



Superannuation

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

Productivity Commission Enquiry - Superannuation Alternative Default Models

Workplace Super Specialists Australia (WSSA) appreciates the opportunity to submit to the Productivity Commission on Superannuation, Alternative Default Models.

Our submission is made from the viewpoint of industry practitioners, financial advice firms that are providing services and education 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 same high level of exposure to workplace superannuation, at both the employer and employee level. Our members provide advice and support to employers as well as education and support to the fund members.

BRINGING FINANCIAL EDUCATION TO THE WORKPLACE

wssa.asn.au

Suite 1003, Level 10, 815 Pacific Highway, Chatswood NSW 2067
Workplace Super Specialists Australia (WSSA) Incorporated INC 9892668 ABN 53 142 424 280 ABRN 142 424 280



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.*

Alternative models for Default Fund Selection

Experience of MySuper

MySuper is highly 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). One cannot consider 2 year performance as representative of the long term for this type of investment.
- There is no centralised source of information that easily allows members to compare the features, benefits and performance of MySuper funds.



Scale

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

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

By 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 a stated purpose for the introduction of MySuper, to allow easy comparison of simplified, lower cost default superannuation funds for disengaged members.

This will allow competition and innovation to be maximised. Otherwise incumbent funds which are nominated as default under an award 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 (as is currently the case) it will be difficult (if not impossible) for new entrants to enter the default fund market. This will stifle both competition and innovation.

Default Fund Selection

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 sense that fund selection should be based on the requirements of a workforce.

With 122 awards there is effectively 122 default fund lists, each limited and different. Larger employers may have a number of awards that apply to them and have to choose different default funds for different groups of employees. This prevents them from negotiating a reduced administration fee that would be applicable if all employees could have one default fund.



These restrictions have resulted in MySuper not being able to operate in an open market.

The current MySuper model, (if it operates on a level playing field where any MySuper fund can be a default fund regardless of Awards) allows for and promotes open competition between funds. It allows product innovation to occur. Over time 'the cream will rise to the top'. Employers and their employees will be able to select from funds with proven track records of performance after fees. This open architecture will provide system stability as any fund provider can compete on equal terms rather than this being the domain of the chosen few, and new entrants will be able to enter the market.

There is already a 'filter' to determine which products are eligible to be used as default funds; this is the MySuper legislation which was designed specifically for this purpose. Applying a further filter seems costly, inefficient and unnecessary.

Centralised V Decentralised

We believe a centralised system where the Government elects one, or a small number of, default fund(s) would be a backward step for our system.

Australians need to have faith in our superannuation system and constant change erodes this faith. Successive Governments continue to alter legislation and the current MySuper reforms have not yet been fully implemented, let alone been given the opportunity to reach product maturity.

A centralised default would remove all competition and would certainly see the demise of the majority of MySuper funds.

This approach would lead to greater levels of member disengagement and therefore potentially a much worse retirement outcome for millions of Australians.

Summary

Australia has one of the most mature Superannuation systems in the world. There are currently around 116 MySuper funds, 67 of which are public offer, and the fees that can be charged are regulated by legislation.

The removal of default funds from employment awards will simplify the process and strengthen the overall superannuation system

The WSSA believes the current Choice model is the correct model. Allowing each employee to choose the product that best accords with their



preferences and facilitates competition on both price and product features. An employer default fund with a MySuper fund filter (regardless of awards) for individuals who do not or are incapable of making a choice seems to provide all the required outcomes and removes layers of complexity from the system.

SuperStream and the use of clearing houses for contributions simplifies this process for both employers and employees.

If this approach is combined with workplace education it would appear to offer the best and simplest solution.

Financial Education at the Workplace

Fundamentally, the WSSA believes that:

- 1. Education 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 Education 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. Education would be more accessible if the cost could be met from a MySuper fund's administration fee.*

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



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 education 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 education to their workplaces to improve financial literacy.



Insurance

The WSSA believes that the suggestion that each employer could choose from a number of insurers is impractical.

This would result in each fund having to deal with multiple insurers, each with different processes. The additional administration of this would be significant and would be reflected in higher administration fees.

Insurers would have increased distribution costs and this will be reflected in increased insurance premiums.

The WSSA believes that the current system whereby each default fund has a default insurer is the correct solution

Conclusion

The WSSA members are the most experienced operators in the default fund market as well as leading financial education at the workplace. Our submission has drawn on this experience. We would appreciate the opportunity to present to the Commission in person in May 2017.

Sincerely

Terry Rhodes
President

Douglas Latto
CEO