

# SUPERANNUATION CONSUMERS' CENTRE BUSINESS CASE

SEPTEMBER 2018

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# Background

- This presentation outlines the case for ongoing funding of the Superannuation Consumers' Centre.
- The Centre was established in 2013 as an ACNC registered company limited by guarantee and is governed by a three member board.
- The Centre received its first \$2.5 million in funding in August 2018 from a community benefit payment arising from Enforceable Undertakings between two funds (CBA and ANZ) and ASIC in relation to mis-selling superannuation. It has appointed a Head of Advocacy and has the support of consumer body CHOICE during its establishment phase.
- This idea of a Superannuation Consumers Centre was first raised by CHOICE as a contribution to the Cooper review.
- CHOICE and other consumer groups raised the need for ongoing funding to the Productivity Commission Efficiency and Effectiveness of Superannuation review and the Financial Services Royal Commission.
- In 2012 a CHOICE led Establishment Committee together with a number of pro-bono partners produced a:
  - Business case
  - Three year business plan
  - Endowment plan
  - Legal requirements including formalising company and ACNC registration
- This document updates the 2012 business case and endowment plan.

# Summary of this report

- Australia's superannuation industry suffers from a lack of consumer trust, questions around competition and structural impediments to consumer engagement.
- The Productivity Commission has found causes of poor outcomes in the confusing array of products, too many of which are chronically underperforming, and the Financial Services Royal Commission has revealed entrenched conflicts of interest.
- This has resulted in consumers not being able to make the most of their retirement savings.
- We see three interventions that would help address this situation
  - Advocacy
  - Assistance
  - Education
- The financial services regulatory framework requires a strong consumer voice to bring consumer perspectives into complex, high-stakes policy debates
- There are a number of consumer and industry bodies today, but none has a superannuation focus or the right combination of consumer-focused knowledge, independence and accessibility.
- The Superannuation Consumers' Centre will fill this gap and provide a range of key advocacy, assistance, and education services for Australian consumers.
- The Centre must be large enough to have its voice heard amongst the superannuation industry lobby groups, to do this it requires a comparable annual budget of \$8-12 million.
- An endowment fund of \$118-176 million established from Government, the industry levy and fines and penalties from breaches of superannuation law will be required to give the Centre an adequate, sustainable and independent basis to operate (appendix 2).
- Now is the right time to create a strong consumer voice to assist in restoring trust and resolving the issues impacting the sector
- Consumers, government and industry will all be significant long-term beneficiaries of the Centre's establishment.

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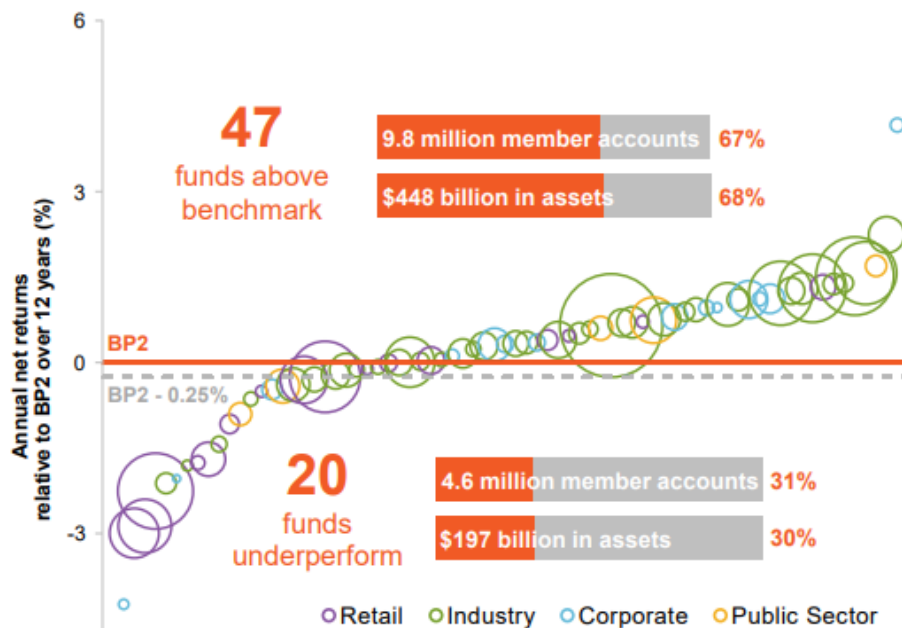
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# Section 1 | The problem

# The Productivity Commission has found too many consumers are in underperforming funds

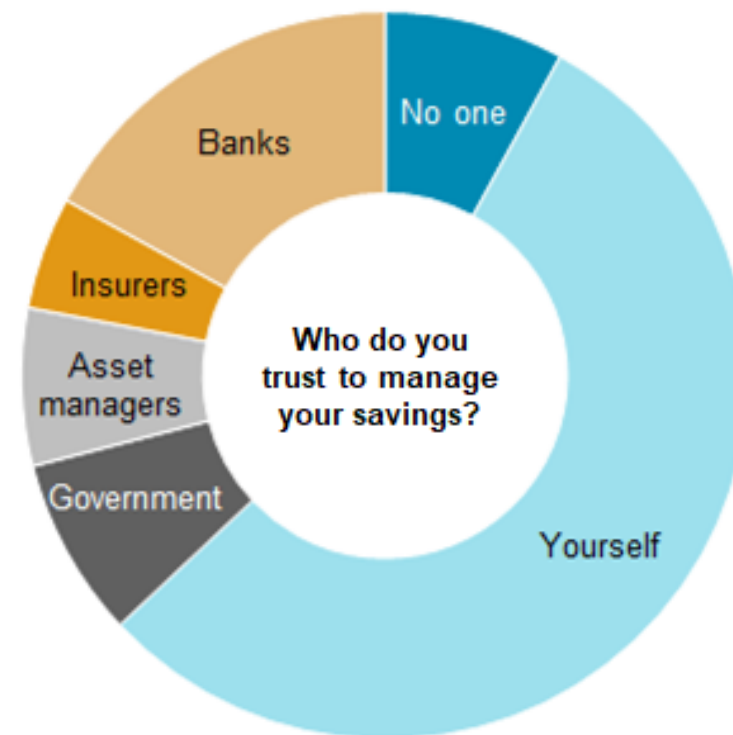
## Nearly 5 million accounts are in underperforming funds

The wide dispersion in fund performance over the long-term has large implications for members' retirement incomes. For example, a typical full-time worker in the median fund in the bottom quartile (in terms of investment performance) over their lifetime would retire with a balance 53 per cent (or \$635 000) lower than if they were in the median top-quartile fund.



