



Superannuation

Productivity Commission
Locked Bag 2, Collins Street East
Melbourne Vic 8003

Productivity Commission Enquiry – Superannuation Competitiveness and Efficiency

Workplace Super Specialists Australia (WSSA) appreciates the opportunity to submit to the Productivity Commission on Superannuation Competitiveness and Efficiency.

Our submission is made from the viewpoint of industry practitioners, financial advice firms that are providing services, education and advice to employers and their employees, in the workplace, on a daily basis. We work closely with the AFA and FPA in our efforts to achieve the best outcomes for our employer and fund member clients.

We have also been the major player in assisting employers in selecting appropriate default funds, especially in the small to medium enterprise market segment.

No other industry association has members with the high level of exposure to workplace superannuation, at both the employer and employee level, which the WSSA has. Our members provide advice and support to employers as well as education, advice and support to the fund members.

We have not attempted to address all aspects of the Enquiry or to get into technical detail as part of our submission, as we do not see this as being the method by which we can add the most value. We feel we can best add value by concentrating on the areas where we have the most relevant experience.

BRINGING FINANCIAL EDUCATION TO THE WORKPLACE

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The Productivity Commission report is comprehensive and references previous studies. It covers all the issues relevant to the objectives of an efficient superannuation system, however it appears to rely largely on benchmarking. There is no voice representing super fund members (and to a certain extent Financial Planners) even though the report requests the following member issues to be addressed:

- Access or ease of access to advice – the lack of availability of useful information.
- Costs and returns of a super fund
- Complex retirement planning
- Members being driven by sentiment (page 187)
- Members unaware of insurance within super (Page 195)

How can members who do not have a financial background prepare or be made aware of these issues without financial education and advice?

The WSSA would therefore like to offer a voice to represent the super fund members and their employers, those who we serve and interact with on a daily basis.

Default Fund Selection

Fundamentally, the WSSA believes that:

1. *Qualification as a default fund should require only one level of filtering (i.e. no panel selection or other award based selection is required)*
2. *Any MySuper fund should be able to be used by an employer as a default fund*
3. *Employers should choose the default fund on behalf of their employees*
4. *Default fund restrictions should be removed from employment awards*
5. *Competition should be encouraged and not restricted by regulation*
6. *The financial outcome for super fund members is the most important outcome*
7. *The entire super system should operate in the best interest of fund members*
8. *A healthy superannuation system (including insurance benefits within super) is vital to reduce reliance on social security and, particularly, the age pension.*



The absence of consumer-driven competition, particularly in the default fund market.

There is an absence of consumer-driven competition, particularly in the default fund market, and believe this is as a result of the Modern Award regime, and to a lesser extent Australian workplace agreements.

We believe that allowing any MySuper fund to be an employer's default fund will resolve this issue, as it will introduce competition to the default fund market. After all, this was the stated purpose for the introduction of MySuper, to allow easy comparison of simplified default superannuation funds.

Further, we believe that the employer is the entity that is best positioned to select the default super fund on behalf of its employees. The employer best understands the culture, demographics and requirements of its own workforce. The factors influencing fund selection vary too widely within an award and it makes no sense that fund selection is so broadly dictated.

Operational efficiency, where products and services are delivered in a way that minimises costs and maximises value, which can be enhanced by competition and innovation from new entrants and incumbents.

MySuper is very immature in its product cycle. Only since 1 January 2014 (less than 3 years) have MySuper funds been the regulated recipient of default superannuation contributions, and the transition of existing default superannuation balances will not be complete until 30 June 2017. As a result:

- MySuper funds have, in many cases, not achieved significant scale
- It is impossible to meaningfully compare the investment performance of MySuper funds. They are designed to be long term investments (designed for fund members over their entire working life). You can not consider 2 year performance as representative of the long term for this type of investment.

Scale is an important factor in achieving operational efficiency and reducing costs. Until MySuper funds achieve scale we will not be able to ascertain their full potential to achieve operational efficiency and reduced costs. There have been many mergers of super funds over recent years and this is improving scale, however the exclusion of many MySuper funds from most Modern Awards removes competition and reduces the ability of the excluded funds to achieve scale.



Competition and innovation can only be maximised by allowing any MySuper fund to be a default fund for any employer. If this is not the case, and incumbent funds are nominated as default under an award, they will not be concerned about innovation as they will have little or no competition.

Conversely, a fund which is not nominated as default under an award will not be able to attract new clients and will therefore not be able to achieve the scale necessary to be competitive or to fund innovation.

If a MySuper fund is not able to be a default fund for any employer it will be difficult (if not impossible) for new players to enter the default fund market. This will stifle both competition and innovation.

Operating a Tender Process

Under FoFA legislation an employer is considered a retail client. Therefore advice on the selection of a default super provider must be provided to the employer in the form of a Statement of Advice (SoA). The legislation also requires a SoA to be in the best interests of the client, in this case the employer. We agree with the Draft Report that this advice should be provided in the best interest of the super fund member, not the employer. **A legislative change will be required to enable this.**

Workplace Super Specialists often receive outsourced payments for delivering financial education and services to certain workplaces. If they undertake a tender, and subsequently receive these payments, they are considered conflicted (the assumption is that they will choose a fund with the largest payments). As a result, Workplace Super Specialists have dramatically reduced (or ceased) doing tenders (SoA's) for employers leaving them unsupported. Nothing else has come forward to fill this vacuum.

