



Superannuation

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

WSSA Response to the Productivity Commission Draft Report Overview March 2017 on Superannuation Alternative Default Models

Executive Summary

The WSSA is an association of specialist Workplace Superannuation advice firms, whose members provide advice and support to employers as well as education, advice and support to superannuation fund members.

We believe in an open market approach where superannuation funds can compete freely. A superannuation fund should first be chosen by an individual. If an individual does not exercise choice, then they become a default member. We believe that the employer is the most qualified party to select a default fund on their behalf.

Employers are aware of the demographics of their workforce and can select a default which best suits this demographic. Many employers also use superannuation and insurance as a tool to distinguish themselves from other employers; often providing increased benefits to their workforce. Removing the employers' ability to select a default from a broad choice will remove this benefit and will have a negative impact on many employees.



Education is the key to solving the problem of disengagement. Allowing employers to provide a default which includes the services of an advice firm allows for the provision of education in the workplace.

Fund member engagement improves if the members are educated. Without education there is little impetus for currently disengaged fund members to take control of their financial future or to exercise choice.

Many individuals work in Retail or Hospitality as their first job, potentially while studying to establish their career. If a 'first-timer pool' of superannuation recipients is created this will lead to many people being pooled into a fund which is not appropriate for them over their entire working lives.

Single Touch Payroll will be mandatory from July 2018 for employers with 20 or more employees. This should have a major impact on reducing the proliferation of individuals with multiple superannuation funds or accounts.

MySuper was intended to provide a solution to the selection of default funds (all MySuper fund are by design eligible default funds). MySuper has not yet reached maturity; it is still in implementation phase hence it has not operated in an open and unfettered market. It is therefore impossible to judge how effective MySuper could be in providing a default fund selection criteria; or how competitive MySuper funds will become over time.

MySuper fund criterion could be tightened to expedite the attrition of non-competitive funds; we are already seeing significant market consolidation.

Arbitrarily limiting the number of default funds stifles innovation, provides an unfair advantage for the chosen few and places barriers upon new entrants to the market. Good performing funds which are not selected will struggle to survive. A selection panel could be subject to external influences, such as political influence.

While it is suggested that a selection panel should be accountable for its decisions, how can this be monitored or enforced? How can, potentially, millions of Australians be compensated for losses resulting from poor default fund selection by such a panel?



Full Submission

Workplace Super Specialists Australia (WSSA) appreciates the opportunity to submit to the Productivity Commission on Alternative Default Superannuation Models.

Our submission is made from the viewpoint of industry practitioners, financial advice firms that are providing services, education and advice to employers and their employees, in the workplace, on a daily basis. We work closely with the AFA and FPA in our efforts to achieve the best outcomes for our employer and fund member clients.

We have also been the major player in assisting employers in selecting appropriate default funds, especially in the small to medium enterprise market segment.

No other industry association has members with the high level of exposure to workplace superannuation, at both the employer and employee level, which the WSSA has. Our members provide advice and support to employers as well as education, advice and support to the fund members.

We have not attempted to address all aspects of the Enquiry or to get into technical detail as part of our submission, as we do not see this as being the method by which we can add the most value. We feel we can best add value by concentrating on the areas where we have the most relevant experience.

The Productivity Commission draft report seems to be addressing issues that have largely been resolved or are in the process of being resolved by previous legislation. There is suggestion to overhaul a system which has not yet been fully implemented (MySuper transitions do not have to be finalised until 30 June 2017) or allowed to obtain maturity. Single Touch Payroll (STP) will be in place from July 2018 and should go a long way to resolving the issues of the proliferation of individuals with multiple superannuation funds or accounts.

Default Fund Selection

Fundamentally, the WSSA believes that:

- 1. Qualification as a default fund should require only one level of filtering (i.e. no panel selection or other award based selection is required)*
- 2. Any MySuper fund should be able to be used by an employer as a default fund*
- 3. Employers should choose the default fund on behalf of their employees*



4. *Default fund restrictions should be removed from employment awards*
5. *Competition should be encouraged and not restricted by legislation*
6. *The financial outcome for super fund members is the most important outcome.*
7. *The entire super system should operate in the best interest of fund members*
8. *A healthy superannuation system (including insurance benefits within super) is vital to reduce reliance on social security and, particularly, the age pension.*

Model 1: Assisted employee choice

We would not recommend the implementation of Model 1. While we agree that it is ideal for members to select their own default fund, we would suggest that it is often the case that their employers default fund may provide a better outcome due to negotiated fees, features and benefits. Knowledge and/or education is required for an individual to have the necessary skills to select a default and many people do not have these skills upon entering the workforce. At this time of life retirement seems a long way off and seems relatively unimportant.

Arbitrarily limiting the number of default funds available as suggested within this model stifles innovation, provides an unfair advantage for the chosen few and places barriers upon new entrants to the market. Good performing funds which are not selected will struggle to survive.

