To the Productivity Commission

Re: Superannuation: Alternative Default Models

By way of introduction, my name is Timothy Limmings. I note that the Productivity Commission has called for "comments from young people who are new to the [superannuation] system"[1] [2]

As someone in the 25 -30 age bracket, I hope that the Productivity Commission will take consideration to my submission.

A selection of media coverage to the Draft Report:

Quote:

> Currently, an employee typically acquires a new default superannuation account every time they commence a new job and do not actively choose a fund themselves (the turnover pool). This creates a significant proliferation of accounts, with over 40 per cent of members holding more than one account.

Source: http://www.pc.gov.au/inquiries/current/superannuation/alternative-default-models/draft/superannuation-alternative-default-models-draft.pdf

Quote 2:

> [The Productivity Commission] has criticised the current system, where workers are placed in a new "default" super fund whenever they change jobs, for being responsible for Australians accumulating multiple superannuation accounts, which is a very inefficient way to manage super savings.

Source: https://www.theguardian.com/australia-news/2017/mar/29/superannuation-shakeup-proposes-one-default-fund-for-life

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[1] http://www.pc.gov.au/inquiries/current/superannuation/alternative-default-models/comment

[2] http://www.smh.com.au/federal-politics/political-news/one-default-fund-for-life-the-productivity-commission-takes-on-unions-over-super-20170328-gv8a5f.html
Ms Chester pleaded for input from ordinary fund members before the report is finalised.

"To date, most interest has come from the funds themselves," she said. "We want to also hear from young Australians and those who might want to think about their interests, such as parents. This is about us going for a circuit-breaker, looking out for the interests of super fund members."

Quote 3:

> Productivity Commission chairman Peter Harris told the ABC's AM program that despite the compulsory superannuation system delivering reasonable returns over the past 25 years, "structural faults" made default superannuation confusing for workers and their employers.
>
> "Individuals commented that the whole system looks like the scattering of cornflakes on the ground and it's impossible to pick one up so think I'll walk right on past it," Mr Harris said.
>
> "It's like when you go into a New York delicatessen and there are nine kinds of ham, six kinds of mustard and five kinds of bread, a thousand people in the queue behind you and you just want a ham sandwich."

Source: http://www.abc.net.au/news/2017-03-29/productivity-commission-proposes-default-superannuation-overhaul/8395572

Quote 4:

> Industry funds have argued that default providers should be selected based on investment performance, while retail funds have argued that greater individual choice would drive competition benefits for members.
>
> With more than 100 low-fee MySuper products on the market, the proposals seek to limit any further increase in choice of fund for uninformed savers.

Source: http://www.theaustralian.com.au/business/financial-services/wakeup-call-over-superannuation-wastage/news-story/5b825caf8dd07c40dcadf837dda6ee97

Quote 5:

The days of workers holding multiple superannuation funds gobbling up their retirement nest eggs with unnecessary fees might be over under plans from the Productivity Commission to simplify the super system.

But individuals might have to give up control of their superannuation choices to their employers right at the start of their careers as the commission attempts to boost the returns on retirement savings.

Source: https://thewest.com.au/business/superannuation-made-simpler-for-new-employees-ng-b88428523z

With reference to the last 2 quotes, it is amazing how the neo-liberal economists think that "choice" would "drive competition benefits" in a natural monopoly. Even when people are given "choice", the Productivity Commission themselves have said[3] that:

> “Around two-thirds of members rely on defaults,” said Productivity Commission chairman Peter Harris.
>
> “This isn’t surprising with super being both compulsory and complex to navigate, -especially for young workers.”

My experience

I'll give an example: myself.

- When I worked at a supermarket, my superannuation had to go into REST, no other option, under the EBA
- When I worked a restaurant bar (which has since closed down), my superannuation had to go into HOSTPLUS, no other option, under the EBA
- When I worked at a university, my superannuation had to go into Unisuper, no other option, under the EBA

In that order.

Now acknowledging that all 3 mentioned superannuation funds are considered "good" by Australian standards, but now I'm faced with 3 superannuation funds, and:

1. Do I keep my REST account, and roll over every month from HOSTPLUS to REST?
2. Do I roll over everything from the university job and REST account balance into HOSTPLUS?
3. Do I close my REST and HOSTPLUS accounts and roll over everything into Unisuper?
4. Do I keep all 4 to "spread the risk"?

[3] http://www.theaustralian.com.au/business/financial-services/wakeup-call-over-superannuation-wastage/news-story/5b825caf8dd07c40dcadf837dda6ee97

I'm foreveralone and spend an unhealthy amount of time reading PDS'es of superannuation funds, and I still wouldn't know how to answer that. Image the "average" person, with partners, kids, the challenges of life. Few people would be able to navigate that.

