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28 April 2017

Attention: Ms Yvette Goss  
Productivity Commission  
Locked Bag 2, Collins Street East  
Melbourne VIC 8003  
Email: [super@pc.gov.au](mailto:super@pc.gov.au)

**Superannuation: Alternative Default Models – Productivity Commission Draft Report**

Dear Ms Goss,

Please find enclosed our submission in relation to the Superannuation: Alternative Default Models – Productivity Commission Draft Report.

Should you require further information in relation to our submission, please do not hesitate to contact me

Kind regards,

Adam Shultz  
Executive Manager, Policy  
Mine Wealth + Wellbeing



# Productivity Commission Draft Report

## **Superannuation: Alternative Default Models**

Mine Wealth + Wellbeing Submission

April 2017



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## About Mine

Mine Wealth + Wellbeing Superannuation Fund (**Mine**) is a profit to members, public offer super fund dedicated to serving the retirement needs of all Australians. Its enduring purpose is to deliver an exceptional retirement for members which achieves peace of mind along the way. Mine employs over 200 staff and manages \$10 billion in funds for approximately 66,000 members. In addition to superannuation and pension products, Mine offers its members insurance, financial advice and white labelled banking products.

Mine has been recognised by research company SuperRatings with a 10 year Platinum rating for its pension product and a 9 year Platinum rating for its super product. It also received a Chant West Five Apples rating for super and pension in 2017.

## Executive Summary

Mine welcomes the opportunity to provide a submission to the Productivity Commission (**PC**) in relation to the PC's Draft Report on Superannuation: Alternative Default Models (**Draft Report**). We hope that this submission (**Stage Two Submission**) is afforded adequate consideration and assists government in its enquiry.

The following is an outline of the key points contained within this Stage Two Submission.

- The implementation of some of the proposed Alternative Models (in their current form) would lead to significant concentration in the superannuation industry.
- Mine does not believe that significant concentration (similar to the Australian banking system) in the superannuation industry supports competition, innovation or the achievement of exceptional retirement outcomes for Australians.
- Broadly, Mine supports the concept of one default fund per member.
- Mine is, however, of the view that this default fund should change with employment, unless a member makes an active choice to stay with their existing fund.
- Mine submits that insurance is a significant element of superannuation that requires consideration in any default model.
- Mine supports the development of an online national clearing house that services members, employers, superannuation funds and government.
- Mine is of the view that it is in the interests of all members, funds and government to disclose merger activity to the regulator.
- Mine would, however, be aided by additional clarification from the regulator in relation to application of the current scale provisions and criteria the industry should consider when assessing merger proposals.

The Stage Two Submission represents Mine's response to the Draft Report. Mine did provide a submission to the PC during stage one (assessment of the efficiency and competitiveness of the superannuation system) (**Stage One Submission**). The Stage One Submission focussed on the members default utility function (**MDUFv1**) that Mine's Chief Investment Officer David Bell and retirement outcomes team led the development of, together with a number of other industry participants. MDUFv1 is an open-architecture metric developed to assist the superannuation industry in providing retirement outcome modelling. It must be noted that Mine's Stage One Submission is, however, incorrectly included as a Stage Two Submission in relation to the Draft Report.

## Stage Two Submission

In this Stage Two Submission, we propose to respond to:

- the Alternative Models; and
- Draft Recommendations 3.1, 3.2 and 3.3.

### Alternative Models

Mine contends that the Alternative Models are not appropriate for implementation in their current form on the basis that (among other things):

- members, broadly speaking, cannot make a suitable choice in relation to superannuation due to low financial literacy, complexity of the superannuation system and an imperfect disclosure regime (superannuation funds disclose fees, investment objectives and investment returns in a number of different ways contributing to a lack of transparency for members);
- many employers do not have adequate incentive, skill or desire to select appropriate products on behalf of their employees and historic engagement by small and medium employers with superannuation funds has been low in some instances;
- the utilisation of single/multiple weighted standards to compare superannuation funds is potentially flawed due to the preferences of those selecting the standards for default status; and
- over-reliance on a fee-based metric is flawed due the multifaceted nature of the superannuation offering (investment returns, insurance and overall customer value proposition should also be taken into account when making comparisons between superannuation funds).

If the Alternative Models were implemented by government, competition could be significantly reduced in the superannuation system over the longer term. The system currently consists of approximately 220 funds and 115 MySuper products with a considerable proportion of these funds holding some form of default status across a number of industries. The reduction of the number of default funds (as per the Alternative Models) would increase concentration and represent a risk to the entire superannuation system.

Rather than focus on the current default system, we are of the view that the PC should comprehensively consider whole-of-life solutions to the major issues facing the superannuation system. Currently, the PC focuses primarily on the accumulation phase while Treasury is focussed on the drawdown phase. While convenient, there are strong objective reasons why accumulation and drawdown phases should not be viewed independently. A whole-of-life approach versus separate accumulation and drawdown phase focusses should be targeted by policymakers to ensure the effective provision of retirement income to substitute, or supplement, the age pension as per the proposed objectives of superannuation.

