

Submission to

The Productivity Commission

Response to the *Superannuation Alternative Default Models Draft Report 2017*

April, 2017

Introduction

The Queensland Nurses and Midwives' Union (QNMU) thanks the Productivity Commission (the Commission) for the opportunity to make a submission to the *Superannuation Alternative Default Models Draft Report 2017* (the draft report).

Nursing and midwifery is the largest occupational group in Queensland Health (QH) and one of the largest across the Queensland government. The QNMU is the principal health union in Queensland covering all categories of workers that make up the nursing workforce including registered nurses (RN), registered midwives (RM), enrolled nurses (EN) and assistants in nursing (AIN) who are employed in the public, private and not-for-profit health sectors including aged care.

Our more than 57,000 members work across a variety of settings from single person operations to large health and non-health institutions, and in a full range of classifications from entry level trainees to senior management. The vast majority of nurses in Queensland are members of the QNMU.

The QNMU supports the submission and recommendations of the Australian Institute of Superannuation Trustees (AIST), a national not-for-profit organisation whose membership consists of the trustee directors and staff of industry, corporate and public-sector funds. As the principal advocate and peak representative body for the \$650 billion not-for-profit superannuation sector, AIST plays a key role in policy development and is a leading provider of research.

The QNMU has provided some general comments on the draft report.

The purpose of superannuation

Two decades ago, unions in partnership with the Labor Government established universal superannuation for Australian worker. Superannuation is a deferred wages scheme and therefore relates to the employment relationship. It must stay as an item within awards and other industrial instruments to ensure workers and their representatives are able to negotiate improvements within an enterprise bargaining context and to protect those who remain award reliant.

The QNU strongly believes that those union representatives who are trustee representatives on superannuation fund boards are undertaking a critical extension of the every day advocacy role on behalf of members. It is imperative that unions continue to advocate for members across their lifespan by promoting strategies that provide dignity in retirement. This includes the optimisation of retirement savings through superannuation and

campaigning for the maintenance and enhancement of non-superannuation related factors that contribute to an adequate and secure retirement. Australians need a high quality universal health and aged care system, affordable housing, the aged pension and related government provided income support payments for the elderly. Ensuring an adequate or comfortable retirement is contingent upon much more than the superannuation component, important as that is, and unions play a key role in achieving dignity in retirement via lobbying and campaigning activities.

Not-for-profit industry funds must remain the foundation of modern awards. We believe the existing arrangements operate in the best interests of the large number of employees to whom the superannuation provisions in a modern award apply, although the 'one size fits all' approach does not sit easily in some industries with many areas to cover. Most of the funds are not-for-profit so they charge lower fees and deliver higher net returns to members.

The Commission has highlighted the relative performance of industry funds and found that default funds provide stability and their investment returns exceed those of non-default funds. This is particularly important for employees to whom the superannuation provisions in modern awards apply. The default fund nominated in an award should be geared towards high returns for members, not to serve the interests of those operating within the banking and investment sector. We welcome transparency and due process in this system.

We suggest the Commission could consider a more appropriate term such as 'approved or 'allowable' fund.

Default superannuation funds

The overall tenets of the draft report reinforce the notion that workers will be better off if there is choice in superannuation funds, despite national and international evidence to the contrary¹. More choice and competition are apparently the solution to the perceived problems with superannuation default funds.

The Commission has previously noted that many consumers do not have the interest, information or expertise required to make informed choices about their superannuation (Productivity Commission, 2012). These consumers rely heavily on the default superannuation system to act on their behalf. Clearly a significant proportion of workers find limited relevance in competition and choice of funds. This is especially the case in the wake

¹ See for example Morningstar (2016) *Multi-Sector Growth Superannuation Funds* for a comparison of 349 different growth funds and Cummings, J. & Ellis, K. (2011) *Risk and return of illiquid investments: A trade-off for superannuation funds offering transferable accounts*, Australian Prudential Regulation Authority.

of the Global Financial Crisis (GFC) where the retirement savings of workers have taken such a significant setback because of the failings of an inadequately restrained and poorly regulated market. Safety, governance, proper alignment of interests and adequate risk management are more important to our members than contestability.

The QNMU has made its position on default superannuation funds very clear to the Commission in previous submissions. Employers and workers fund superannuation schemes. This is an industrial issue involving deferred-wages. Therefore market forces and business interests should not drive the selection of default options, rather the selection of default funds must be subject either to award determination or enterprise bargaining to protect and advance the interests of those for whom the scheme operates.

The Commission's focus on industry funds fails to address the most problematic providers within the system – the retail and self managed super funds. If the main problem the Commission is trying to address is an individual worker's accumulation of multiple superannuation accounts, then removing employers and unions from their roles as custodians of the scheme is not a suitable solution.

Neither will the removal of reliable parties such as the Fair Work Commission (FWC) and processes that support an effective superannuation scheme address the underperformance of retail and self managed super funds. Opening up default funds to competition will benefit retail funds many of which the major banks own. Ostensibly, retail funds will offer low-fee products but with no guarantee of higher returns for members.

Industry and other all profit to member superannuation funds operate to benefit their members not shareholders and have consistently delivered better returns. We can therefore only assume that while the Commission is acting with the terms of reference set by the coalition government, it is disingenuous to suggest the intent is only to benefit the consumer through a streamlined account process.