One thing I agree is removing the mandatory superannuation fund rules in EBA's. By all means have a "default" superannuation fund in EBA's, maybe put in sweeteners saying if workers go into the "default" superannuation fund they get more than the statutory minimum.

I have work colleagues who have family SMSF's, and when amortised between mum + dad and the 3 kids, the cost of running the SMSF is less than the average Industry superannuation fund over 5 people. (Let me be on the record that SMSF's are not for everyone) Yet in their younger days were forced to put their superannuation into a specific fund because of their EBA's of the part time/casual jobs they had to get through the early years of their working lives.

To say that the Superannuation system is broken implies that it was functioning in the first place. It probably works for the rich who can play around with stocks/day trade in a tax advantaged environment, or people buying investment property to rent out to their secretary (arms length people!), or use their SMSF to buy a shop lot where rent is paid for their business.

For the rest of us:

> The inquiry's deputy chair, Karen Chester, said back when compulsory super was set up in 1992 many people still thought they might have one job for life.
>
> "These days under-25s are turning over jobs once every 1.5 years. Australians aged 25 to 35 are turning over jobs every 2.5 years. We have seen estimates that suggest today's young people will have 17 jobs over their working life."

Source: http://www.smh.com.au/federal-politics/political-news/one-default-fund-for-life-the-productivity-commission-takes-on-unions-over-super-20170328-gv8a5f.html

Who are trying to find a footing in our lives, juggling between new jobs, establishing a career, partners, kids, managing elderly parents, finding a place to say/a mortgage, the system is utterly defective on arrival.

While I am grateful that my current job is a permanent position, in my wider social circle, I reckon that 40% of my peers are in non-permanent positions. One has gone through 5 jobs in the 7 years I've known him. Imagine cycling through 5 superannuation funds. (For the record, he has since consolidated them, but only because he had a friend (me) who encouraged him to)

Many superannuation funds, both Industry and Retail, have minimum balance requirements, or ongoing contribution requirements. Be out of a job for extended periods of time? Take time off work to start a family? Working in a job with irregular hours and income? Move around a lot and don't receive any mail? Sorry, you've become too small for us, we'll take an exit fee on the way out to unilaterally transferring what little superannuation funds you had (if they weren't eroded by insurance premiums/negative returns/fees) to AUSFund, "Australia's Unclaimed Super Fund", who then take their cut before sending it to the ATO.

Just ask my friend above who has gone through 5 jobs in the 7 years.

You wouldn't find this information in any of the PDS or other documentation that the superannuation funds publish on their website. But they're more than happy to tell you that you're too small for them in a letter in the post when the money is all gone.

Australia's pension system appears to penalise the small contributors. The fees associated eats rapidly into the savings. The returns are not guaranteed, and can be negative. There is only a relative tax advantage for contributors, which is weighted more for big earners and contributors. Therefore, the system appears to penalise the small earners and contributors disproportionately.

The very group perhaps, that needs to be protected.

This is before we go into businesses who don't pay superannuation, and "collapse" to avoid paying superannuation. If a businesses doesn't pay tax you can bet the ATO will go after to claim from the carcases of the "collapsed business".

Yet when it comes to unpaid superannuation, it is left to the individual to stand in line with the creditors to try and reclaim back their rightful entitlements. We have not considered the opportunity cost of reduced compounding when any claims take years to be paid out.

The reality is that there is a unequal relationship between contributors and superannuation funds. Australian Consumer Law has recognised this uneven of power, and this is why we have the Consumer Protections that we all enjoy in Australia. Yet I have more rights and protections when buying a kettle than my compulsory savings in old age.

And yet we have such a disconnect like this:

> According to the panic-stricken summary, 30 per cent of employees miss out on their full super entitlements and, on average, each of them misses out on four full months' super. Pull the other one.
>
> But here's the kicker: when businesses pay their own tax liabilities, it is possible to deduct the costs of superannuation contributions from taxable income only if it is demonstrated that the super-annuation money actually has been paid. You see the government has thought of this issue in the past and has devised a low-cost means of ensuring that employers do pay the superannuation contributions on behalf of their workers.
>
> It is sad but true that some businesses will fail and, of course, workers become creditors in the event of a firm becoming bankrupt, at which point they may recover their superannuation en-titlements. There is also scope to recover superannuation guarantee payments through the ATO.

Source: http://www.theaustralian.com.au/opinion/columnists/judith-sloan/unpaid-super-you-shouldnt-believe-these-fairytales/news-story/dc95c642f36e1cfe01a28a47050ac560

Factually correct, but completely useless. I hope Judith Sloan never has to work for an organisation that collapses in a sunset industry. Would love to see her try and claim any unpaid superannuation entitlements from a folded business. These people really need to come down from their ivory tower sometimes to look at the reality on the ground.

