WSSA
WORKPLACE SUPER SPECIALISTS AUSTRALIA

July 2018

Productivity Commission
Locked Bag 2, Collins St East
Melbourne VIC 8003

Dear Commissioners

RE: Productivity Commission Draft Report - "Superannuation: Assessing Efficiency and Competitiveness"

Workplace Superannuation Specialists Australia (WSSA) welcomes the opportunity to provide a post-draft submission for the Superannuation Assessing Competitiveness and Efficiency public inquiry.

We broadly support the Commission's draft submission however we feel there are further opportunities to improve people's retirement outcomes.

Better outcomes for working Australians

The WSSA supports any changes that result in better outcomes for working Australians. We believe the best results will be achieved if superannuation fund members are encouraged to engage with their super by:

- Understanding how superannuation works
- Being aware of their retirement income needs, setting appropriate goals and plans to meet them
- Taking a personal interest in where their money is invested and choosing appropriate options over time
- Understanding the fees and taxes they are paying
- Understanding and implementing the life and disability insurance cover they and their families require
- Monitoring the progress toward their goals and making adjustments as required

While we appreciate that there is a problem with fund member disengagement we believe that every effort should be made to assist members to be engaged and educated; providing them the tools to make appropriate decisions.
Workplace education is therefore vitally important.

As the Productivity Commission report has highlighted, small improvements in performance and small decreases in fees can have a very significant impact on retirement balances and therefore income in retirement. A default system needs to cater for an extremely broad range of people and cannot possibly be suitable for everyone.

Response to Information Requests and Recommendations Raised in the Draft Paper

***Information Request 2.1** – Are the assumptions underpinning the Commission's benchmark portfolios sound? If not, how should they be revised, and what evidence would support any revisions?*

No response as we feel this is not our area of expertise.

***Information Request 2.2** – Aside from administration fees, asset allocation and tax, what other factors might explain differences in investment performance against benchmark portfolios of the superannuation system, as well as segments such as for-profit and not-for-profit? What evidence is available to test the influence of such factors?*

No response as we feel this is not our area of expertise.

Information Request 4.1 – Should life-cycle products continue to be allowed as part of MySuper? If so, do they require re-design to better cater for the varying circumstances of members nearing retirement, and how should this be achieved? What information is needed on members to develop a product better suited to managing sequencing risk?

The WSSA believes that fund member engagement with their super through education and financial advice is the best long-term solution to ensuring retirement adequacy. As not all fund members will be engaged, the next best solution is to allow trustees to provide life-cycle products. If a member is invested in a life-cycle fund over their working life, the benefits of the Trustee changing the investment allocation over their life could be significant.

One of the major problems the WSSA has with the MySuper legislation is that everyone is in the same investment option. The employer has no ability to tailor the investment selection to suit their workforce, as they were able to in the past, other than to select another default option. It seems impossible to us that trustees can make appropriate decisions, in the best interest of members, when members in the MySuper fund could range between 16 to 75 years old.

Life-cycle products are designed to reduce investment risk for people as they get older, assuming that they have a reduced appetite for risk. While this will not be the case for all members it is a better solution than doing nothing, as investment losses in the later stages of life can not necessarily be recovered over time; particularly if the member commences an income stream.

There are many issues to consider in the determination of the best asset allocation for a fund. The WSSA believes a trustee can make appropriate decisions based on market conditions and that a fixed transition of assets within a life-cycle product should be avoided if it is not made with consideration to market conditions as this could result in unrecoverable losses. (An example would be a switch to more conservative assets after a period of share market falls, such as were experienced during the Global Financial Crisis, as an 'automatic' switch at this time would simply lock in investment losses and provide worse investor outcomes).

This again highlights the importance education, advice and the availability of choice options to complement the MySuper product.

We do not believe it is sensible for trustees to make decisions on the investment of assets based on the impact of sequencing risk on the older cohort of members. It is difficult for fund managers to take this into account while still acting in the best interests of all members.

Information Request 7.1 *– What are the main types and quantum of costs involved in fund mergers? How do these vary depending on the size of funds involved?*

No response as we feel this is not our area of expertise

Information Request 7.2 *– What evidence is there that funds are passing through economies of scale to members in the form of lower fees, or through other channels? Why has the pass-through of scale benefits occurred as it has?*

No response as we feel this is not our area of expertise.