Description: Performance relative to individual funds' benchmark portfolios, 2005–2016 Size of circles indicates the size of each fund's assets under management  
 Source: Productivity Commission analysis of APRA data and financial market index data

## Consumers are unsure where to turn to for advice



Source: Oliver Wyman Global Consumer Survey 2011

# Consumers face three key challenges in the sector

## Challenges for consumers

1

### Limitations of competition

- Some consistent underperformance issues
- Where consumers have choice they are confronted with a confusing array of options, often leading to poor decision making
- Default system contributing to consumer disengagement

2

### Conflicts of interest

- Cases of potential conflict of interest uncovered by the Royal Commission
- Some trustees appear not to have acted in members best interests

3

### System design issues

- The creation of unintended multiple accounts (about 10 million)
- A large volume of lost, inactive and unpaid superannuation and consumers defaulted into poor performing funds



# Limitations of our retirement savings system hurt all stakeholders

## Potential impact of consumer challenges

### Consumers

- Smaller retirement balances due to:
  - Underperforming default and choice products
  - Poor add-on insurance cover design
  - Less optimisation of costs and taxes
  - Proliferation of duplicate accounts
  - Less likely to make beneficial voluntary contributions

### Government

- Greater retirement funding need due to smaller personal balances
- Undermines public confidence in the Government/regulators competence to regulate
- Smaller financial services taxation revenue base
- Reputational impact on Australia's positioning as a financial centre

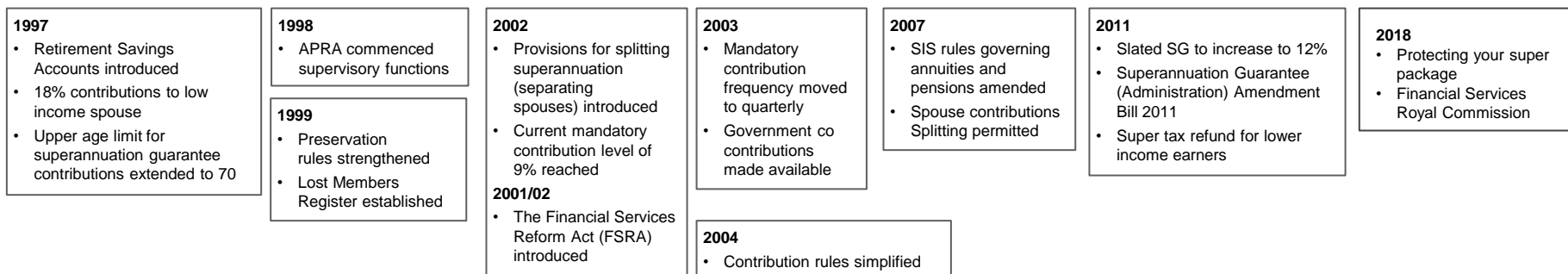
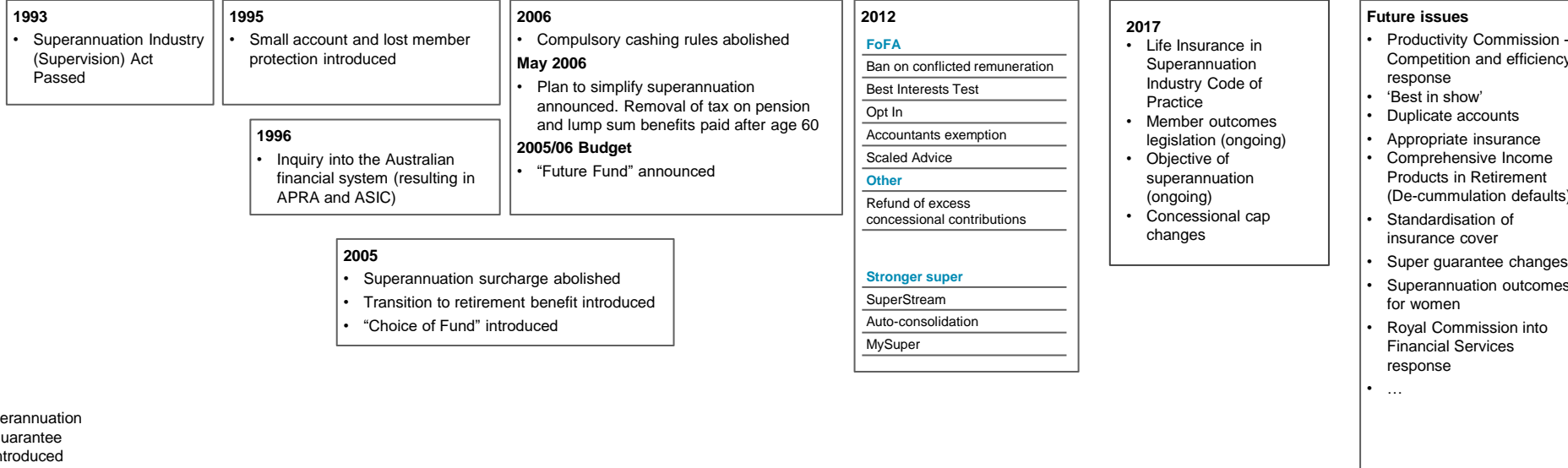
### Industry

- Lower flows into the system and therefore lower funds under management
- Broader damage to industry reputation and standing
- Shift of asset allocations to lower margin (e.g. passive) or no margin (e.g. SMSF) products
- Missed opportunities to deepen customer relationships – e.g. with post-retirement products

# We see three key interventions that would help restore trust and improve outcomes

| Intervention               | What is it?  | How will it help?   |
|----------------------------|--|---|
| <b>1</b> <b>Advocacy</b>   | <ul style="list-style-type: none"><li>• Bringing a consumer focused evidence based approach to Government policy and industry practice</li><li>• Targeted research and analysis</li><li>• Providing a consumer perspective on emerging super issues</li></ul>              | <ul style="list-style-type: none"><li>• Ensuring more balanced and consumer oriented outcomes on matters of importance</li><li>• Second order benefit from awareness raising/education</li></ul>                                |
| <b>2</b> <b>Assistance</b> | <ul style="list-style-type: none"><li>• Triage and referral services for consumers experiencing problems with their super</li><li>• Gathering and disseminating intelligence on risks and issues</li></ul>   | <ul style="list-style-type: none"><li>• Helping consumers navigate the complexity of the system</li><li>• Helping regulators enforce and improve the rules by supplementing their intelligence gathering capabilities</li></ul> |
| <b>3</b> <b>Education</b>  | <ul style="list-style-type: none"><li>• Provision of information and awareness raising</li><li>• Turning complex product data analysis into easily understood consumer tested information</li><li>• Leveraging social media to facilitate peer-to-peer education</li></ul> | <ul style="list-style-type: none"><li>• Influencing consumers to act in their own interests in managing their super</li><li>• Helping consumers make better decisions</li></ul>   |