As key industry participants have made Stage Two Submissions supporting a number of the concerns set out above in relation to the Alternative Models, Mine will not elaborate further on Alternative Models in its Stage Two Submission.

### 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.*

In relation to Draft Recommendation 3.1, we seek further clarification in relation to the meaning of employees being assigned ‘a default product only once’.

If the PC is recommending that a default product be assigned only once when the member joins the workforce (as opposed to having only one default fund per member at any one time), then Mine is of the view that this recommendation is materially flawed on the basis that:

- new members predominantly join the workforce at a life-stage when they have lower levels of financial literacy and are:
  - less likely to make an informed decision in relation to selecting an appropriate default fund;
  - more likely to make a significant change in employment to a different industry in the near term (which may require significantly different service offerings and different insurance arrangements); and
  - more susceptible to short term inducements and marketing activity (more easily undertaken by larger superannuation funds due to their scale);
- it will deliver a significant non-merit based competitive advantage to superannuation funds who support industries in which first-time workers are employed (hospitality, retail and construction among others) who may not be best placed to support members to meet retirement objectives;
- it would further entrench member disengagement, and an ongoing lack of involvement and interest in superannuation, as active choice is discouraged;
- further burden would be placed on government to manage unintended consequences (described above) which shifts focus and effort away from the maximisation of retirement income;
- it largely ignores the benefit of the breadth of services related to a particular industry (education, insurance offering, geographical reach and technical industry expertise) that superannuation funds provide to improve overall engagement with superannuation; and
- it would potentially unwind sound industry based engagement models between members and superannuation funds.

The Draft Report specifies that, *a bundled insurance product will not be a factor in the selection of products and is best addressed through regulation and regulator oversight*. Mine is of the view that this approach will result in incomplete analysis being undertaken by the PC in relation to the Alternative Models. Access to insurance (and group insurance in particular) is critical to the financial wellbeing of all members and their families. Mine is a good example to illustrate this point on the basis that members primarily work in underground or open-cut mining environments. At an industry level, their employment conditions are largely regarded as dangerous by insurers due to the heavy machinery which they operate and the workplace dangers they are exposed to. Without group insurance, Mine’s members would further struggle to access appropriate levels of death, total and permanent disablement and income protection insurance due to prohibitive costs or lack of product functionality.

By way of summary, we agree with the broader concept of one default fund per member. We do, however, advocate for a default model where members:

- only hold one default account at any one time;
- are strongly encouraged to make an active choice at the time of change in employment (supported by fund comparison tools provided by the existing default fund, new fund, the industry or government); and
- are moved to the new fund in the absence of an active choice.

### Draft Recommendation 3.2

*The Australian Government should establish a centralised online service for member, 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.*

In relation to this recommendation, we support:

- the use of technology to simplify the management of superannuation by members, funds, employers and government;
- any initiative that makes it easier for members to consolidate multiple accounts and reduce duplication; and
- the utilisation of tax file numbers for account switching or establishment, on the basis that risks associated with switching (or staying with a fund) are assessed comprehensively and due consideration is given to the insurance requirements of members.

A national clearing house should leverage existing infrastructure, as this will assist members, superannuation funds, employers and government in delivering on many of the objectives that the PC is seeking to achieve due to the mitigation of change risk. A national clearing house would also support a one-default model (as described above by Mine).

Mine also acknowledges the significant improvements in the superannuation system in the recent past which has resulted in (among other things) a substantial reduction in the number of lost superannuation accounts across the superannuation industry. The superannuation industry is significantly more competitive today which is substantiated by the more even distribution of member funds across retail, industry and self-managed superannuation funds which further weakens the case for significant change.



### Draft Recommendation 3.3

*The Australian Government should introduce a formal framework that specifies the process and obligations of trustees when making or considering merger proposals. As part of the framework, trustees would be required to disclose all merger attempts involving their fund, as well as the reasons for any decisions.*

Mine supports the introduction of a formal framework in relation to merger proposals and the concept of disclosing all merger activity to the regulator (proposals made, received and greater guidance and transparency in relation to scale). The frameworks and practices would assist the regulator's imperative to ensure that funds continue to capture the benefits of scale and act in the best interests of members by merging.

We are not, however, of the view that this activity should be disclosed to members or the broader industry on the basis of the:

- uncertainty that would be promoted among members and employers (potentially leading to a "run" on certain funds); and
- unintended consequences of some superannuation funds engaging in merger activity which does not benefit members (collusion and other forms of anti-competitive behaviour in a highly concentrated industry dominated by larger funds who can dictate merger terms).

In order to facilitate further merger activity (and achieve the objectives associated with Draft Recommendation 3.3), Mine is of the view that superannuation funds would benefit from enhanced clarity through greater definition of scale provisions. Differing definitions currently utilised (including rules of thumb) promote uncertainty and erode confidence in the superannuation industry.



