



# AUSTRALIAN HOTELS ASSOCIATION

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Mr Peter Harris AO  
Chairman  
Productivity Commission  
Level 2, 15 Moore Street  
Canberra City ACT 2600, Australia  
<http://www.pc.gov.au/inquiries/current/superannuation/make-submission#lodge>

Dear Mr Harris,

## **Productivity Commission Issues Paper – Superannuation: Alternative Default Models**

As one of two founding shareholders in Hostplus, the Australian Hotels Association has worked for many years to ensure that default superannuation works for the employees and employers in our industry. Evidence shows that this has been a successful arrangement, and that the current default settings leave members better off. We urge the Productivity Commission to build on this, rather than looking to alternative default models.

### **Australian Hotels Association (AHA)**

The Australian Hotels Association (AHA) represents employers in the hotel and hospitality industry registered under the Fair Work (Registered Organisations) Act 2009. Its direct membership of more than 5,000 licensed hotel business owners includes pub-style hotels plus three, four and five star international accommodation hotels in each state and territory. The AHA has branches in every Australian capital city and a Canberra-based national office.

The AHA is one major employer group in the broader hospitality, tourism, recreation and sports industries. Employees in the AHA sector possess skills that enable them to secure employment across the other parts of the industry, and we often see employees moving between hospitality, sport, tourism and recreation.

### **About the hotel industry**

The Australian hotel industry includes more than 5,000 businesses generating more than \$12 billion of annual economic benefit. These industries are 24/7 labour intensive, requiring a flexible and extremely diverse work force of all ages and genders including highly skilled, unskilled and entry level employees.

The hotel industry is a significant employer, with more than 278,000 people employed between the pub sector (188,000)<sup>1</sup> and the accommodation sector (90,000)<sup>2</sup>, and an annual wages and salaries contribution of \$5.41 billion. In addition there are an estimated 20,000 employees in the casino sector<sup>3</sup>. Although some hotels are large-scale operations with hundreds of employees which form

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<sup>1</sup> PricewaterhouseCoopers (2009) Australian hotels: More than just a drink and a flutter

<sup>2</sup> Australian Fair Pay Commission (August 2008), Accommodation, Cafes and Restaurants Industry Profile, Research Report No.1/09

<sup>3</sup> Australasian Casino Association, Submission to the Parliamentary Joint Select Committee on Gambling Reform, 31 January 2011

part of national or international chains, the majority of AHA members are small, locally-owned businesses serving their surrounding communities. In 2005-06 only 145 of 65,197 businesses in the ABS Accommodation, Cafes & Restaurants sector employed more than 100 people.<sup>4</sup>

### **The importance of superannuation to hotel industry employees**

Being a member of a successful superannuation scheme is of the utmost importance to all Australian employees in ensuring a dignified, properly funded retirement. However, a robust and member-focussed process of allocating members to default superannuation products is particularly important in our industry.

While around 15 per cent of the national workforce is award reliant, in the hotel industry around three-quarters of employees are employed under the terms and conditions of the Hospitality Industry (General) Award 2010. In addition, many young people find their first job in the hospitality industry and find themselves dealing with superannuation for the first time. Many are disinclined to take much interest in superannuation arrangements with retirement such a distant prospect.

Forcing these employees to choose a fund is not a viable or responsible option. They are not equipped to make this decision and have no desire to do so. The existing approach that allows members to choose a fund if they wish, but protects their interests if they do not, has served employees in our industry well and should be continued.

The demographic of employees in our industry makes it crucial that they can rely on a default fund selected in their best interests by independent experts and industry stakeholders. A change to this risks reducing their trust in the superannuation system as a whole and leaving them with significantly poorer retirement outcomes.

### **The AHA and Hostplus**

The AHA, along with United Voice (formerly the Liquor, Hospitality and Miscellaneous Union) established the Hostplus Superannuation Fund in 1987 as the industry superannuation fund for hospitality, tourism, recreation and sport. We set Hostplus up in order to provide a low cost, member-focussed option for employers when they are choosing a default superannuation provider.

We were aware at the time, as we are now, that our members and their employees are not in a position to engage in complex financial decisions that are not part of their core business. Our industry had clear need of a fund that could be relied on to put the needs of employees first as well as meeting the needs of employers and the industry.

