number of investment options offered by any Industry, Corporate, or Public Sector super fund is only 48; and • the maximum number of investment options offered by any Retail super fund is 2,661. Therefore, the "competition [which] has not always translated to better outcomes for members, and product proliferation (some 40 000 investment options is unhealthy choice) and poor comparability [which] is symptomatic of unhealthy

19 "Annual Fund-level Superannuation Statistics June 2017", APRA, 28 March 2018

	competition" is exclusively a Retail super fund problem rather than a choice segment problem. See the table and chart in Attachment 2 which shows the highly skewed results in terms of the number of investment options per super fund. From Qantas Super's perspective, our superannuation arrangements do not involve "employer inducements" and therefore these are of no concern to our members.
DRAFT FINDING 7.4	There is a high propensity for funds in the system (particularly retail funds) to report using associate service providers — a form of vertical integration. While vertical integration is not in itself a problem, it does raise a potential conflict of interest which needs to be addressed by confident regulators and with greater transparency through disclosure and reporting.
COMMENT	Agree.
DRAFT FINDING 7.5	Over the past decade, significant economies of scale have been realised in the superannuation system, but this has mainly been driven by the exit of small, high-cost funds. It is not evident that individual funds have been able to realise cost efficiencies as they have grown in size.
COMMENT	See comments in DRAFT FINDING 3.2 above. The benefits of economies of scale come to members via either better products & services and/or less expensive products & services. While average fees across the industry have not experienced a step-change decrease, the breadth, sophistication, and efficiency of products & services offered by super funds has improved markedly over the past decade for no increase in cost. In addition, the unrelenting constancy of (albeit well intentioned) changes to the superannuation system in recent years has cost billions of dollars to implement, may well have resulted in higher operational risks for some funds, and these costs & risks are ultimately borne by super fund members. This has hindered the realisation of cost efficiencies.
INFORMATION REQUEST 7.1	What are the main types and quantum of costs involved in fund mergers? How do these vary depending on the size of funds involved?
COMMENTS	No comment.
INFORMATION REQUEST 7.2	What evidence is there that funds are passing through economies of scale to members in the form of lower fees, or through other channels? Why has the pass-through of scale benefits occurred as it has?
COMMENT	See response to DRAFT FINDING 7.5 above.

INSURANCE

DRAFT FINDING 8.1	The deduction of insurance premiums can have a material impact on member balances at retirement. This balance erosion is highly regressive in its impact — it is more costly to members with low incomes. It also has a larger impact on members with intermittent attachment to the labour force, and those with multiple superannuation accounts with insurance (the latter comprise about 17 per cent of members). Balance erosion for low-income members due to insurance could reach a projected 14 per cent of retirement balances in many cases, and in extreme cases (for low-income members with intermittent work patterns and with multiple income protection policies) could be well over a quarter of a member's retirement balance.
COMMENTS	No comment.
DRAFT FINDING 8.2	In terms of premiums paid, default insurance in superannuation offers good value for many, but not for all, members. For some members, insurance in superannuation is of little or no value — either because it is ill-suited to their needs or because they are not able to claim against the policy. Income protection insurance and unintended multiple insurance policies are the main culprits for policies of low or no value to members. Younger members and those with intermittent labour force attachment — groups which commonly have lower incomes — are more likely to have policies of low or no value to them.
COMMENT	Not only does "insurance in superannuation offer good value for many" members, it also provides insurance cover to superannuants who have risky occupations, or who have pre-existing conditions, who might not ordinarily be able to arrange for insurance cover on an individual basis – sometimes at any price. This is not just nice to have, but is of enormous benefit, and for those who need to claim, it is a life changing benefit for them or their family. This is certainly true for many Qantas Super members. For example, pilots, cabin crew, baggage handlers, would find it very difficult or impossible to purchase total and permanent disablement insurance, or income protection insurance, on an individual basis. For example, the occupational rating that apply to many Qantas Super members (e.g., "Aviation regular public transport (pilots and crew)") means that they are "Not insurable" by most insurers. See MLC's occupational ratings guide for insurance as just one example[20]. Moreover, industry experience and behavioural economics confirms that insurance in superannuation also provides cover to a broad range of the general public that, if it was not provided to them on an opt-out basis, would likely not purchase cover themselves and therefore would not have access to any insurance benefits in the event of their death or disablement. It is of significant societal benefit that a large proportion of the population is covered by death, disablement, and income protection insurance. Insurance in super fills this need.