Insurance and the impact on casual workers

Let's have a case study. Male. The year: 2008.

Job 1:
Without having all my superannuation details in the public domain, suffice to say I had $500.22 (after the 15% tax) put into my superannuation account between 2008 and 2010. By the 1st half of 2010 it was worth $22.94, after negative returns, account fees, insurance premiums.

And then the trail goes cold from there. Considering that "withdrawal fee" for my (well rated Industry) superannuation fund at the time was $37 (it seems to have disappeared in the current edition of the PDS), I suppose I should be "thankful" that they didn't send me a bill for closing my account, not that I asked them to.

The $22.94 was transferred to AUSfund, "Australia's Unclaimed Super Fund", where they then played with it, before transferring it to the ATO as part of the Gillard government's "Stronger Super" reforms, and by the time it was with the ATO it was $18.08.

Job 2:
With a separate superannuation account of a starting balance of $0.00 in early 2011, put in $2253.50 from what little salary I had after taxes, and ended 2011 with a balance of $2037.09 after negative returns, account fees etc, I had actively opted out of insurance premiums.

That is almost a 10% loss in a year. Imagine if the insurance premiums has continued coming out.

Job 3:
This was a small little contract job, so in 2008 $50.22 was put in my superannuation fund, and at the end of 2008 I had $ 22.94, after negative returns, account fees, insurance premiums.

The (well rated Industry) fund then sent me a letter saying that my remaining balance was too small for them, and their exit fee was $25. I suppose I’m supposed to be “grateful” they didn’t ask for $2.06.

Let's check the score card shall we?

Job 1: went from $500.22 to $18.08 (a loss of 93.386%)
Job 2: went from $2253.50 to $2037.09 (loss of 10%)
Job 3: went from $50.22 to $0 (loss of 100%)

When one is earning, at best, minimal amounts, having a 90% loss is, to put it mildly, very demoralising.

This is not considering the fact that I did not receive any welcome pack from any of the superannuation funds that were associated with the jobs, I was not informed of the insurance, I was not given a option of opt-out from the insurance premiums, and after having paid all the insurance premiums I have nothing. Yes, superannuation funds are supposed to send out welcome packs and all, but people are also supposed to not punch each other causing harm.

I'm not saying I support Labor's call for a Royal Commission into the banking industry (personally Royal Commission's in Australia are little more than tax payer funded witch hunts; one can think of so many better ways to use the money in running a Royal Commission), but the low opinion of people with the superannuation industry, and why many people were relieved when the Superannuation Guarantee was frozen at 9.5% instead going up to 12%, is not without merit.

Anyway, because I have no life, I went through the processes, got a cheque from the ATO for $18.08 in 2012.

Now let's say that I put that $18.08 into my (well rated Industry) superannuation fund on 1 July 2012. Looking at historical returns pricing data available to be downloaded in a CSV from my (well rated Industry) superannuation fund, and doing some calculations, that $18.08 is worth $32.67559813 on 29 Aug 2016, where the latest data is available for the default MySuper "Balanced" investment option.

I suppose I'm supposed to be "happy" that it has grown 80.75% in the 4 years?

My financial counsellor provided this statement:

> NO, for a young person like you who continued to contribute, the reason being that as the market went down, you bought more units with the same contribution, the market bottomed on 4 March 2009 and it has since been on the up trajectory, therefore the losses incurred between 2008 to 4 March 2009 are MORE than offset by the gains from units you bought in low since. Overall, it will be a GAIN, this is a well recognised strategy in the finance industry, it is termed "dollar cost averaging": Google it !

Yet, when I do the maths, as seen above, that has been 6 years of losses. Which I have never recovered from.

That is my problem with the superannuation industry: plenty of models and nice words like "dollar cost averaging" and "sequencing risk", but at the end of the day, all I care is the end result. In my case, there was nothing to "dollar cost averaging" for that. There was nothing to contribute to. There were no "buying more units". The superannuation accounts were closed. Unilaterally. I never asked for them to be closed. There was nothing to "ride out".

Its like other parts of life: we don't go into a supermarket and buy something that is $1, then add "electricity levy", then "transportation charge", then "workers salary fund", then "store rental contribution", and GST on top of it.

Don't tell me there are "indirect cost ratio", "spreads", taxes, levies, surcharges, GST etc etc. How much at the end do I (don't) get? Tell me how much I have to pay?

Anecdotally, within my circle of friends, opting out of the default insurance can be a challenge. There is no way to do it via the online portal with REST, HESTA, and HOSTPLUS. They all require a form to be downloaded/requested, filled out, and mailed/faxed. In 2017.