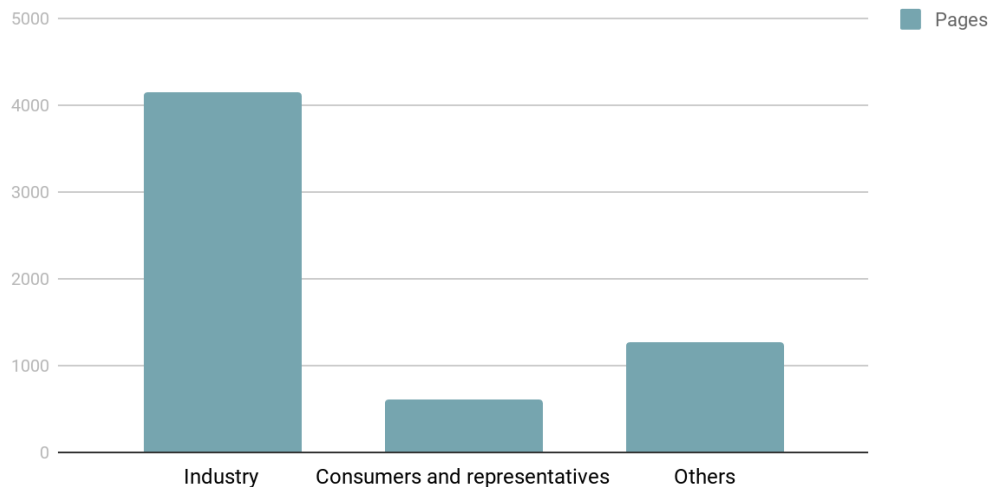
# Superannuation is constantly being refined to better meet its purpose, yet the policy debate is devoid of a strong consumer voice



# Advocacy would help represent consumer interests in policy debates, influence industry practice, and raise consumer awareness

## Consumer perspectives are under-represented in policy debates

Submission pages to the Productivity Commission Superannuation consultation by source



Source: Productivity Commission

## Policy advocacy

- Consumers are under-represented in the debate on superannuation policy due to the absence of an entity to research, analyse data, formulate policy and communicate views on their behalf
- e.g. Productivity Commission, Comprehensive Income Products in Retirement, etc.

## Practice advocacy

- Industry is often open to reflecting consumer perspectives in practice guides such as codes of conduct, but lacks a consumer voice to engage with on equal footing.
- e.g. The Insurance in Superannuation Working Group had 20 industry representatives to a single consumer representative.

## Awareness raising

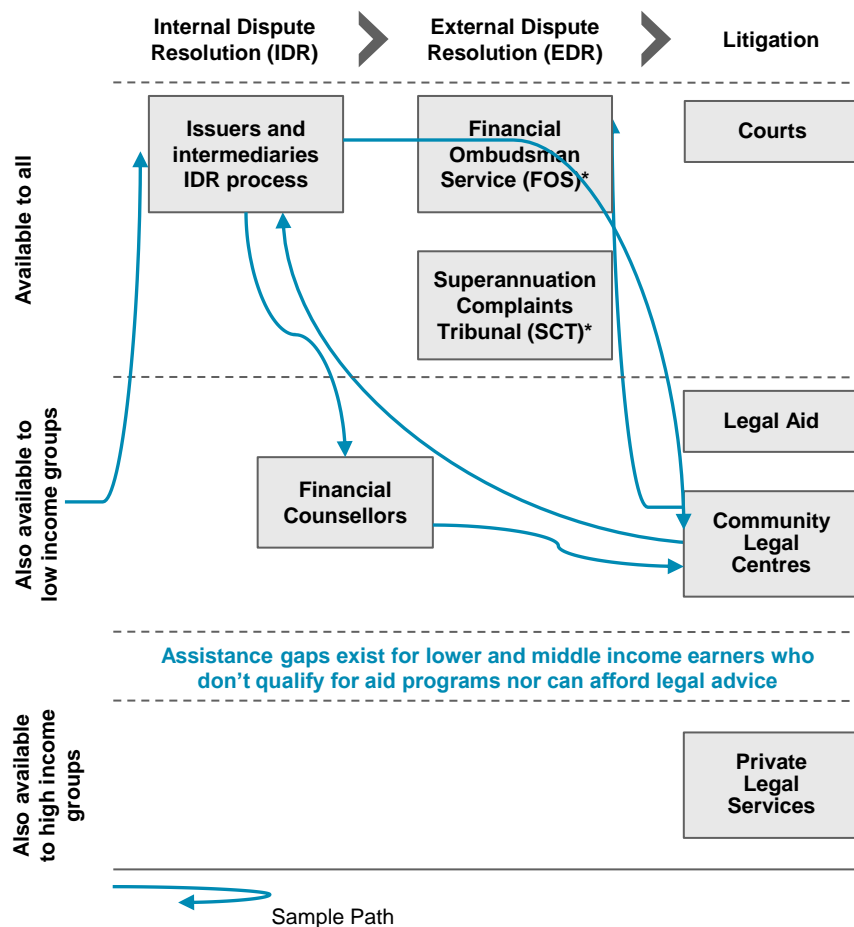
- The publicity associated with policy and practice advocacy can also have a considerable positive impact on consumer awareness of the focus issues
- e.g. the Productivity Commission consultation and Royal Commission have been opportunities to give consumer advice about taking control of their super

## Balance to the well funded industry lobby

- To date CHOICE has been the only consumer organisation working in superannuation, with funding for one part-time position. By contrast, the main industry lobby groups have an annual budget of more than \$42 million, employing approximately 108 staff.

# The complexity of many of the processes surrounding superannuation creates a need for assistance with triage and referral (which can also support intelligence gathering)

**Example process: Managing a dispute with a provider is complex and support is not available to all**



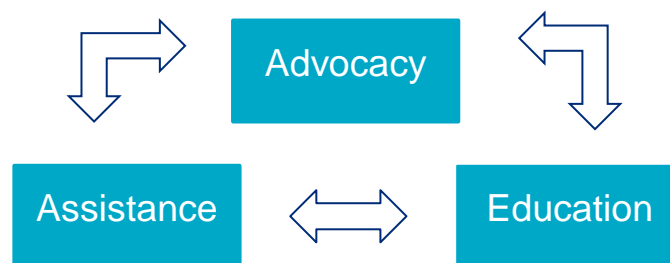
## Perspectives

- Consumers are often ill-equipped to make key decisions around super, e.g.
  - Selecting a quality superannuation fund
  - Understanding which issues are in and out of scope and managing a dispute with a provider
- Consumers would benefit from an assistance service covering
  - Triage of needs that works with internal and external dispute resolution services
  - Provision of basic legal advice and referrals for more complex needs, this would avoid the need for costly, extensive legal advice and help clarify issues a consumer may have with a provider
  - Online tools supporting consumers in processes like account consolidation, fund comparison or understanding insurance needs
  - Support assessing the quality of financial advice

\*From November 2018 the Australian Financial Complaints Authority will begin hearing complaints in place of FOS and the SCT.