A selection panel could be subject to external influences, such as political influence. While it is suggested that a selection panel should be accountable for its decisions, how can this be monitored or enforced? How can, potentially, millions of Australians be compensated for losses resulting from poor default fund selection by such a panel?



Model 2: Assisted employer choice (with employee protections)

We consider Model 2 to be the most appropriate but are concerned with the suggestion that more filters may be imposed.

MySuper was intended to provide a solution to the selection of default funds (all MySuper funds are by design eligible default funds). MySuper has not yet reached maturity, it is still in implementation phase hence it has not operated in an open and unfettered market. It is therefore impossible to judge how effective MySuper could be in providing a default fund selection criteria; or how competitive MySuper funds will become over time.

MySuper can provide the filter for employer's default funds.

It is difficult to comment on the long term investment performance of MySuper funds as they have only been in existence since 2014. It is also very difficult to envisage how a heavy filter could be applied to funds based on investment performance, as past performance cannot be used as an indication of future performance. Exposure to various asset classes generally determines the performance of an investment, and higher growth entails greater risk. This must be considered in light of an investor's time frame and risk appetite. It would be a very brave Panel Member who would accept responsibility for arbitrary decisions such as this.

Model 3: Multi-criteria tender

We do not support this model. It seems overly complicated and restricts competition. The proper implementation and possible tightening of MySuper filters can achieve the same result without the need to exclude providers and limit competition. The process is potentially open to political and other pressures in the selection of the final list of default funds.

Funds will likely move to passive investment and will all become 'vanilla' as they will be scared to underperform in case they are dropped off the list. Also it is unlikely that there will be replacement funds as any fund not on the original list will have difficulty surviving in the long term.



Model 4: Fee-based auction

We do not support this model. Fees are not the only factor in providing good investment outcomes and member satisfaction. This model would result in 'a race to the bottom'. It is anti-competitive, stifles innovation, provides an unfair advantage for the chosen fund (or few) and places barriers upon new entrants to the market. Good performing funds which are not selected will struggle to survive or cease to exist.

The selected fund(s) will likely move to passive investment to save cost and will be scared to underperform in case they are dropped off the list. Also it is unlikely that there will be replacement funds as any fund not on the original list will have difficulty surviving in the long term.

Draft Findings

Draft Finding 1.1 – We agree

Draft Finding 1.2 – Regulations are in place to ensure advisers act in their client's best interest.

Draft Finding 1.3 – We agree. The current linking of default fund to Awards does not permit open participation (contestability), encourage rivalry between funds (competition) to the benefit of members, or involve products being selected for members based on merit. Removing default funds from awards and allowing any MySuper approved fund to be a default will rectify this.

Draft Finding 3.1 – Single Touch Payroll should alleviate this problem.

Draft Recommendation 3.1 – This is not practical as many people's first job is in retail or hospitality and often does not accurately reflect their future career.

Draft Recommendation 3.2 – We agree.

Draft Finding 3.2 – We agree. This is currently not allowed under MySuper regulation (where fees must increase to standard retail upon leaving an employer) and needs to be addressed. Employers and their advisers should be able to negotiate fees and benefits on behalf of their employees.



Draft Finding 3.3 – This seems to be in line with the stated objectives of MySuper, however we do not agree that insurance should not form part of the product. Most Australians are under-insured and would have little or no insurance without the cover they obtain automatically when joining a default fund.

Draft Finding 3.4 – There need be no selection process if all MySuper funds are default funds, as was the intention of MySuper.

Draft Finding 3.5 – Disagree. An additional selection stage is not necessary. It is difficult to imagine that a government body tasked with this responsibility could be guaranteed to be independent and free of real or perceived conflicts of interest or could be in any way held accountable for its decisions.

Draft Recommendation 3.3 – Agree

Draft Finding 5.1 – Disagree. Education is required to enable better outcomes. If government and funds incur additional costs associated with regulatory structures these costs will necessarily be passed on to fund members either directly or indirectly, defeating the purpose.

Draft Finding 6.1 – Disagree. This model is anti-competitive and would result in worse long term outcomes for fund members.

Draft Finding 7.1 – Disagree. This model is anti-competitive and would result in worse long term outcomes for fund members.

Draft Finding 8.1 - This model is our recommended solution **if** there is only a light filter (MySuper or similar) and no heavy filter. It will promote competition and therefore improve member outcomes. The removal of the need for a heavy filter will reduce the regulatory costs for funds and government and therefore reduce costs for members.



Financial Education at the Workplace

Fundamentally, the WSSA believes that:

1. *Education and advice allows members to enjoy better financial outcomes and happier, more secure, lives with more certainty of retirement income adequacy*
2. *There are cost savings to be made to the Government with appropriate financial education*
3. *Provision of Information and Financial Advice is not the same as the pro-active delivery of it*
4. *Technology is not the solution in itself but can enhance other methods of delivering financial education*
5. *MySuper fees should be structured to encourage financial education at the workplace*
6. *MySuper compliant funds should have the responsibility of delivering financial education to its members*

Sincerely

Douglas Latto
CEO



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.