Information Request 8.1 *– What is the case for bundling life and total and permanent disability insurance together, as is done by some superannuation funds? Are there funds that offer these separately, and if so, do many members of these funds elect to have one type of cover but not the other?*

We believe there is a strong argument for providing life and TPD bundled together in the one insurance cover. It better caters for the insurance needs of members and it provides administrative simplicity and reduced decision making on the part of members. Members should be able to select one or the other or both and to also alter the levels of cover to suit their needs. From our experience many funds offer the option of either life and TPD or just life insurance, generally not TPD cover without life cover.

The WSSA does not have access to life insurance statistics.

***Information Request 8.2** – What is the value for money case for income protection insurance being provided on an opt-out basis in MySuper products?*

The WSSA believes that all working Australians should have access to income protection and that it should be offered on an opt-out basis, as we believe that income protection is very important insurance. Most super funds do provide income protection cover however it is generally opt-in. Ideally income protection outside super is a better outcome for consumers, however if members are disengaged and/or do not receive advice the availability of it through superannuation funds is the next best outcome. We also believe that there should be education on the importance of income protection insurance as well as the impact that insurance premiums have on retirement savings.

***Information Request 10.1** – Would a clearer division of responsibilities between APRA and ASIC (for superannuation) lead to better strategic conduct regulation and better regulator accountabilities? Is APRA best placed to specifically focus on ensuring high standards of system and fund performance, and ASIC to specifically focus on the conduct of trustees and the appropriateness of products (including for target markets)?*

The WSSA believes there should be a clearer definition of responsibilities between APRA and ASIC and supports the proposed split.

***Information Request 12.1** – Are there any material impediments to high-performing non-incumbent funds participating in a 'best in show' selection process? The Commission is particularly thinking about possible claims for participation by funds with no prior local track record but in-principle claims, such as foreign funds or a government-owned fund.*

The WSSA is concerned that super funds which are not on the top 10 list will suffer not only from a lack of new members but also from an exit of existing members, making it much less possible for them to achieve scale and to be competitive with the funds that are on the list. The advantages of being on the list in terms of the publicity and promotion that will result from this and the steady reliable flow of new money will create an unlevel playing field.

DRAFT RECOMMENDATION 1 - DEFAULTING ONLY ONCE FOR NEW WORKFORCE ENTRANTS

The WSSA agrees that fund members should, where possible and unless by intention, only have one superannuation fund and that superannuation should not be related to industrial awards

We agree with the Commission's recommendation that *'Default superannuation accounts should only be created for members who are new to the workforce or do not already have a superannuation account (and do not nominate a fund of their own).*

To facilitate this, the Australian Government and the ATO should continue work towards establishing a centralised online service for members, employers and the Government that builds on the 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 when 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 the Government.*

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

Our only serious concern with this proposal is if members consolidate accounts online, they need to be made aware of benefits they may be losing as a result of the consolidation; such as lost insurance benefits.

Members would need to be provided with the information and the tools they require to make accurate comparisons at the time of consolidation, as otherwise they may inadvertently choose a fund that is less appropriate to their needs.

We suggest a 'cooling off period' must be applicable for any online consolidations, so that if benefits are going to be lost the loss can be communicated to the member to provide them with an opportunity to review their decision.

DRAFT RECOMMENDATION 2 - 'BEST IN SHOW' SHORTLIST FOR NEW MEMBERS

The WSSA agrees with the intention of this approach, however we believe improvements can be made. Some fund members may be significantly worse off as a result of this change.

A concern that we have with the data being used in the Productivity Commission report is that Corporate (or Employer Sponsored) superannuation funds seem too often to be confused with Retail Funds. Many Corporate Funds have tailored arrangements resulting in lower fees than most Retail or Not for Profit Funds.

If an employer has an existing default superannuation arrangement that has been tailored to suit the workplace it may contain many benefits such as:

- reduced fees

- employer subsidised fees
- insurance which is fully paid for by the employer
- subsidised or negotiated reductions in insurance premiums
- higher automatic insurance cover
- financial education
- other ancillary (and potentially employer subsidised) services

An employer should be able to continue to offer a superannuation option for employees if it is beneficial to the employees that they do so. Frequently these benefits are negotiated by specialists such as WSSA members.

We therefore recommend that if the employer has an existing default fund which provides benefits to the member that this fund should be included as an 11th option. We suggest that educational material should be provided to new employees to assist them to make a choice between the, now 11, options. This educational material can highlight the benefits of each option - including any employer sponsored benefits – to allow employees to make a truly informed choice rather than just a random 'one in ten' choice. The employer fund would become the default option if the employee makes no choice.