Consumers as a group would also benefit from assistance aimed at gathering, triaging and sharing emerging and systemic issues with industry, regulators and government

- Consumer case work organisations (e.g. Financial counsellors, Consumer Action Law Centre and Financial Rights Legal Centre) have played a vital role in directly assisting consumers and turning that direct assistance into sound policy and education resources
- Case work forms a 'virtuous circle' with advocacy and education work:
  - Case work gives an evidentiary base for advocacy for policy improvement, which in turn can prevent future consumer harm
  - Case work can also highlight areas that can be solved via education, in turn better education can drive down the need for more costly interventions



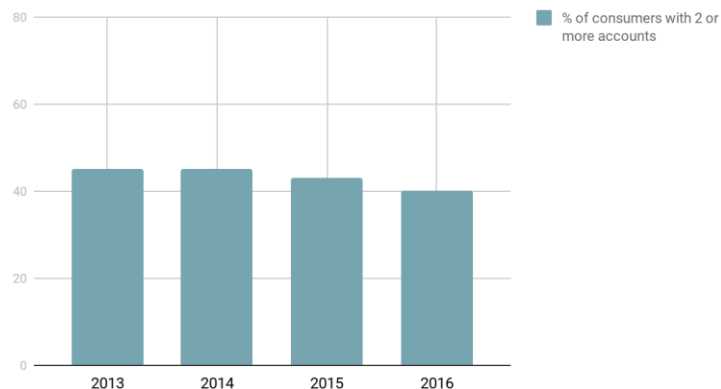
## Consumer bodies with an assistance function help regulators with information gathering and targeted responses

- The ACCC and ASIC make use of case studies raised by consumer bodies to inform enforcement priorities.
- A register of cases is maintained and updates provided by the regulators as part of their consumer advisory groups. This helps to ensure accountability of the regulators to consumer concerns.
- Unlike other rounds of the Royal Commission, the superannuation round was not case study driven. This is in large part because, unlike credit and insurance, there is no case work body dedicated to assisting individuals with superannuation issues.
- Counsel assisting the Royal Commission noted that the unique characteristics of superannuation meant trustees were often left alone in the dark without healthy public scrutiny.

# More effective education is required to assist consumers to act in their own best interests in the management of their superannuation

## Despite small improvements an extremely large number of people have duplicate accounts

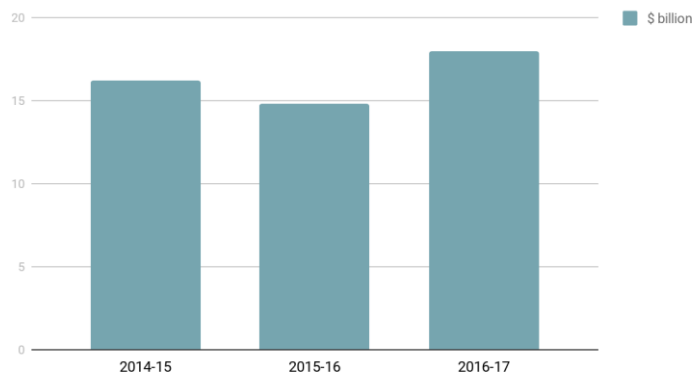
Percentage of consumers with two or more accounts



- Duplicate accounts and lost superannuation has in large part been caused by systemic flaws in policy. Until these are fixed education has a part to play in assisting consumers in taking control of their super
- Over a third of all super accounts are 'unintended multiples'
- The collective cost to consumers is \$1.9 billion a year in excess insurance premiums and \$690 million in excess administration fees
- A typical full-time worker is \$51,000 worse off at retirement due to unintended multiples.
- Consolidation is often considered complex or is outside the scope of attention of many Australians

## Consumers are losing invested funds

Value of super accounts lost and held by the ATO



- The ATO currently holds more than \$17 billion in lost super
- The issue also creates additional administrative costs and complications for the industry

Sources: ATO, available at: <https://www.ato.gov.au/About-ATO/Research-and-statistics/In-detail/Super-statistics/Super-accounts-data/Super-accounts-data-overview/>  
Productivity Commission, 2018, 'Superannuation: Assessing Efficiency and Competitiveness - Draft report'



# There is a lot of education provided to consumers – but dynamic interactive consumer engagement has been limited to date

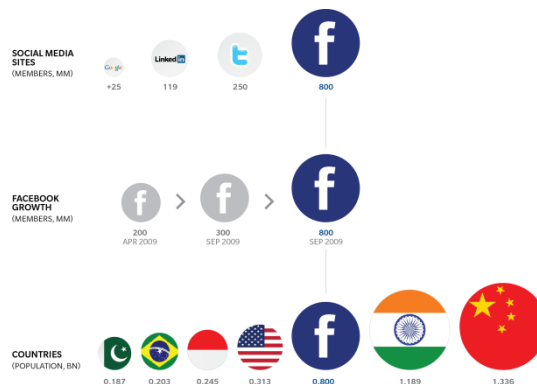
The Government and industry have invested in good education initiatives



...but these are broadcast in nature and do not tap the power of peer-to-peer communication

consumers increasingly value access to information in places they already frequent, such as social media platforms

Facebook – Bigger than the USA?



















Source: CIA Factbook, <http://news.yahoo.com/number-active-users-facebook-over-years-214600186-finance.html>

## Consumer education

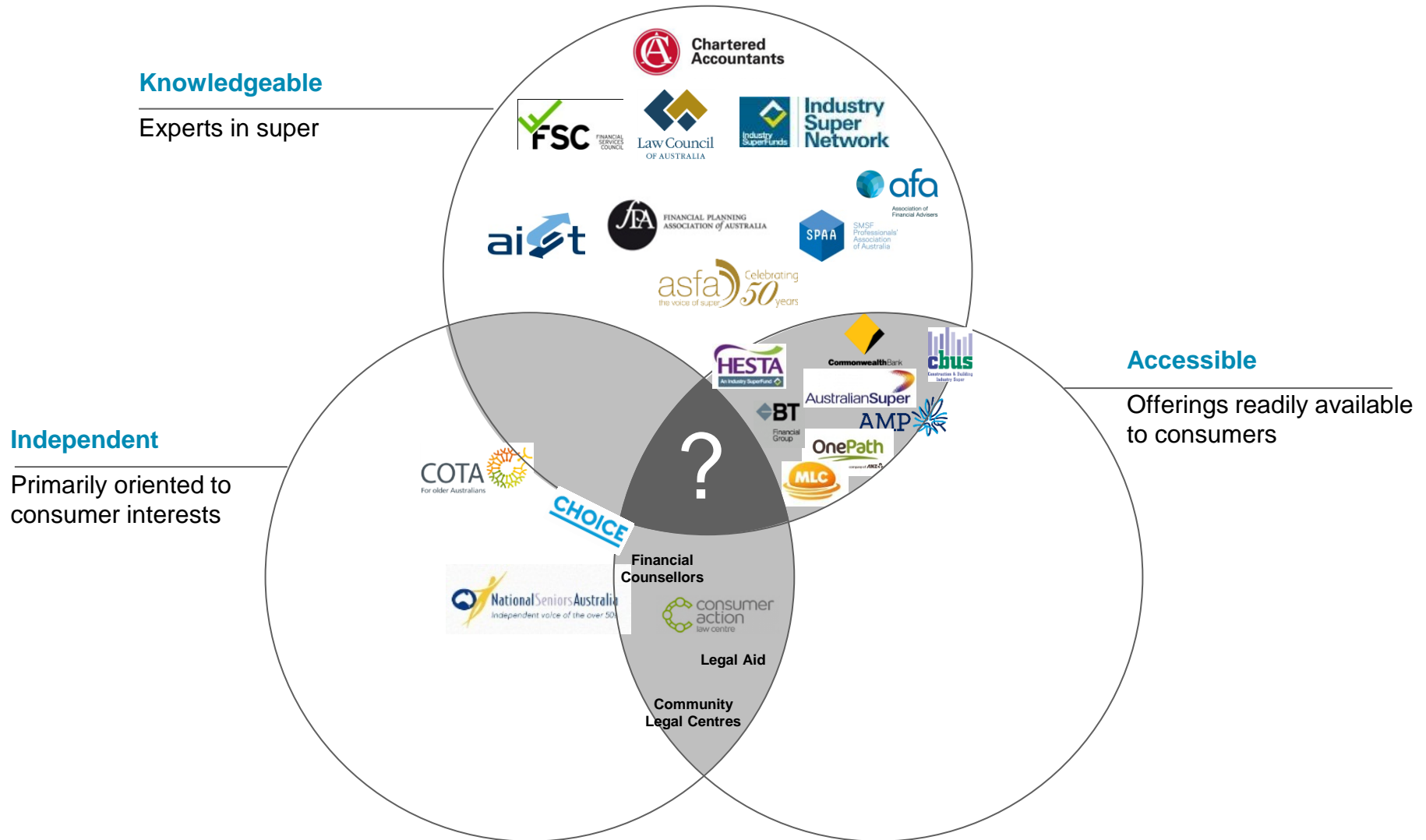
- Consumer organisation, CHOICE, has been piloting the use of an interactive social media based 'chat bot' to deliver targeted information about super at scale. Without a dedicated funding source these types of tools cannot reach their intended audience
- Superannuation education could be enhanced with more targeted information, such as:
  - Consumer friendly reporting of top performing superannuation funds
  - Independent insurance calculators
  - General information on the value of voluntary contributions and consolidation