Our approach has proved successful, serving our members and their employees extremely well. Hostplus now has close to 1 million members and more than 95,000 employers contributing to their super funds. At June 2015, they had more than \$17.5 billion of funds under management. Even though Hostplus specialises in providing services for hospitality, tourism, recreation and sports industries, anyone can join no matter which industry they work in.

Hostplus has track-record of exceptional performance, most recently being named SelectingSuper's 'Super Fund of the Year' for both 2014 and 2015. In delivering the 2015 award, SelectingSuper cited the fund's 'Low costs, consistent strong performance across default, diversified and asset specific investments and soundly priced insurance cover' as the key factors in their decision making.

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<sup>4</sup> Australian Bureau of Statistics (2007), Australian Industry 2005-06

Hostplus Industry Public Offer Superannuation Fund has also been awarded a SuperRatings 10 Year Platinum Performance Rating – the highest possible rating – for the period 2005-2015, and has been named Money magazine’s Best of the Best award for the Indexed Balanced product within the Lowest-Cost balanced Super Fund Category for an astounding four years running.

We believe that the involvement of industry stakeholders with a single minded focus on member outcomes has been an important driver of the fund’s success. This involvement has been facilitated through the governance of the fund<sup>5</sup> as well as the position of superannuation in the industrial system. This approach has provided rigour and accountability to default fund selection, and has ensured those with a stake in the system are represented in the process.

### **Preferred default model**

The existing (but stalled) Fair Work Commission (FWC) process sets up a framework for defaults that is independent, transparent and efficient. This process should be given a chance to deliver outcomes that can be assessed before changes are considered. The Fair Work Commission process builds on arrangements for default funds which have been highly successful, with the default sector outperforming the choice sector over the long-term.<sup>6</sup> Any change to this successful default system must be evidence-based.

In its Issues Paper, the Productivity Commission proposes market-based and open choice models as alternative approaches to developing default allocation models. We have concerns with both approaches:

1. The evidence overwhelmingly shows that employees on the whole aren’t able or willing to choose funds that operate in their interests. This is particularly the case in our industry, in which forcing employees to choose a fund is unrealistic and not in their interests.
2. There is not sufficient evidence of that tender models in default systems internationally have been successful to support a shift to this model, particularly away from a model that has worked so well for employees, employers, and the industry.

The existing FWC expert panel process has a number of benefits:

- Superannuation is part of employees’ wages and it is appropriate that it continue to be administered through the industrial system along with other employment conditions
- It is the most efficient model for filtering funds based on the most important criteria for fund members and employers, including net returns, fees and administrative efficiency – given system complexity, our members and their employees would not have the resources or capacity to effectively undertake this task
- The process is impartial (separate from the finance industry and agnostic to funds), giving employers and employees confidence while reducing the burden on these parties
- The shortlisting process has similar contestability to a tender process and, given the quality filter remains well-designed, would deliver similar outcomes but with the benefit that stakeholders are engaged in the process
- The process allows applications from any fund without requiring the endorsement of parties with standing under an award, so any MySuper product is eligible
- Employers choosing from a shortlist preserves the employer interest in ensuring default funds meet the needs of their industry and their employees, and enables employers to provide important oversight that helps ensure ongoing confidence in the system

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<sup>5</sup> Hostplus is governed by three employer representative directors, three employee representative directors and three independent directors

<sup>6</sup> APRA data

- The existing system provides an industry-based approach where needed, supporting provision of industry-specific offerings such as insurance, and providing a level of cohesion, which is particularly important in the hospitality industry

### **Impact on employers**

Employers play a critical role in the operation of Australia's world-leading superannuation system, acting as the administrator of employee retirement savings and providing information and data critical to the efficient administration of funds and the system itself. In an industry such as hospitality where business owners are subject to high levels of regulation and compliance requirements, there needs to be consideration of the impact of changes on employers. Any changes will come at an additional cost to employers, for whom continuity, especially given that the system is working well, is of high importance.

Many of our members are committed to ensuring their employees are members of a high-quality fund, and have worked to make sure this is the case – this should also be a factor in the Commission's deliberations. Employers in the hotel industry do not see a need to change arrangements, particularly in the absence of a strong evidence base. The AHA submits that the Commission should consider the impact of changes on employers when conducting its analysis.

Yours sincerely,

**STEPHEN FERGUSON**  
**AHA NATIONAL CEO**