[20] "Occupational ratings guide for insurance", MLC MasterKey Business Super, page 6

DRAFT FINDING 8.3	The fiscal effects of insurance in superannuation are complex, and the net effects are uncertain. Existing (public) fiscal estimates overestimate the net fiscal benefits as they do not consider the impact of balance erosion on Age Pension eligibility.
COMMENT	No comment.
INFORMATION REQUEST 8.1	What is the case for bundling life and total and permanent disability insurance together, as is done by some superannuation funds? Are there funds that offer these separately, and if so, do many members of these funds elect to have one type of cover but not the other?
COMMENT	No comment.
INFORMATION REQUEST 8.2	What is the value for money case for income protection insurance being provided on an opt-out basis in MySuper products?
COMMENT	See response in DRAFT FINDING 8.2 above.

FUND GOVERNANCE

DRAFT FINDING 9.1	Although there have been improvements to trustee board appointment processes to better ensure boards have the necessary skills and experience, there is still much room for trustee boards to do better in this area. Use of a skills matrix (informed by external evaluation of board performance, skills, experience and knowledge) to guide the appointment process should be considered best practice by superannuation trustee boards.
COMMENT	Agree.
DRAFT FINDING 9.2	Best practice governance for superannuation trustee boards would involve a 'critical mass' (at least one third) of independent directors. However, ensuring boards have processes in place to recruit highly skilled and experienced directors is at least as important as the number of independent directors.
COMMENT	Good governance requires that Trustee boards have: • a genuine focus on acting in the best interest of members as a whole; • the skills & capability to perform their role to a high standard; and • effective processes to manage conflicts of interests appropriately. At Qantas Super, we have a true equal representation board: • half of the board are appointed by the Plan Sponsor (i.e., Qantas Airways Limited); and • half are elected from the membership of the Plan.

	Importantly, these member-elected directors are not union representatives or appointees; they are genuine members of the Plan, who are elected to the board by the membership of the Plan, via open, transparent, and independent elections[21]. We believe this approach strongly aligns the board to the interests of members. And to the extent there are any skills & capabilities gaps, this is managed via the selection of Plan Sponsor appointees, and/or via the appointment of independent directors, and/or via the appointment of specialist advisors to the Trustee. We'd put it to the Productivity Commission that having "a 'critical mass' (at least one third) of independent directors" is one way of achieving good governance, but it is not the only way. Therefore, we believe that all regulatory and trust deed restrictions that might prevent a Trustee board from having up to one third of its directors being independent should be removed, but it should not be a requirement for Trustee boards to appoint independent directors.
DRAFT FINDING 9.3	Despite widespread recognition that evaluation of board performance and capability by external third parties are crucial to identifying skills gaps on boards, many boards fail to undertake such evaluations.
COMMENT	No comment.
DRAFT FINDING 9.4	Many funds mimic (at least to some degree) the strategy of rival funds for fear they will otherwise exhibit poor short-term performance relative to their peers ('peer risk'). This short-termism is likely to be at the expense of long-term returns to members.
COMMENT	An awareness of what competitors are offering in terms of their products & services is natural in any competitive industry. It may be entirely in the interests of a super funds members as a whole to monitor the competition, learn from what they are doing, and selectively employ similar investment strategies from time-to-time.

SYSTEM GOVERNANCE

DRAFT FINDING 10.1	The package of reforms contained in the Treasury Legislation Amendment (Improving Accountability and Member Outcomes in Superannuation) Bill 2017 would improve member outcomes if legislated. In particular, the proposed MySuper outcomes test should better enable APRA to de-authorise poorly performing products and better promote fund consolidation. Giving APRA more power to deal with ownership changes of superannuation funds would also help.
COMMENT	In principle, we agree with this DRAFT FINDING. However, please see our response to DRAFT FINDING 2.3 above.