# Australia has multiple government agencies engaged with superannuation, but none are positioned to play these roles for consumers

## Assessment of capacity of Commonwealth agencies for superannuation consumer oriented interventions

| Agency  | Super role  | Advocacy   | Assistance  | Education   |
|---|---|--|---|---|
| <br>ASIC<br>Australian Securities & Investments Commission | <ul style="list-style-type: none"> <li>Conduct and disclosure regulator</li> <li>Aims to ensure consumers dealt with in accordance with the law</li> <li>Financial literacy responsibility</li> </ul> |  <ul style="list-style-type: none"> <li>Policy advocacy most often used when limits of regulatory tools have been established</li> <li>Open to consumer inputs, but no mandate to develop positions on behalf of consumers</li> </ul>   |  <ul style="list-style-type: none"> <li>Focused on breaches of law, large class recoveries, little capacity to help with individual problems</li> <li>Intelligence skewed to complaints (in non super areas community based advocacy groups are major source of intelligence)</li> </ul> |  <ul style="list-style-type: none"> <li>MoneySmart is an excellent information and education tool but a regulator is not an appropriate sponsor of consumer to consumer education</li> </ul> |
| <br>Australian Government<br>The Treasury                  | <ul style="list-style-type: none"> <li>Policy advice to Government, based on objective and thorough analysis of options</li> </ul>  |  <ul style="list-style-type: none"> <li>Lacks resources to generate independent consumer focused research</li> <li>Lacks an expert consumer group to engage with</li> <li>Limited capacity to research and develop positions on behalf of consumers outside of major reforms</li> </ul> |  <ul style="list-style-type: none"> <li>No direct assistance capability</li> </ul>   |  <ul style="list-style-type: none"> <li>No education responsibility</li> </ul>   |
| <br>APRA  | <ul style="list-style-type: none"> <li>Prudential regulator</li> <li>National statistics agency</li> <li>Implements government policy</li> </ul>  |  <ul style="list-style-type: none"> <li>No remit to advocate for consumers</li> </ul>   |  <ul style="list-style-type: none"> <li>No direct assistance remit or capability</li> <li>Some access to relevant data but limited capacity to use data on behalf of consumers</li> </ul>  |  <ul style="list-style-type: none"> <li>No education responsibility</li> </ul>   |
| <br>ATO<br>Australian Taxation Office                    | <ul style="list-style-type: none"> <li>Focused on SG and SMSF compliance, some tools to help consumers, significant role in implementation of Stronger Super</li> </ul>                               |  <ul style="list-style-type: none"> <li>Conducts some research, no remit to develop positions for consumers</li> </ul>  |  <ul style="list-style-type: none"> <li>Helps individuals with SG</li> <li>Some access to relevant data but limited capacity to use on behalf of consumers</li> <li>MyGov consolidation tool</li> </ul>  |  <ul style="list-style-type: none"> <li>Website has good information and some good tools but limited in accessibility and consumer appeal</li> </ul>                                       |

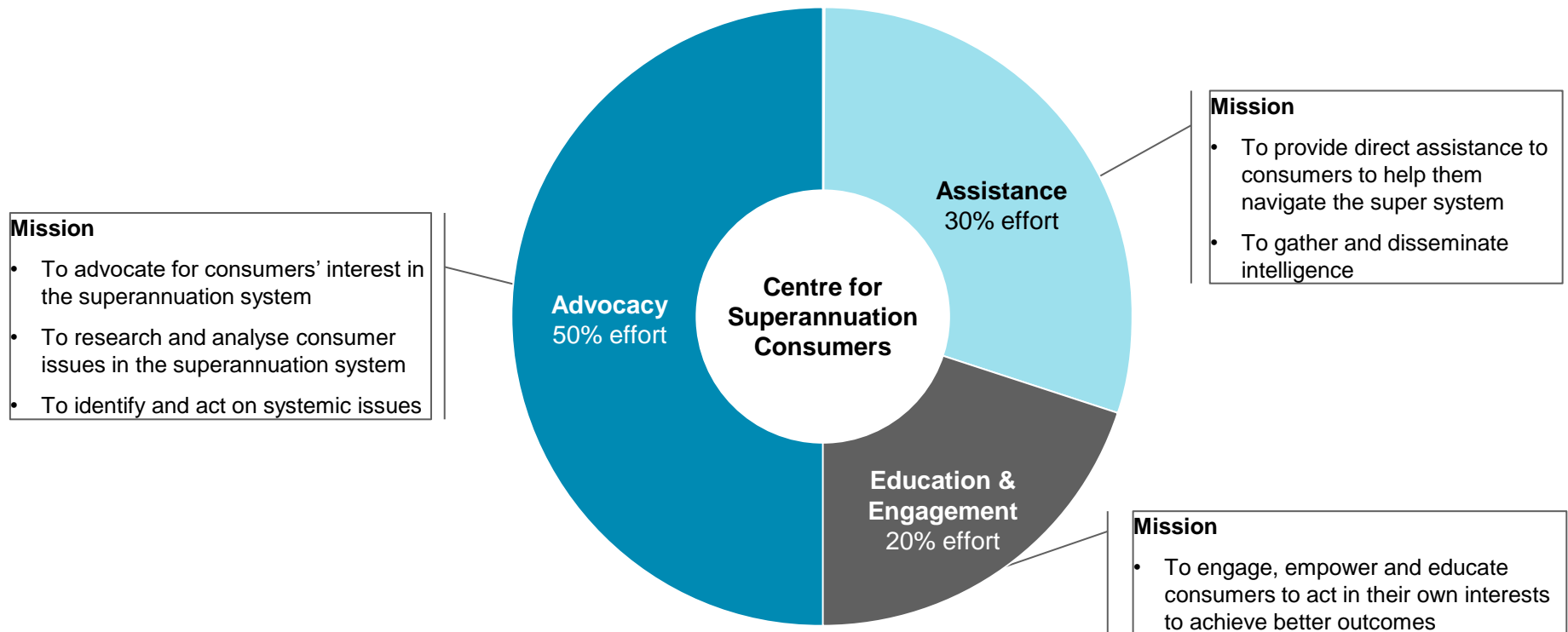
...nor do existing private sector or community bodies have the right combination of knowledge, independence, and accessibility to fill these gaps