Many employers want the opportunity to remain or to become employers of choice. They also generally have a strong desire to nurture and look after their most valuable asset, their employees. Superannuation, insurance and other financial and ancillary benefits can help to provide employers with this outcome. This option should not be taken away from them.
Maintaining suitable employer default funds that are potentially outside the 'Top 10' list will also encourage competition and allow funds to survive if not selected within the 'Top 10'. This will provide the necessary market pressure for all funds to continue to perform.

We would also be concerned about unintended consequences such as fees increasing for employees due to their inability to select an incumbent fund. In fact one of the 'Top 10' selected funds may have higher fees as a default option than the fees that have been negotiated within an individual employer fund. As a case in point, current legislation prohibits superannuation funds from passing on employer negotiated fee discounts to MySuper members once they leave employment, so their fees must, by law, increase. This is a very regrettable MySuper legislation outcome.

DRAFT RECOMMENDATION 3 - INDEPENDENT EXPERT PANEL FOR 'BEST IN SHOW' SELECTION

Our major concern is trusting in the independence of a selected panel. We believe there needs to be a clear delineation away from political influence (direct or otherwise) so that there can be confidence in the selected Panel members.

DRAFT RECOMMENDATION 4 - MYSUPER AUTHORISATION

We support the lifting of the bar in obtaining or maintaining MySuper Authorisation. There are currently 65 Public Offer Funds with MySuper Authorisation and seeing this number significantly reduced through consolidation may assist in reducing costs and improve member outcomes.

Our only suggestion is to clarify why MySuper funds should report to APRA annually on how many of their MySuper members switched to a higher-fee choice product within the same fund. Members may have a different risk tolerance. They may achieve worse investment outcomes or they may achieve better outcomes by selecting another investment option, but if the option is appropriate to their needs and they have made an informed choice we cannot see how collecting this data would be appropriate to APRA. It simply increases a fund’s compliance cost which in turn increases fees. Otherwise we agree with this recommendation.

DRAFT RECOMMENDATIONS 5 to 13

We agree with these recommendations.

DRAFT RECOMMENDATION 14 - OPT-IN INSURANCE FOR MEMBERS UNDER 25

Our concern with this recommendation is that we do not want to see fund members unable to obtain Life Insurance at age 25 due to health issues. We believe automatic acceptance insurance should be provided to them at age 25 on an opt-out basis.
We also believe Total and Permanent Disability and Salary Continuance insurance are important for people of all ages and some such cover should be provided to those under age 25. It is particularly important for young people as statistically young people are more likely to have accidents and injure themselves than older people. If they are uninsured they will be unprotected and will become dependent on family support or social welfare. We are not of the belief that this is a good outcome.

DRAFT RECOMMENDATION 15

We agree with this recommendation.

DRAFT RECOMMENDATION 16 - INSURANCE BALANCE EROSION TRADE-OFFS

When providing information to members about insurance balance erosion trade-offs, we feel it is essential that a balanced argument is provided. Superannuation funds should be held to the same standards as an adviser would be in this aspect. Showing the erosion in account balances is just a cost argument and must be compared with the difference in outcome to a member should an insurance claim arise. A large opt-out of insurance cover will inevitably lead to more people becoming dependant on family support or social welfare, with more people living below the poverty line, which is not good for Australian society or for our economy.

DRAFT RECOMMENDATIONS - 17 to 22

We agree with these recommendations.

Sincerely

Terry Rhodes
President

Gareth Hall
Treasurer

About the WSSA

Workplace Super Specialists Australia (WSSA) has evolved from the Corporate Superannuation Specialist Alliance (CSSA) which was formed in 2009 to represent corporate superannuation specialist advisory businesses. Our name was changed to more accurately reflect what our association stands for and to avoid confusion with other associations.

WSSA members provide financial advisory services to thousands of corporate superannuation funds across metropolitan and regional Australia and play an essential role in managing Australia's large and growing superannuation savings pool.

WSSA members work with Australian companies and their employees to provide them with improved life insurance and superannuation outcomes via their superannuation member accounts.

WSSA members provide a broad range of services to corporate super plans at four levels, – the employer level; the policy committee (representative body) level; the individual super fund member level and to super fund members collectively. These services help employers and policy committees ensure that members are getting competitive benefits and features, at a competitive price, and that members have access to general advice and information to help them improve their decisions about their retirement savings and life insurance choices.

WSSA members conduct thousands of group seminars and "one on one" meetings with members of our employer funds each and every year, taking information and advice to their workplaces to improve financial literacy.