21 "Rules for the Nomination, Appointment and Removal of Directors", Qantas Super website

	In particular, the Productivity Commission and APRA should note that focusing on outcomes is appropriate in areas that are not influenced significantly by luck. This is not the case when assessing investment returns. If the point of assessing investment results is to guide future decision making, then it should be recognised that this is an area where it is more important to assess the process that leads to the investment returns, rather than focusing on the investment returns themselves. It might be an unfortunate truth, but it is a truth nonetheless, that past performance really is not indicative of future performance.
DRAFT FINDING 10.2	Conduct regulation arrangements for the superannuation system are confusing and opaque, with significant overlap between the roles of APRA and ASIC. These arrangements have the potential to lead to poor accountability and contribute to the lack of strategic conduct regulation, with poor outcomes for members.
COMMENT	No comment.
DRAFT FINDING 10.3	The formation of the new Australian Financial Complaints Authority should be a positive reform for members, provided it is adequately resourced to deal with the level of complaints received.
COMMENT	No comment.
DRAFT FINDING 10.4	The relatively small number of SMSFs with some form of limited-recourse borrowing arrangement (about 7 per cent and representing 4 per cent of SMSF assets) means such borrowing is at present unlikely to pose a material systemic risk. However, active monitoring (along with public reporting and discussion by the Council of Financial Regulators) is clearly warranted to ensure that SMSF borrowing does not have the potential to generate systemic risks in the future.
COMMENT	No comment.
DRAFT FINDING 10.5	The frequency and pace of policy change undoubtedly create real pressures for participants in the superannuation system. However, most of the recent major reforms (such as MySuper and SuperStream) have been overwhelmingly beneficial from a public interest perspective.
COMMENT	We agree that "most of the recent major reforms (such as MySuper and SuperStream) have been beneficial from a public interest perspective." However, <u>the implementation of these changes was not managed well</u> by the Federal Government, regulators, nor the industry: • rigorous cost/benefit analysis of proposed changes was rarely done prior to mandating changes; • implementation time frames often did not reflect the complexity of the changes, requiring short term fixes and late time extensions; and • the full suite of mandated changes was not considered as a total package.

	The unrelenting constancy of (albeit well intentioned) changes to the superannuation system in recent years has cost billions of dollars to implement, may well have resulted in higher operational risks for some funds, and these costs & risks are ultimately borne by super fund members.
INFORMATION REQUEST 10.1	Would a clearer division of responsibilities between APRA and ASIC (for superannuation) lead to better strategic conduct regulation and better regulator accountabilities? Is APRA best placed to specifically focus on ensuring high standards of system and fund performance, and ASIC to specifically focus on the conduct of trustees and the appropriateness of products (including for particular target markets)?
COMMENT	No comment.

OVERALL ASSESSMENT

DRAFT FINDING 11.1	Fixing some of the worst problems in the current superannuation system would bring substantial benefits. If there were no unintended multiple accounts (and the duplicate insurance that goes with them), members would have been collectively better off by about $2.6 billion a year. If members in underperforming MySuper products had instead been moved to the median of the top-10 performing MySuper products they would collectively have gained an additional $1.3 billion a year.
COMMENT	We agree that the proliferation of unintended multiple accounts is undesirable for a host of reasons, including the erosion of member balances We disagree with the assertion that superannuants would “collectively be $1.3 billion a year better off” if they were invested in “the median return of a top-10 MySuper product”. This is a misleading and provocative conclusion which should be disregarded. The median return of the top-10 MySuper products is an inappropriate point of comparison as a) it is unknowable in advance, b) it is not an investment choice available to members, and c) it might be an unfortunate truth, but it is a truth nonetheless, that past performance really is not indicative of future performance.
DRAFT FINDING 11.2	The superannuation system has not kept pace with the needs of members. Most notably, structural flaws have led to the absurdity of unintended multiple accounts (one in every three accounts is unintended) in a system anchored to the job or the employer, and not the member.
COMMENT	We agree that the proliferation of unintended multiple accounts is undesirable for a host of reasons, including the erosion of member balances We disagree that the system is “anchored to the job or to the employer, and not the member.” Super accounts are portable at the initiation of members across APRA regulated super funds and the SMSF sector. Many members can and do consolidate their super accounts. Many members also choose to maintain multiple super accounts to access different investment options, different insurance benefits, and/or to diversify their exposure to financial services entities.