## Section 2 | The solution

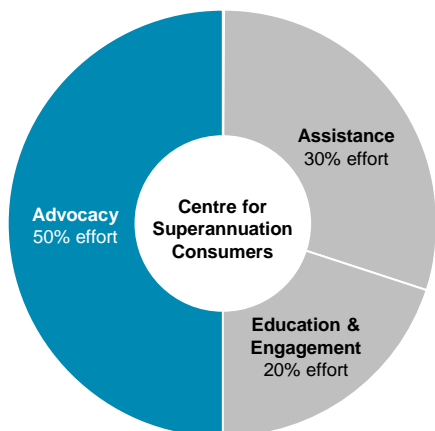
# What the Superannuation Consumers' Centre can deliver with ongoing funding

**Purpose** – To improve the operation of the superannuation and retirement income system so that it delivers the best possible retirement income for Australian consumers



The capabilities of the Centre will sit in the currently vacant intersection of knowledge, independence, and access

# 50% of the Centre's efforts will focus on advocating consumer interests in policy-making and industry practice



**Advocate for consumers' interest in the superannuation system**



## Focus areas

### Research and analyse consumer issues in the superannuation system

- Undertake research, analysis and policy development on consumer issues in superannuation
- Provide on-going advice on industry development from a consumer perspective to Government
- Build networks amongst consumer groups, academics, government and industry, and facilitate consumer representation on government and industry committees, Boards etc.
- Priority issues will likely include
  - Advocating for consumer oriented findings from the Productivity Commission and Royal Commission
  - The “retirement risk zone”
  - Draw-down defaults
  - Consumer interests in self-managed super
  - Improving outcomes for the most vulnerable
  - Cost and value issues

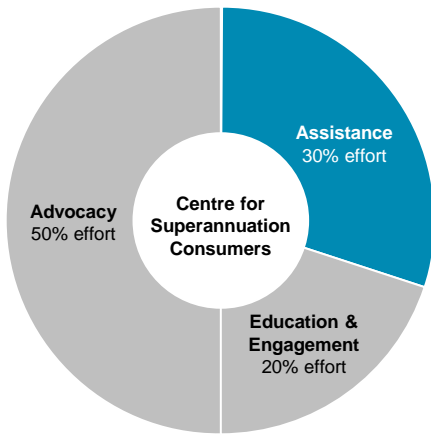
### Increase consumer influence on policy makers, regulators and industry

- Be a strong independent voice for consumers in the development of superannuation policy, regulatory reform and improved industry practices

### Facilitate better consumer involvement

- Provide a means by which consumers can enter into effective dialogue with government and industry about superannuation issues, in particular about regulatory, co-regulatory and self regulatory initiatives

30% of the Centre's efforts will be focused on providing assistance – both directly to consumers, and via intelligence gathering and dissemination



**Provide direct assistance to consumers to help them navigate the super system**



### Focus areas

#### Triage and referral service

- Largely provided through on-line tools, fact sheets, and a dedicated assistance team

#### Legal assistance

- Using a mix of in-house and pro bono resources take on
  - Cases raising serious systemic issues
  - Important matters of public interest
  - Egregious cases involving vulnerable consumers with no other access to assistance

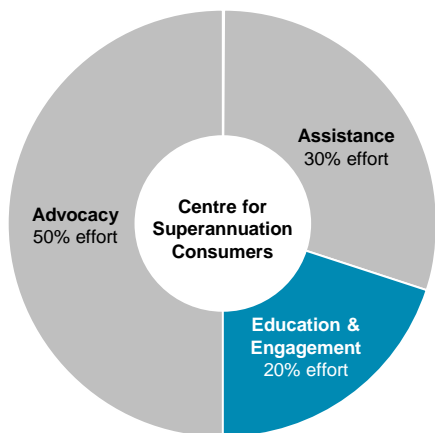
#### Red flags advice program

- Still scoping: For defined periods of time the Centre may work with external panels to offer a second opinion service for certain types of financial advice

#### Data capture

- Provision of objective advice to government, regulators and industry about issues affecting super members and consumers, including emerging systemic issues

20% of the Centre's resources will be dedicated to encouraging education to engage and empower consumers to act in their own interests



**To engage, empower and educate consumers to act in their own interests to achieve better outcomes**



### Focus areas

#### **Engage and educate consumers through a dynamic interactive online hub for consumers by consumers**

- Find innovative ways to connect consumers to existing superannuation tools and content
- Foster development of new tools and content where gaps exist, for example consumer centric product comparisons of superannuation and life insurance in super products
- Creatively use digital tools and social media to connect consumers to the Centre and each other through a vibrant online community

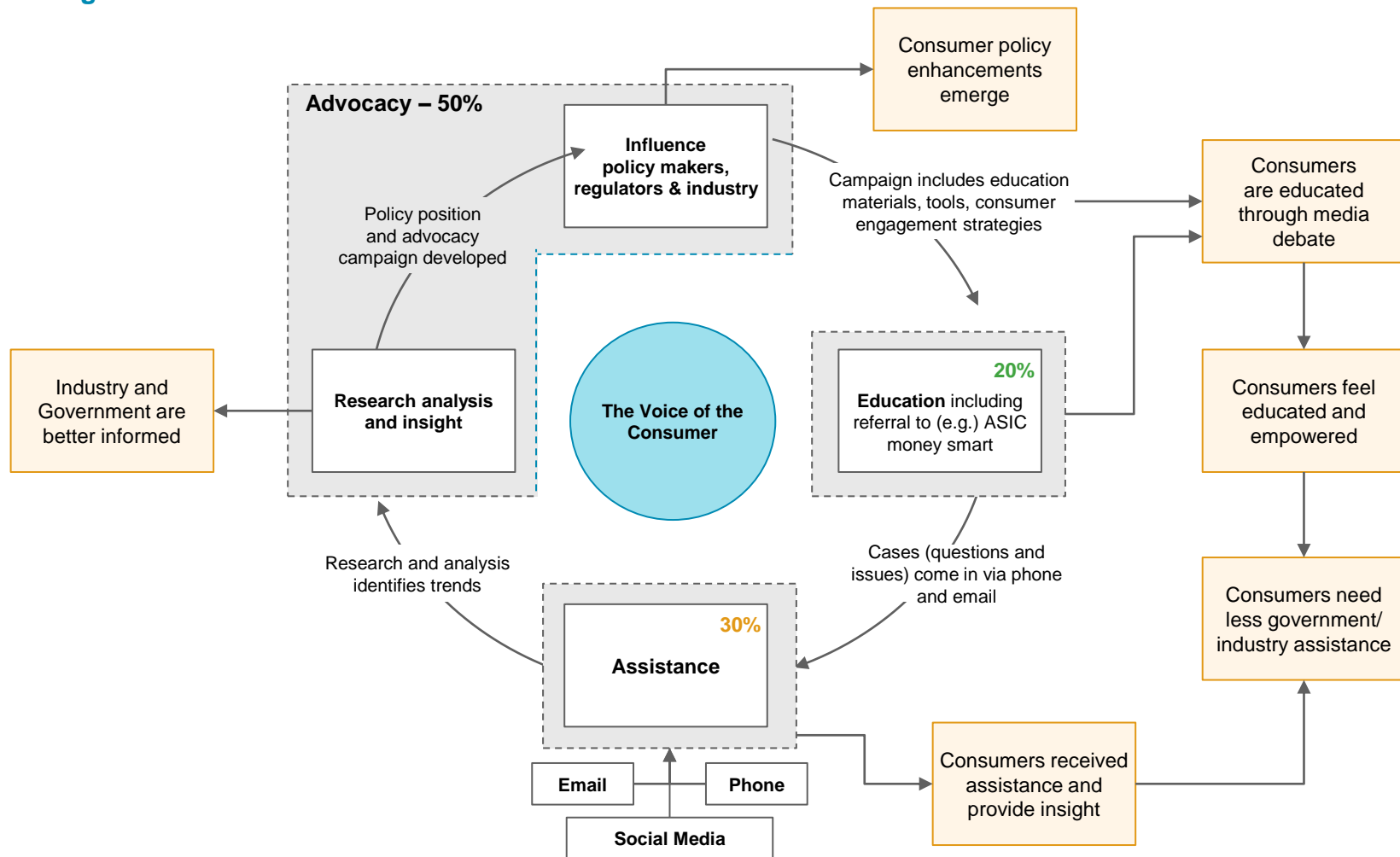
#### **Awareness raising on key issues**

