



22 May 2017

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

Email: super@pc.gov.au

Dear Madam/Sir,

SUPERANNUATION: ALTERNATIVE DEFAULT MODELS

The SMSF Association (SMSFA) welcomes the opportunity to make a submission on the Productivity Commissions 'Superannuation: Alternative Default Models' draft report.

Given that the report focuses on default superannuation we will comment on certain draft recommendations and information requests where our knowledge of the SMSF industry and related aspects of the superannuation landscape allow us to contribute.

Broadly the SMSFA is supportive of having more choice and information in the superannuation industry for fund members. We believe increased information and transparency regarding how default superannuation funds are selected for employees will engender greater trust and engagement in superannuation.

Default arrangements which do not give employers or employees any choice as to where superannuation contributions are made create a multitude of issues, the most significant being account proliferation and the consequent multiple set of fees and insurance premiums which continually degrade people's superannuation balances. This is exacerbated by disengagement with superannuation which is a common feature of the Australian superannuation system, especially amongst younger employees. Reducing the effect of these problems as well as improving engagement through information and greater opportunity for choice will improve the efficiency and effectiveness of the superannuation system. Therefore we believe the advances of choice and information are essential and crucial in any alternative default model.

Please see the [attachment](#) for our comments relating to choice and information.



About the SMSF Association:

The SMSF Association is the peak professional body representing the self-managed superannuation fund (SMSF) sector which is comprised of close to 1.1 million SMSF members who have \$650 billion of funds under management and a diverse range of financial professionals servicing SMSFs. The SMSF Association continues to build integrity through professional and education standards for advisors and education standards for trustees. The SMSF Association consists of professional members, principally accountants, auditors, lawyers, financial planners and other professionals such as tax professionals and actuaries. Additionally, the SMSF Association represents SMSF trustee members and provides them access to independent education materials to assist them in the running of their SMSF

If you have any questions about our submission please do not hesitate in contacting us.

Yours sincerely,

John Maroney
CEO
SMSF Association

ATTACHMENT

DRAFT FINDING 1.1 Complementary policy action (including to extend genuine member choice to all employees) will be needed to deliver the full potential of member-driven competition under the alternative models developed in this Inquiry and also under current default arrangements.

The SMSFA agrees with this draft finding.

In order for a new default model to improve the effectiveness and efficiency of the superannuation system all employees must have genuine choice. Allowing members to have choice will reduce the amount of account proliferation that is currently in the industry, as they will not be forced into multiple default accounts caused by a change of employment. Further, we believe that opening up choice to all employees would impact positively on engagement in superannuation, especially with young default members, who currently may not even have a choice to be engaged.

Opening up choice of fund to all employees will also increase the efficiency of the superannuation system by removing the need of employees who are constrained by an enterprise agreement or other restriction to roll-over their contributions to their fund of choice. This is often the case for employees who do not have unconstrained choice of superannuation fund but wish to control their own superannuation through an SMSF. They receive contributions from their employer in their default fund and then periodically roll these amount over to another superannuation fund of their choice. Undertaking annual or more frequent roll-overs of contributions made into a default fund to an SMSF constrains individual's investment choices throughout the relevant period, incurs unnecessary fees and reduce the efficiency of the system by requiring additional transactions.

In addition, opening up choice should be accompanied by information explaining to employees the different types of superannuation funds that they can select from. This information should not seek to promote one form of superannuation over another but should inform people of their choices.

DRAFT FINDING 1.2 Where there is third-party involvement in the selection of a default product, there needs to be effective regulation or arrangements in place to ensure these third parties act in the best interests of members.

The SMSFA agrees with this draft finding.

If a third party is involved in any selection of a default product, they must act in the best interests of the member, but this is not always easy to achieve. We therefore encourage the Productivity Commission to give preference to those models that limit the amount of third-party involvement in any selections and increase choice and information for employees.

DRAFT FINDING 3.1 The current arrangements where members can be defaulted to a new account on every change of job increases the proliferation of accounts. This materially adds to costs for members and reduces member balances at retirement.

DRAFT RECOMMENDATION 3.1 To avoid perpetuating the legacy problems of the current system, any future alternative system for allocating members to default products should be premised on employees being assigned a default product only once, when they join the workforce.

The SMSFA strongly agrees that account proliferation is a material issue that should be addressed in the model for express reasons stated in the draft report.

Draft recommendation 3.1 should be implemented in an alternative default model. Many young people are not engaged with their superannuation, and limiting the amount of erosion of their superannuation balance should be a high priority until such time as they do become engaged.

DRAFT RECOMMENDATION 3.2 The Australian Government should establish a centralised online service for members, employers and the Government that builds on existing functionality of myGov and Single Touch Payroll. The service should:

- ***allow members to register online their choice to open, close or consolidate accounts when they are submitting their Tax File Number on starting a new job***
- ***facilitate the carryover of existing member accounts when members change jobs***
- ***collect information about member choices (including on whether they are electing to open a default account) for their employer and the Government.***

There should be universal participation in this process by employees and employers.

We believe this recommendation would foster engagement, effectiveness and efficiency in the superannuation industry. Given lack of engagement is a key problem related to default superannuation, the introduction of this service would significantly improve the efficiency of the superannuation system.

A centralised online service would promote better relationships between employers, employees and superannuation funds. A service that simplifies the process when changing jobs is crucial, given currently the situation is inadequate. If an employer has access to an online service it would simplify Superannuation Guarantee compliance and reduce the risk of account proliferation. Not only should the information be presented in a way that nudges employees away from opening additional accounts, it should also present employers and employees the opportunity to facilitate consolidation of accounts.

Centralised clearing house

The SMSFA is supportive of further exploration of a centralised clearing house, during stage 3 of the Commission's review.



A centralised clearing house could be beneficial if it could provide a more comprehensive service with reduced administration costs. Specifically, it would be beneficial for members who choose SMSFs if it helped facilitate rollovers from larger funds into SMSFs. The recent SuperStream reforms have been working effectively and could provide a foundation for the introduction of a clearing house.