COMPETING FOR DEFAULT MEMBERS

DRAFT FINDING 12.1	While the default segment has on average outperformed the system as a whole, it fails to ensure members are placed in the very best products and places a sizable minority in underperforming products. For example, the top 10 MySuper products generated a median return of 5.7 per cent a year in the decade to 2017, whereas the bottom 26 generated a median return of 3.9 per cent a year (and represent about 1.7 million member accounts and $62 billion in assets). Current arrangements also deny some members any ability to choose their own products. Default arrangements need to be modernised and recrafted to harness the benefits of competition for default members.
COMMENT	There is value in having a diverse superannuation system, especially when it comes to investment strategy and performance. While it’s not possible to say which super fund will be delivering the best investment performance 5 or 10 years from now, we can be confident that the winners then will be different from the winners now. We disagree with the framing of the argument that because there is dispersion in investment results, the system has failed some members. Taking this argument to its logical conclusion, an eminent panel should select the <u>one</u> super fund that will deliver the best investment performance in the future and all superannuation assets should be invested by that one organisation. This is an absurd proposition of course, because it is impossible to identify the best performing super fund in advance. The draft findings proposed here are slightly less extreme, and so are slightly less absurd, but nevertheless do not stand up to scrutiny. <u>Just as it is impossible to identify the one best performing super fund in advance, it is also impossible to identify the 10 best performing funds in advance</u>. The median return of the top-10 MySuper products is an inappropriate point of comparison as a) it is unknowable in advance, b) it is not an investment choice available to members, and c) past performance really is not indicative of future performance. To the extent the Productivity Commission is seriously concerned with super funds with an inadequate investment team, a poor investment approach, a weak investment product for members, or relatively high fees, this should be directly dealt with rather than indirectly dealt with; especially if their performance is also uncompetitive. We agree that “restrictive clauses in workplace agreements on members’ choice of fund” should be removed in principle. Every superannuant should have choice of fund.
DRAFT FINDING 12.2	Current default arrangements do not promote member engagement. Recent survey evidence reveals that when members are provided with a simple and accessible list of superannuation products, only a small minority would not choose their own product. This evidence aligns with the lessons of behavioural economics.
COMMENT	Even if members do choose their own product, it is not at all clear that this will improve the level of member engagement in a genuine way on an ongoing basis. Making a choice at one point in time is not the same as member engagement.

DRAFT FINDING 12.3	Although a sovereign monopoly default fund would be well placed to realise economies of scale for default members, such a model would run counter to the (desirable) absence of an actual or implied government guarantee in the Australian superannuation system and would fail to harness the benefits stemming from a competitive process. It would also supplant member engagement.
COMMENT	We agree. In addition, there is no reason to believe that this would lead to the best investment outcome for members.
INFORMATION REQUEST 12.1	Are there any material impediments to high-performing non-incumbent funds participating in a ‘best in show’ selection process? The Commission is particularly thinking about possible claims for participation by funds with no prior local track record but in-principle claims, such as foreign funds or a government-owned fund.
COMMENT	The challenge with the ‘best in show’ approach over the medium term, is that it will itself directly impact the investment strategies available to super funds and “tips the scales” in favour of those organisations identified as ‘best in show’. Those super funds that are not included in the ‘best in show’ (which will be most super funds), will prospectively and over time suffer a deteriorating cash flow profile, which will in turn due to liquidity concerns steer them away from more diversifying, stronger returning, and less liquid alternative investment strategies. These are the very investment strategies that have generally helped industry funds perform as well as they have relative to retail funds in the past. Over time, this will likely lead to poorer investment outcomes for those funds that are not selected as ‘best in show’. By way of contrast, those funds chosen as ‘best in show’ will enjoy the lion’s share of new members, and ultimately new cash flows, which will provide them with confidence to invest boldly. Moreover, those funds that are not selected as ‘best in show’ will inevitably dramatically increase their branding and marketing spend to attract new members to the potential detriment of existing members. This would be an unintended (although entirely rational) consequence of the proposed ‘best in show’ system.