- Explore and report on new products or new concepts as they come to market
- Warnings on dodgy and illegal schemes
- Use APRA, ASIC and AFCA data to provide accessible information to consumers
- Analysis, interpretation and clear presentation of complex information for consumers



# Each of the Centre's activities will be mutually reinforcing

## Inter-linkages between Centre activities



# The three functions of the Centre will each provide direct benefits to all stakeholder groups

## Key benefits to stakeholder groups by Centre function

| Consumers   | Government  | Industry  |
|---|---|---|
| <b>Advocacy</b> <ul style="list-style-type: none"><li>Increased chance of policy changes addressing consumer interests</li><li>More consumer oriented industry practice</li><li>Increased awareness of key issues</li></ul> | <b>Advocacy</b> <ul style="list-style-type: none"><li>Provision on-going consumer oriented advice on super issues as the system evolves</li><li>Central point of contact available for exploring policy options from a consumer perspective</li></ul> | <b>Advocacy</b> <ul style="list-style-type: none"><li>Central point of contact available for ongoing dialogue and dialogue on specific issues e.g. new products, codes of conduct</li><li>Opportunity for dialogue on alternatives to regulation as a way of addressing consumer concerns</li></ul> |
| <b>Assistance</b> <ul style="list-style-type: none"><li>Increased ease navigating the system (especially for lower-middle income earners)</li></ul>   | <b>Assistance</b> <ul style="list-style-type: none"><li>Improved intelligence for regulatory action</li><li>Provision of super complaints, systemic issues or test cases for enforcement, law or policy action</li></ul>                              | <b>Assistance</b> <ul style="list-style-type: none"><li>Opportunity for early warning of emerging conduct issues prior to regulator intervention</li><li>Reduced consumer confusion and frustration in dispute scenarios</li><li>Consolidated customer feedback</li></ul>                           |
| <b>Education</b> <ul style="list-style-type: none"><li>Higher probability of taking action and making right choices to improve super outcomes</li></ul>   | <b>Education</b> <ul style="list-style-type: none"><li>Impact of existing financial literacy efforts enhanced and magnified</li></ul>   | <b>Education</b> <ul style="list-style-type: none"><li>Greater voluntary savings flows</li><li>Reduced wasted administration costs</li></ul>  |

# The Centre has strong momentum and support from a range of stakeholders

“ *The many Australians who depend on their superannuation are in great need of a source of general information and analysis which is knowledgeable, independent and accessible – I believe that The Centre for Superannuation Consumers will address that need.* ”

– Allan Moss, former MD/CEO Macquarie Group

“ *I strongly support the establishment of an independent organisation that represents the interests of superannuation fund members and consumers across the whole industry. It will send a compelling message if the organisation is – and is seen to be – entirely independent and only interested in the best interests of members and consumers.* ”

– Ian Silk, CEO AustralianSuper

“ *The consumer super centre fills a gap that can only be filled by an independent consumer driven organisation. Whilst the voice of the consumer is a strong focus of product and advice providers it's fair to say that unless there is independence in providing this perspective often issues can be misunderstood or passed over. The centre is best placed to fill these gaps and support the continued development of a consumer focused super system.* ”

– Steve Tucker, Former Group Executive – NAB Wealth

“ *A centre providing advocacy, assistance and education in superannuation would empower consumers and help them navigate the superannuation system* ”

– Jocelyn Furlan, Former Chair, Superannuation Complaints Tribunal

“ *The proposed centre is a missing piece in the fabric of super. I strongly support the idea and look forward to contributing to its development.* ”

– Jeremy Cooper, Chairman, Retirement Income – Challenger Limited

“ *A strong independent voice for consumers will help address the trust deficit in the super system. A well funded Centre will help drive member engagement and help members make better decisions about their super, and improve their retirement income. As we move into an era of consumer directed choice an independent source of consumer information will help activate competition amongst super funds in a way that meets members needs.* ”

– Scott Hartley CEO Sunsuper

“ *Super is now so important for the future wellbeing of individual consumers, and that of our community. Its complexity and long term nature requires a specialist and expert voice from the consumer perspective to help ensure the best policies and practices.* ”

– Philippa Smith, former CEO ASFA, Trustee First State Super

“ *Our rapidly growing superannuation system would benefit from a strong voice for consumers. Such a centre would assist ASIC to more effectively target our regulatory actions. Ultimately it's about improving investor confidence in super.* ”

– Greg Medcraft, Former Chairman, ASIC

“ *I consider the establishment of an independent community based organisation with a clear focus on advocacy, research and assistance on behalf of consumers navigating superannuation and related retirement income decision-making is a very timely initiative.* ”

– Shane Tregillis, Former Chief Ombudsman, Financial Ombudsman Service

“ *Superannuation is fast becoming a significant asset for many consumers. Likewise there is a highly competitive landscape for service providers. The latter has a myriad of organisations advocating on its behalf, and it's a sign of our maturing system that consumers achieve good representation as well.* ”