At its heart, the terms of reference for this inquiry anticipate a reduction or removal of trade unions from a scheme of their making and their right to represent the interests of their members in that scheme. The superannuation industry is simply too lucrative for the major banks and others to leave this sector to unions despite their obvious success in administering industry funds. Although the Commission reiterates its task is to develop new competitive models for future consideration by the Australian government (Productivity Commission, 2017, p. 4), this approach sidelines the institutions that have successfully built and maintained the system. We accept a key failure is the proliferation of accounts particularly among young employees. Creating more competition and choice is hardly the answer to the disengagement this sector of the workforce experiences with superannuation.

Therefore while we see merit in some of the draft report's recommendations the QNU will *not* support any arrangement that enables:

- commercial involvement to influence the decision making; or
- employers to unilaterally opt-out of the award system on the matter of superannuation or any other award provision.

The Proposed Models

The draft report puts forward four alternative models for allocating default members to providers and products. The proposed models are premised on an economic rationalist 'world of unassisted active choice' where superannuation funds and products are 'subject to prudential, competition and consumer laws and regulations' (Productivity Commission, 2017, p. 12). Although the proposed models are notionally underpinned by strong regulatory controls the employee will bear the risk of their decision or that of the employer or the selection body.

The proposed models will not prevent workers moving from a default fund into an underperforming fund, leaving them exposed to the downside of 'choice' in the market. The 'default members' who would be subject to each model include all employees who have 'failed' to exercise choice and who do not already have an existing superannuation account. This would typically be new entrants to the workforce (which the Commission refers to as the 'first-timer pool'). Default members allocated under any model would remain in that account, including during a change in employer, unless they actively switch.

The 'default product' provided under each model would be an accumulation-only bundle of superannuation services comprising investment, account administration and intrafund advice. The product 'should be simple, providing the minimum services necessary to meet the Government's stated objective for superannuation – to provide income in retirement to substitute or supplement the Age Pension' (Productivity Commission, 2017, p. 10). We find fundamental problems with each of the proposed models. Although the Commission argues the case for the assessment of alternative models using the baseline of no default arrangements, we remain unconvinced. In our view, the 'no defaults world' is itself a subjective scenario that has not been agreed to and while it may provide a theoretical context for economic modelling, any options should be assessed against the system as it currently exists.

Removal of Employers

Only model two – Assisted Employer Choice – includes a role for employers in the selection of default funds and even then, most of the benefits associated with this model stem from the use of filters to guide employees to better products, rather than through the choice of product being placed with the employer.

No formal role for trade unions

Trade unions do not appear to have any formal in role in selecting products on behalf of their members. The possibility that workers through their union could select a workplace or default fund via enterprise agreements is unclear, particularly given the move away from the industrial environment.

The role of the FWC

The draft report notes there are four ‘third parties’ involved in the selection of default products for members that fail to make an active choice – the regulator the Australian Prudential Regulation Authority (APRA), an expert panel within the FWC, the full bench of the FWC and employers. The Commission believes the FWC is not suited to select default funds because it does not have sufficient expertise. The Commission also believes the FWC decisions are based too much on history and precedent, and the representations of industrial parties. In our view, a shift away from the FWC to another body may introduce appointees with more background in finance but who could also be perceived to have potential biases or conflicts of interest. The Commission proposes this may be mitigated by making the panel accountable to the government and government administration of the process should not preclude private-sector participation in an advisory sense.

The draft report noted the FWC along with the regulators, APRA and the Australian Securities and Investment Commission (ASIC) are designed to be ‘independent’ rather than accountable to the Australian government, and that this is *not* suitable.

Removal of the FWC from the process in favour of a panel that is not independent of government not only seems strangely perverse, it is also another step in distancing default superannuation away from awards and the industrial parties. Private sector advice to government could also attract vested interests.

We therefore fail to see how any of these models will directly benefit workers when the fundamental problem lies in a proliferation of accounts. Although we recognise multiple accounts are a problem for consumers and funds, it is not a justification for restructuring the

whole default system. We do however see potential benefits in a centralised online service and a central clearing house.

A centralised online service

The implementation of new technologies has already been improving efficiencies within the default superannuation process. The draft report recognises the role of SuperStream and Single Touch Payroll as suitable mechanisms for streamlining and simplifying the interaction with super funds, and recommends these systems support a centralised online service to help people keep their main fund and consolidate others. As the draft report acknowledges, greater access to information will allow better decision-making and engagement. We concur with these observations as they can enable consumers to consolidate accounts and increase their engagement with the superannuation fund.

These mechanisms have occurred through close collaboration between the superannuation industry, employers, payroll providers, gateways, administrators and the Australian Tax Office (ATO). Further development of these initiatives will obviate the need for sweeping change to the default fund selection process.

A central clearing house

The draft report supports the establishment of a single centralised clearing house enabling employers to make superannuation contributions to multiple funds. We see there may be merit in this proposal, however, the recommendations to house it within the ATO do not address the context and risks. The current system relies on cross-industry collaboration between a range of competing providers. There may be inherent difficulties in moving towards a centralised, government-operated service around the sharing of information.

References

Productivity Commission (2012) *Default Superannuation Funds in Modern Awards*, Report No. 60, Final Inquiry Report, Canberra.

Productivity Commission (2017) *Superannuation: Alternative Default Models*, Draft Report, Canberra.