ATTACHMENT 1: STABILITY OF WINNERS

SuperRatings - SR50 Balanced (60-76) Index Universe

2012

Option Name	Date	Product Type	Growth Asset Ratio	Size $Mill	Size Rank	Rolling 5 Year %	Rolling 5 Year Rank
LGIAsuper Accum - Balanced	31/12/2012	Ind-PO	63	925	38	3.84	1
Commonwealth Bank Group Super - Balanced	31/12/2012	Corp	70	2,573	21	3.34	2
Rest - Core Strategy	31/12/2012	Ind-PO	75	21,710	2	3.15	3
Equip MyFuture - Balanced Growth	31/12/2012	Ind-PO	70	1,764	27	2.11	4
StatewideSuper - Marketlink - Growth Option	31/12/2012	Ind-PO	74	1,147	34	2.01	5
UniSuper Accum (1) - Balanced	31/12/2012	Ind-PO	70	7,911	7	1.9	6
CareSuper - Balanced	31/12/2012	Ind-PO	76	4,773	10	1.84	7
ASGARD Emp Super - SMA Balanced	31/12/2012	MT-Corp	66	437	50	1.67	8
Catholic Super - Balanced (MySuper)	31/12/2012	Ind-PO	70	2,823	17	1.62	9
NGS Super - Diversified (MySuper)	31/12/2012	Ind-PO	70	3,226	15	1.6	10
Telstra Super Corp Plus - Balanced	31/12/2012	Corp	74	916	40	1.43	11
Sunsuper for Life - Balanced	31/12/2012	Ind-PO	69	15,305	4	1.3	13
First State Super - Growth	31/12/2012	Ind-PO	70	12,935	5	1.3	12
Club Plus Super - MySuper	31/12/2012	Ind-PO	75	1,238	33	1.29	14
Cbus - Growth (Cbus MySuper)	31/12/2012	Ind-PO	67	18,226	3	1.22	15
HOSTPLUS - Balanced	31/12/2012	Ind-PO	76	9,487	6	1.08	16
AustralianSuper - Balanced	31/12/2012	Ind-PO	68	34,748	1	1.03	17
Energy Super - Balanced Option	31/12/2012	Ind-PO	75	2,763	19	1.01	18
Vision SS - Balanced Growth	31/12/2012	Ind-PO	75	1,924	24	0.97	19
Plum - MLC Balanced Portfolio	31/12/2012	MT-Corp	70	191	52	0.92	20
QANTAS Super - Growth	31/12/2012	Corp-Pers	70	2,983	16	0.88	21
AMIST Super - Balanced	31/12/2012	Ind-PO	70	854	42	0.85	22
CFS FC Emp - FirstChoice Moderate	31/12/2012	MT-Corp	60	2,140	23	0.8	23
CSC PSSap - MySuper Balanced	31/12/2012	Gov-NPO	71	3,439	13	0.74	24
Intrust Core Super - MySuper	31/12/2012	Ind-PO	75	921	39	0.53	26
AustSafe Super - MySuper (Balanced)	31/12/2012	Ind-PO	70	1,009	35	0.53	25
Media Super - Balanced	31/12/2012	Ind-PO	69	1,626	28	0.46	27
Aust Catholic Super & Ret - Balanced	31/12/2012	Ind-PO	75	3,371	14	0.33	28
Mercer Super Trust - Mercer Growth	31/12/2012	MT-Corp	70	4,960	9	0.3	29
AGEST - Balanced	31/12/2012	Ind-PO	74	2,155	22	0.26	30
legalsuper - Balanced	31/12/2012	Ind-PO	74	780	44	0.26	31
BT Bus Super - Westpac Balanced Growth	31/12/2012	MT-Corp	68	2,577	20	0.17	33
smartMonday PRIME - Balanced Growth - Active	31/12/2012	MT-Corp	70	861	41	0.15	34
LUCRF Super - MySuper Balanced	31/12/2012	Ind-PO	76	2,766	18	0.05	35
MLC MKey - Horizon 4 - Balanced Portfolio	31/12/2012	MT-Corp	70	1,894	26	-0.22	36
Local Government Super Accum - Balanced Growth	31/12/2012	Ind-NPO	66	949	37	-0.39	37
AMP SS - Future Directions Balanced	31/12/2012	MT-Corp	73	3,763	12	-0.5	38
SD Bus - Multi-manager Balanced	31/12/2012	MT-Corp	69	829	43	-0.77	39
OnePath Corp - OptiMix Balanced	31/12/2012	MT-Corp	69	1,899	25	-1	40
BT Lifetime Super Emp - BT Multi-manager Balanced	31/12/2012	MT-Corp	66	1,309	32	-1.01	41
OnePath Corp - OnePath Managed Growth	31/12/2012	MT-Corp	69	1,322	31	-1.46	42
AMP FLS - AMP Balanced Growth	31/12/2012	MT-Pers	74	3,939	11	-1.59	43
IOOF Employer Super Core - IOOF MultiMix Balanced Growth Trust	31/12/2012	MT-Corp	72	421	51	-2.39	44
StatewideSuper - Balanced (closed 1/7/2013)	31/12/2012	Ind-PO	69	1,604	29	-2.52	45
MTAA Super - My AutoSuper	31/12/2012	Ind-PO	71	5,244	8	-4.23	46
VicSuper FutureSaver - Growth (MySuper) Option							
HESTA - Core Pool							
TWUSUPER - Balanced							
Kinetic Super - Growth							
Rei Super - Balanced							
GESB Super - My GESB Super Plan							
Russell iQ Super Emp - Russell Balanced Portfolio							
Maritime Stevedores AccumPlus - Balanced							