At the risk of digressing, the Australian superannuation industry reminds me of a trip to the toothpaste aisle in a supermarket – all I want is toothpaste that works, while we get bombarded by the pointless choice and irrelevant differentiation.

Unlike toothpaste however, I can generally tell if I am comfortable with it after a few brushes. Retirement/pensions on the other hand, take years, if not decades, to discover that there is something wrong with them. By then the opportunity cost is almost impossible to recover from.

And switching between superannuation funds is not like switching milk brands or mobile phone providers. There are exit fees, all kinds of hurdles the superannuation fund that you're leaving from puts up (submissions to the Superannuation Competitiveness and Efficiency review by the Productivity Commission can testify to this).

This is not to discredit the Superstream and MySuper reforms that the Gillard government implemented, which have made rollovers so much more easier, and reduced the barriers for employers to pay to another superannuation fund. I have assisted friends to rollover their superannuation into 1 fund via the ATO's MySuper tool, and it is so much easier compared to what I had to deal with to roll over everything into my current superannuation fund before the Stronger Super reforms were in place.

So-called “choice” and “competition”

Giving contributors too many choices can be counterproductive. The majority of people don't know enough to make sensible decisions. Making "wrong" decisions can be worse than not needing to make decisions.

The reality is that most people do not know enough to make "investment" or “choice of fund” choices. I have no problem with 9.5%, 12%, 15% of my pay being taken out as savings for my retirement. The problem is that the superannuation industry in Australia seems to be corporatised profits and socialised losses. That's my problem. If 9.5% of my pay is to be taken out, where's my compensation for my 90%+ loss?!

If I left $2000 in a fee-free savings bank account and only came back after 5 years, I’d expect $2000. Maybe a little bit more. However the Superannuation industry is set up in a way that $2000 put aside for my old age may disappear, and there is no accountability on where it disappears to.

Few people have a non-life as me to deal with the superannuation industry. Even I know that there are more interesting things to do outside there than to deal with superannuation funds.

To say that contributors can actively manage their savings in their super (by switching from one investment option to the other) is not wrong, but is impractical, Few, if any people have the acumen to do so.

If it was so easy to switch in and out between investment options to maximise their retirement savings, why can't the people who are literally paid everyday to deal with this do so, after charging us with “Investment fees”, “Administration fees” and “Indirect Cost Ratios”?

This so-called illusion of “choice” has just damaged the lower quartile of society. In Brisbane one has a choice of electricity retailers: yet the numbers from the Queensland Energy Ombudsman[4] and the Queensland Competition Authority[5] suggests that the majority of people are still with Origin Energy, the default energy retailer, who is on average 15% more expensive than the cheapest "market offer". Because people:

- Don't have time to research and compare the 62 "electricity market offers" across 22 retailers
- The electricity is the same anyway
- And people just want stuff to just work

The success of ALDI in Australia suggests that people are generally better served with just a few products that do the job well and at an affordable price, rather than a multitude of "choice" which is just pointless differentiation.

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4 http://www.ewoq.com.au/userfiles/files/Energy%20and%20Water%20Ombudsman%20Queensland%20Annual%20Report%202015-2016%20WEB.pdf

5 http://www.qca.org.au/Electricity/Reviews/Market-reports-and-statistics/Market-Customer-Statistics/Final-Report/Market-Customer-Statistics#finalpos

Final words

Quote:

> The trillion dollar superannuation industry is built on a fundamental contradiction. On the one hand, we force people to buy thousands of dollars worth of super each year on the basis that, left to their own devices, they couldn't be trusted to 'save enough'.
>
> Having forced them into the finance market on the basis that they couldn't make good decisions, we then tell them that, when it comes to managing their compulsory savings, they're on their own. It's up to them to shop around for low fees and safe investment portfolios while avoiding the shonks and scammers and big banks that are, literally, milking them for billions each year.

Source: http://www.smh.com.au/comment/nothing-liberal-about-australias-superannuation-industry-20140718-zucym.html

I agree with the Productivity Commission in that a default fund, managed by the ATO and controlled by the Future Fund, be the first port of call for superannuation contributions. If a worker thinks that they can get a better return with the 230 other superannuation funds with 100 MySuper investment options between them, or a SMSF, the current framework allows a (relatively painless) rollover from one fund to another, including from the default fund to other superannuation funds.

I think, based on my understanding of the Australian Scenario, there is a basic problem with the superannuation system. That needs addressing. That of course in no way indicate one should not contribute. For thrifty young people, forced superannuation plus forced insurances may actually reduce their long term savings, as they are forced to allocate a part of their savings into a compulsory system that potentially gives low or negative returns. But to people who CANNOT save (and I believe that describes the majority of young Australians), then this forced saving of course is vital.