

Productivity Commission
Level 12, 530 Collins Street
Melbourne VIC 3000

Submission to the Productivity Commission Issues Paper on Superannuation: Alternative Default Models

Dear Commissioner

AMP appreciates the opportunity to provide a submission in response to the Commission's Issues Paper. As the Commission would be aware, AMP has been one of the largest providers of superannuation products and services since the introduction of superannuation and therefore has a unique perspective on how the system has evolved and areas for improvement.

In brief, our submission argues:

- The current default system and compulsory nature of superannuation have contributed to the success of the superannuation system which is recognised as one of the best systems in the world.
- Employer chosen defaults provide significant benefits to members through the provision of additional services including education and advice, to encourage positive member actions.
- MySuper was designed as a simple and cost-effective replacement for default products and needs more time to deliver its benefits in an open and equal market.
- Our recommended model is an open market, with employer choice of default product from APRA's list of compliant MySuper products for all members. Our model will provide equal competition where incumbent funds are pressured to compete, resulting in downward pressure on fees, increased product innovation and therefore better outcomes for members. Choice of fund must also be available to all employees.
- Insurance for default products cannot be allocated through a separate competitive process as it moves away from an 'opt-out' model which would result in negative outcomes for vulnerable members who would lose access to insurance that they would otherwise have received with their default superannuation product.
- The current default system is highly competitive, with a large number of product providers. We disagree with alternative models that focus solely on lowering fees and those that may result in an oligopoly, limiting competition and negative outcomes for members.

Introduction

We acknowledge that the Commission's baseline for the inquiry as stated in the Issues Paper is a scenario of no defaults, however we believe it is critical to recognise the benefits of the current superannuation system to date in which defaults are a fundamental feature. The Australian superannuation system has grown to over \$2 trillion¹ and is recognised as one of the best systems in the world because of its success in providing retirement incomes for so many Australians and the associated reduction in the cost of the Age Pension.

¹ APRA Statistics – June quarter 2016

Much of the success of the system relates to the compulsory nature of superannuation and the benefits of employer chosen defaults, which can deliver better outcomes for all members. Product providers can work with the employer to tailor services to their workforce, such as education seminars and advice services which encourage positive member actions including consolidation of superannuation accounts. Consolidation can result in significantly higher average balances, increasing as high as 79%².

MySuper is also contributing to the success of the system as its purpose was a simple, cost-effective superannuation product that would replace existing defaults. And, superannuation fees for the total industry have reduced with the introduction of MySuper, falling from 1.20% in 2011 to 1.10% in 2014³ but more time is needed to see this trend continue with the last accrued default amounts to transfer to MySuper in 2017. We believe there is further potential for the benefits of MySuper with an open market and equal competition.

Our recommended model

AMP's recommended model is an open market, with employer choice of default product from APRA's list of compliant MySuper products, for all employees. We have used the three design steps outlined in the Commission's Issues Paper to describe our recommended model.

1. Apply to all employees

Our recommended model, with employer choice from all compliant MySuper products can apply to all employees by replacing existing default fund specifications in awards and enterprise agreements with a requirement for 'any compliant MySuper product'. This would result in no immediate need to change the default for existing members and therefore no need to grandfather or transition existing members. Existing defaults can also continue to be used for new default members. The market will then be open for product providers to compete equally for selection in future as the default product, where decisions can be made for the benefit of all members.

We do not agree with the Commission's interpretation of the model being required to cover the flow of new default members only as this would result in existing employees remaining in previous default funds and create two processes for default arrangements for the employer, adding complexity and significant costs.

2. Allow an open market

The competitive process to determine which products are eligible to be defaults should be based on APRA's strict requirements for a MySuper licence and consistency and transparency of product information provided. All compliant MySuper products should therefore be able to compete equally as default products eligible for selection. An open market with employer choice will put pressure on incumbent funds to compete, which will result in continued downward pressure on fees, increased product innovation and therefore better outcomes for members.

There are currently 116 compliant MySuper products available, and 83 of those are public-offer products open to the public⁴. In the 83 public-offer products, 14 are tailored MySuper products for large employers with more than 500 employees and the remaining 69 products are generic MySuper products from which an employer can choose. With APRA's increasing focus on a Trustee's annual "scale" or "member outcomes" test for MySuper products, we believe the list of 69 products will be reduced even further.