2017

Option Name	Date	Product Type	Growth Asset Ratio	Size $Mill	Size Rank	Rolling 5 Year %	Rolling 5 Year Rank
LGIAsuper Accum - Diversified Growth	31/12/2017	Ind-PO	75	3,686	17	9.23	33
Commonwealth Bank Group Super - Balanced	31/12/2017	Corp	68	5,194	12	8.11	43
Rest - Core Strategy	31/12/2017	Ind-PO	76	42,224	2	9.99	18
Equip MyFuture - Balanced Growth	31/12/2017	Ind-PO	70	934	35	10.42	12
StatewideSuper - Marketlink - Growth Option							
UniSuper Accum (1) - Balanced	31/12/2017	Ind-PO	70	16,255	7	10.82	4
CareSuper - Balanced	31/12/2017	Ind-PO	72	10,165	9	10.73	6
ASGARD Emp Super - SMA Balanced	31/12/2017	MT-Corp	72	437	43	8.35	42
Catholic Super - Balanced (MySuper)	31/12/2017	Ind-PO	70	3,632	18	10.52	10
NGS Super - Diversified (MySuper)	31/12/2017	Ind-PO	68	4,763	13	9.56	29
Telstra Super Corp Plus - Balanced	31/12/2017	Corp	75	2,124	26	10.26	14
Sunsuper for Life - Balanced	31/12/2017	Ind-PO	69	3,156	21	10.55	9
First State Super - Growth	31/12/2017	Ind-PO	75	41,693	3	10.35	13
Club Plus Super - MySuper	31/12/2017	Ind-PO	76	2,554	24	9.61	25
Cbus - Growth (Cbus MySuper)	31/12/2017	Ind-PO	67	29,555	5	11.12	2
HOSTPLUS - Balanced	31/12/2017	Ind-PO	76	20,405	6	11.33	1
AustralianSuper - Balanced	31/12/2017	Ind-PO	72	72,203	1	11.11	3
Energy Super - Balanced Option	31/12/2017	Ind-PO	75	2,092	27	10.43	11
Vision SS - Balanced Growth	31/12/2017	Ind-PO	67	3,261	19	10.01	17
Plum - Pre-mixed Moderate	31/12/2017	MT-Corp	70	663	39	9.34	31
QANTAS Super Gateway - Growth	31/12/2017	Corp	70	759	37	8.49	40
AMIST Super - Balanced	31/12/2017	Ind-PO	75	42	48	9.63	24
CFS FC Emp - FirstChoice Moderate	31/12/2017	MT-Corp	60	438	42	7.12	47
CSC PSSap - MySuper Balanced	31/12/2017	Gov-NPO	63	9,968	10	9.6	26
Intrust Core Super - MySuper	31/12/2017	Ind-PO	75	1,766	30	10.77	5
AustSafe Super - MySuper (Balanced)	31/12/2017	Ind-PO	71	2,077	28	10.71	7
Media Super - Balanced	31/12/2017	Ind-PO	73	2,403	25	9.81	22