If in future the SoA is completed in the best interests of the members then we believe that the Best Interest Duty should be sufficient in itself to overcome the conflict and enable employers and employees to again be professionally supported in their default fund selection.



Financial Education at the Workplace

Fundamentally, the WSSA believes that:

- 1. Education and advice allows members to enjoy better financial outcomes and happier, more secure, lives with more certainty of retirement income adequacy*
- 2. There are cost savings to be made to the Government with appropriate financial education*
- 3. Provision of Information and Financial Advice is not the same as the pro-active delivery of it*
- 4. Technology is not the solution in itself but can enhance other methods of delivering financial education*
- 5. MySuper fees should be structured to encourage financial education at the workplace*

The Workplace Financial Wellness Survey and Index

The WSSA recently commissioned a Workplace Financial Wellness Survey, which was conducted on our behalf by market researcher CoreData. We attach a copy of the survey as an Appendix.

This survey reinforces what we had always believed to be the case, that financial wellness in the workplace is nowhere as good as it should be. There is also a clear indication that people who receive financial education and advice feel more in control of their financial situation than those who do not receive it.

It also indicates that pro-active delivery is preferred with personal meetings ranking the highest.

We believe that the provision of education and general advice to default super fund members is the best way to encourage engagement with their super. It is clear that members who are engaged with their super and have an understanding of their financial and retirement goals are in a much better position to achieve their goals than disengaged members.

Advantages of Financial Education

WSSA member firms specialise in the education of super fund members and have contact with hundreds of thousands of members each year. We believe that this education should be encouraged and extended to more fund members



In the context of superannuation we believe that the education of fund members in both the accumulation and draw-down phases assists in maximising the accumulation of funds, therefore providing better retirement incomes and less reliance on social security.

Education and advice around life and disability insurances also assists fund members and their families and reduces the strain on Government funding.

Delivery of Financial Education

We believe that the proactive provision of services, general advice (which can ultimately leads to personal financial planning advice) in the workplace is critical to achieving the Government's goals of improving access to financial advice and maximising retirement incomes for members.

The Draft Report talks about the **provision** of information and financial advice but the **delivery** is just as important. The ultimate aim is for the member to read it.

Technology can play an important part here with the rapid development of online financial tools. However they are just tools and Workplace Super Specialists can work with them to extend the reach of the pro-active delivery of financial education.

Equitable Outcomes

Some employers see greater value in workplace financial education than others. Some fund trustees will deliver this through outsourced arrangements with Workplace Super Specialists.

It seems more appropriate that those workplaces which receive financial education should pay for it. Under MySuper legislation, fees cannot vary between those workplaces that receive financial education and those who do not. So effectively all members pay toward the delivery of those who receive the financial education.

Allowing financial education to be a variant on the fee will encourage more funds to be pro-active in its delivery.



Group insurance within Super

There is general agreement that Australians are on the whole under-insured for Life and Disability insurances, including Salary Continuance insurance. Our opinion is that Group insurance is essential in Superannuation as it provides an insurance 'safety net' of Life and Disability insurances for all super fund members, from which members can opt-out if it is not required. If such cover was not available automatically upon joining a super fund our first-hand experience with clients suggests that it is likely that a very large number of Australians would have no cover at all.

Importantly, group insurance provides Automatic Acceptance without the need for medical and other underwriting. This provides automatic cover for individuals who may not otherwise be able to obtain it.

Group insurance premiums are predominantly less expensive than retail insurance, and are significantly lower by comparison for older members.

Understandably there is a concern that insurance premiums erode the value of superannuation over time and it therefore makes sense that insurance structures reduce the cover provided (and also the cost) as members get older, their assets increase and their requirement for insurance decreases. This is where member education and the ability to opt-out becomes critically important.

The pro-active education provided to the workplace by WSSA member firms assists fund members to make decisions on their life insurance needs and to ensure that nominations are in place so the insurance proceeds are paid out as the member intends.

Group insurance also reduces the cost to Government by lessening the reliance on social security.

Sincerely

Terry Rhode
President

Douglas Latto
CEO

Gareth Hall
Treasurer



About the WSSA

Workplace Super Specialists Australia (WSSA) has evolved from the Corporate Superannuation Specialist Alliance (CSSA) which was formed in 2009 to represent corporate superannuation specialist advisory businesses. Our name was changed to more accurately reflect what our association stands for and to avoid confusion with other associations.

WSSA members provide financial advisory services to thousands of corporate superannuation funds across metropolitan and regional Australia and play an essential role in managing Australia's large and growing superannuation savings pool.

WSSA members work with Australian companies and their employees to provide them with improved life insurance and superannuation outcomes via their superannuation member accounts.

WSSA members provide a broad range of services to corporate super plans at four levels, – the employer level; the policy committee (representative body) level; the individual super fund member level and to super fund members collectively. These services help employers and policy committees ensure that members are getting competitive benefits and features, at a competitive price, and that members have access to general advice and information to help them improve their decisions about their retirement savings and life insurance choices.

WSSA members conduct thousands of group seminars and "one on one" meetings with members of our employer funds each and every year, taking information and advice to their workplaces to improve financial literacy.