² Rice Warner "Our real super savings" 31 March 2016

³ Rice Warner Superannuation Fees Report 2014 for the Financial Services Council

⁴ APRA Quarterly MySuper Statistics – June 2016

MySuper Statistics that are updated quarterly and publicly available on the APRA website provide the user with the ability to review and compare specific features of each MySuper product including investment strategy, fees and costs and net returns.

3. Require employer choice

AMP believes that regardless of the size of employer, employer chosen defaults provide significant benefits to employees. The product provider works with the employer to drive stronger member outcomes with investments aligned to the profile of the workforce, more tailored and competitive insurance cover and a number of additional services tailored to the workforce including education seminars, online tools, digital campaigns, scoped and intra-fund advice.

Our experience has demonstrated that these additional services can improve member outcomes. For example, some of our employer clients with the generic AMP MySuper product have, through the provision of education and advice services, encouraged the majority of their workforce (75% or more) to consolidate their superannuation accounts. Consolidation can result in significantly higher average account balances, increasing from \$50,300 to approximately \$90,000 (an increase of 79%)⁵. Additional services provided via employer default products also encourage members to make additional contributions, nominate beneficiaries and use online tools, generating positive impacts on their long term retirement savings.

There are also benefits to the employer from their choice of default product. Efficiencies are gained with the ability to select one default product to be used for all employees and to choose a product provider with more efficient administration services and functionality.

All employers should choose a default product to ensure that they are able to comply with their Superannuation Guarantee (SG) obligations, particularly for those employees who do not make a choice.

It is likely that some small employers may need additional guidance to assist them in choosing a default product. We note that APRA welcomes feedback on the MySuper Statistics reports it provides online and suggest that some research with small employers could assist to improve the user experience and ease of choice of default product. In addition to the information published by APRA, additional sources exist that can be utilised to assist in choosing a default product. ASIC's MoneySmart website guide for employers on choosing a default superannuation fund and reports by independent ratings agencies can be used to assist in the decision making process.

In addition, we propose that the process that exists for large employers with more than 500 employees who are able to tailor a MySuper product to the needs of their workforce should continue. Large employers, due to scale, are also able to negotiate lower fees for their employees. In many cases the large employer will go through a competitive tender process, sometimes with a tender consultant, and product providers compete to participate in and win the tender to become the default superannuation product.

Choice of fund

We also believe that all employees should be provided with the ability to choose their own superannuation fund, and this should be the same for both new and existing employees. While Choice of fund legislation was introduced in 2004, there remain a significant number of employees that are restricted from choosing the fund to which their contributions are made. Choice of fund is

⁵ Rice Warner "Our real super savings" 31 March 2016

consistent with our belief that consumer interests must be put first, and that optimal outcomes are achieved through maximising competition. Restrictions on choice of fund via enterprise agreements and workplace determinations should be removed.

Competitive process for insurance

We do not agree with the Commission's suggestion that insurance for default products can be allocated through a separate competitive process. The 'opt-out' nature of these insurance arrangements enables auto acceptance cover for large groups of members, by allowing the insurer to spread the risks across a broader population whom may otherwise select against a superannuation fund or insurer. Moving away from an 'opt-out' model would result in negative outcomes for vulnerable members who would lose access to insurance that they would otherwise have received with their default superannuation product.

Both the FSC and ASFA have included details in their submissions about why insurance for default superannuation products cannot be allocated through a separate competitive process. Further fragmentation of the relationship between superannuation trustees, superannuation administrators, insurers, employers and members will ultimately lead to increased complexity, operational risks across the system and costs incurred by members.

Alternative models

The current default system is highly competitive, with a large number of product providers competing to provide new and improved product features and services to improve member outcomes. Any alternative model should not significantly reduce the number of participants or result in an oligopoly, limiting competition.

We disagree with the other alternative models as suggested in the Issues Paper, particularly the Tender/Auction model. While a focus on fees and returns is important, any alternative model should be designed with a focus on a combination of product features and services that can deliver long term better outcomes for members. Focusing on only lowering fees as would be the case with a Tender/Auction model would cause a race to the bottom by product providers and ultimately result in commoditisation, reduced competition and negative outcomes for members.

We would be pleased to discuss the contents of this submission with the Commission and I can be contacted

Yours sincerely,

Alastair Kinloch