Aust Catholic Super & Ret - Growth	31/12/2017	Ind-PO	75	580	40	9.14	36
Mercer Super Trust - Mercer Growth	31/12/2017	MT-Corp	73	-		9.21	34
AGEST - Balanced							
legalsuper - Balanced							
BT Bus Super - Westpac Balanced Growth	31/12/2017	MT-Corp	73	302	46	6.85	49
smartMonday PRIME - Balanced Growth - Active	31/12/2017	MT-Corp	70	324	45	9.94	20
LUCRF Super - MySuper Balanced	31/12/2017	Ind-PO	71	4,048	16	9.11	37
MLC MKey - Horizon 4 - Balanced Portfolio	31/12/2017	MT-Corp	68	901	36	9.59	28
Local Government Super Accum - Balanced Growth	31/12/2017	Ind-NPO	70	943	33	9.66	23
AMP SS - Future Directions Balanced	31/12/2017	MT-Corp	73	2,883	22	9.41	30
SD Bus - Multi-manager Balanced	31/12/2017	MT-Corp	68	746	38	7.77	44
OnePath Corp - OptiMix Balanced	31/12/2017	MT-Corp	71	1,791	29	7.52	46
BT Lifetime Super Emp - BT Multi-manager Balanced	31/12/2017	MT-Corp	70	491	41	6.92	48
OnePath Corp - OnePath Managed Growth	31/12/2017	MT-Corp	71	1,332	31	7.63	45
AMP FLS - AMP Balanced Growth	31/12/2017	MT-Pers	74	4,451	15	8.47	41
IOOF Employer Super Core - IOOF MultiMix Balanced Growth Trust	31/12/2017	MT-Corp	72	421	44	9.07	39
StatewideSuper - Balanced (closed 1/7/2013)							
MTAA Super - My AutoSuper	31/12/2017	Ind-PO	66	9,368	11	10.15	15
VicSuper FutureSaver - Growth (MySuper) Option	31/12/2017	Ind-PO	75	11,035	8	10.6	8
HESTA - Core Pool	31/12/2017	Ind-PO	71	34,495	4	10.13	16
TWUSUPER - Balanced	31/12/2017	Ind-PO	75	4,455	14	9.97	19
Kinetic Super - Growth	31/12/2017	Ind-PO	65	2,868	23	9.92	21
Rei Super - Balanced	31/12/2017	Ind-PO	73	1,295	32	9.6	26
GESB Super - My GESB Super Plan	31/12/2017	Gov-NPO	75	3,157	20	9.25	32
Russell iQ Super Emp - Russell Balanced Portfolio	31/12/2017	MT-Corp	73	289	47	9.17	35
Maritime Stevedores AccumPlus - Balanced	31/12/2017	Ind-PO	70	934	34	9.08	38

First quartile result
Second quartile result
Third quartile result
Fourth quartile result

APPENDIX 2: NUMBER OF INVESTMENT OPTIONS

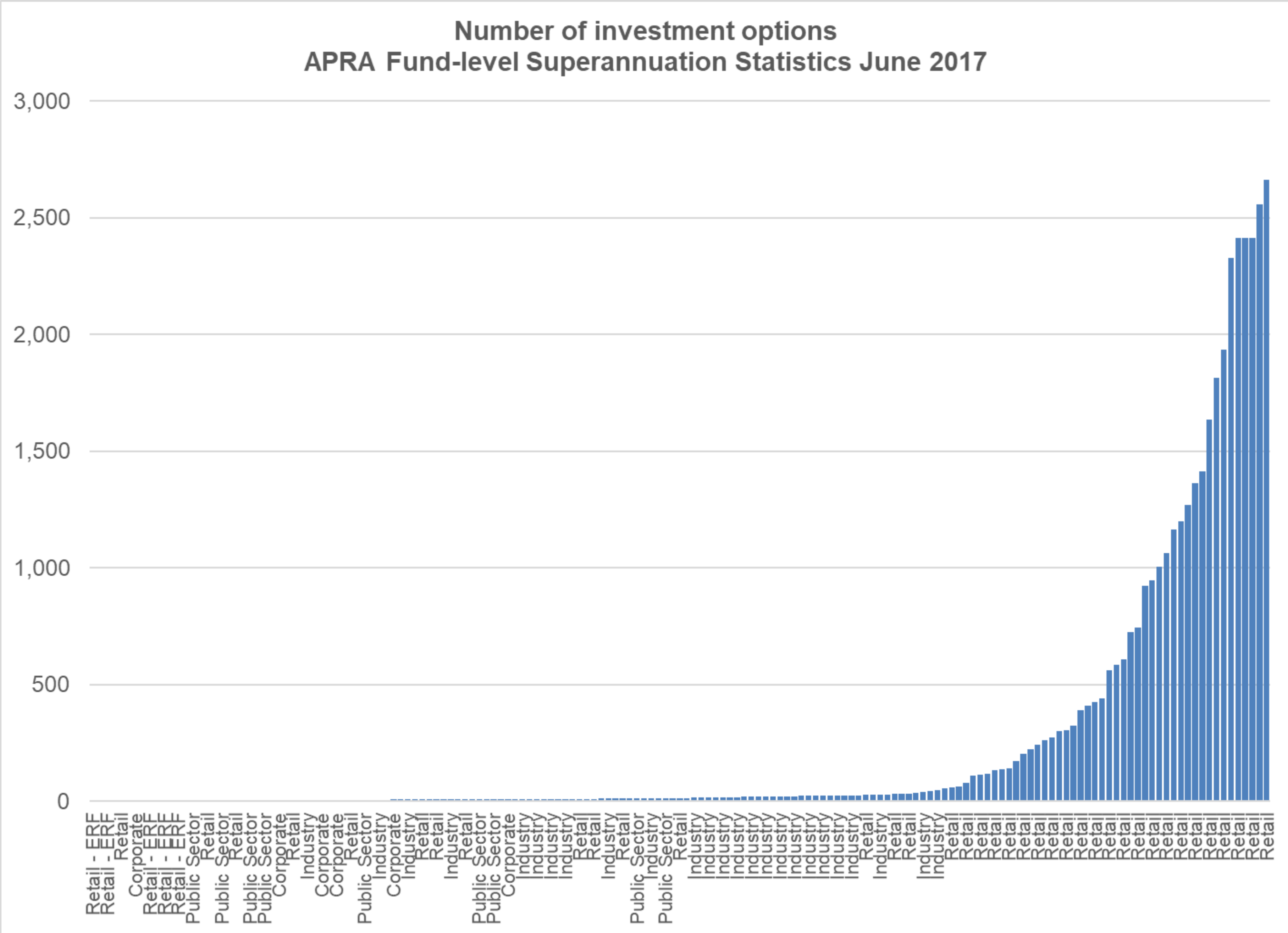
The results in the table below are based on the APRA's "Annual Fund-level Superannuation Statistics June 2017"[22] report.

Even though these results appear quite unfavourable for Retail super funds, this is actually a generous analysis for Retail super funds as there are many corporate funds included in APRA's spreadsheet (e.g., Oracle Superannuation Plan), who have outsourced the management of the super fund to a Retail super fund (e.g., Towers Watson Superannuation Pty Ltd), and who have a limited number of investment choices (e.g., Oracle Superannuation Plan has 5 investment options), which are technically counted as Retail funds.

Deeper analysis would draw an even starker distinction between the true high number of investment options offered by Retail super funds and the fairly limited number of investment options offered by all other types of super funds.

DESCRIPTION	INDUSTRY	CORPORATE	RETAIL	RETAIL - ERF	PUBLIC SECTOR	TOTAL
Median number of investment options per super fund	16	7	96	1	8	**15**
Average number of investment options per super fund	17	8	467	1	9	244
Maximum number of investment options per super fund	48	16	**2,661**	1	25	2,661
Total number of investment options per sector	**668**	**123**	**39,248**	**8**	**156**	**40,203**

22 "Annual Fund-level Superannuation Statistics June 2017", APRA, 28 March 2018


Number of investment options
APRA Fund-level Superannuation Statistics June 2017
3,000
2,500
2,000
1,500
1,000
500
0