– Jo Anne Bloch, Leader, Mercer Administration Services

# A significant number of influential individuals and firms have agreed to provide support to the Centre

## A group of respected individuals has volunteered to assist with establishment



Allan Moss – former CEO Macquarie Group



Jeremy Duffield – former CEO Vanguard, Co-Founder SuperEd



Tony D'Aloisio – Chairman Perpetual, former Chairman ASIC



JoAnne Bloch – Leader, Mercer Administration Services, former CEO FPA



Philippa Smith –Trustee First State Super, former CEO ASFA,



Jenni Mack – Former Chair of Choice, Independent director Sunsuper

## A number of pro bono partners have/are providing strong support

OLIVER WYMAN



Oliver Wyman and Mercer – business case support



\$300K of research and policy collaboration over five years



Gilbert and Tobin – legal support

LAWYERS



Cameron Ralph / Navigator – governance structure and documentation support

SpencerStuart

CEO Search



\$300,000 in market research over five years



Strategic investment advice

**australianpublicaffairs**

Consumer education, marketing and campaign activities



A Lonsec company

Data provision and analysis assistance



Data provision and analysis assistance



\$300K of research and policy collaboration over five years

# We believe that the right time to establish such a Centre is now due to the current characteristics of Australia's superannuation system

## Characteristics of today's superannuation system

### Policy change

- Significant level of policy change including
  - May 2017 Federal budget concessional contributions cap and associated changes
  - May 2018 Federal Budget insurance in super and admin fee changes
  - Pending PC and RC recommendations
- Policy change agenda likely to continue evolving rapidly for years to come
- Government efforts to engage and protect consumers – opportunities for greater consumer involvement
- Industry initiatives require consumer engagement, e.g.
  - Codes of practice
  - Professional standards

### System maturity

- With 25 years of SG, the system is reaching maturity and the stakes for consumers and government are high
  - Large individual balances to protect and grow for many consumers
  - Large potential contribution to reducing the Government's funding burden
- Significant numbers of people now reaching the drawdown phase with new needs, creating new policy issues
- Major revenue pool for the financial services sector

### Consumer characteristics

- Growing trust issues stemming from Royal Commission revelations and increasing media coverage of system shortcomings
- People are living longer and therefore require superannuation balances and longer drawdown periods
- The current retiring generation is the first to include a significant number of self-funded individuals

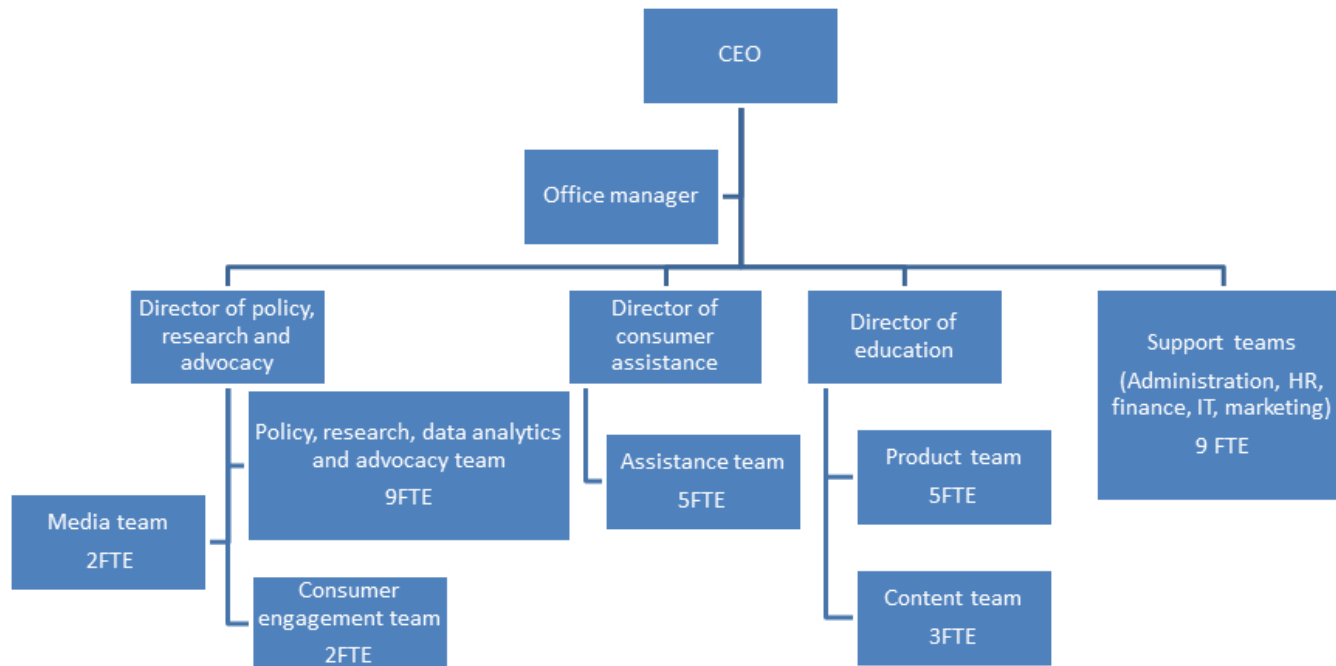
## Section 3 | The details



Prepared by the Superannuation Consumers'  
Centre

The Centre will have 32-48 staff, leveraged by external partnerships, and a budget of approximately \$8 -\$12 MM per annum

### Indicative organisational structure



# Standout feature - data analysis

## The importance of data to consumers

From product design to price, data will increasingly define people's interaction with markets and the products they buy. Giving consumers the ability to take control of their own data has the potential to dramatically increase their bargaining power, activate demand side competition and deliver better targeted products to their needs.

## The data analytics team

One of the key features of the organisation would be the inclusion of a data analytics team. We would expect this to comprise of at least two highly skilled data analysts, who are capable of producing:

- comparable product level data which can be used for consumer comparison tools
- high level data for guiding policy and advocacy responses (e.g. median MySuper performance data, median fees, median insurance premium costs)
- education suitable data for use in heuristics/ 'rule of thumb' (e.g. the impact of 0.5% in fees on final retirement balances)

This team would be complemented by two data journalists dedicated to simplifying complex data, especially in the life insurance in superannuation market, this would include:

- Analysis and product review of life insurance products
- Producing underlying data for product finder tools (similar to CHOICE's 'Do I need health insurance' and 'Compare health insurance' tools)



# Funding options

## Funding principles

To help achieve its purpose there are three important principles on which the SCC's funding should be based:

- Independence – from industry and direct government influence
- Sustainability – to allow the SCC to plan for the long term
- Adequacy – to engage in the detailed work consumers need

We see the endowment model as achieving the best balance of these principles. The industry levy model is still possible, however it would require some compromise, particularly in terms of independence and sustainability.

## How models deliver on these principles

| Baseline funding model   | Strengths  | Weaknesses   |
|--|--|--|
| <b>Endowment</b><br><br>(e.g. Grattan Institute)                                     | <ul style="list-style-type: none"><li>• <b>Independence</b> - endowments are designed to allow an organisation to give frank and fearless advice, without the threat of defunding</li><li>• <b>Sustainability</b> - long term funding is built into the model design</li><li>• <b>Adequacy</b> - initial quantum can be topped up by other sources to ensure adequacy (e.g. industry levy, community benefit payments, future civil penalties)</li></ul> | <ul style="list-style-type: none"><li>• <b>Adequacy</b> - If the initial quantum is insufficient the organisation may not be able to deliver on its objectives without being topped up (e.g. industry levy, community benefit payments, future civil penalties)</li></ul>  |
| <b>Industry levy</b><br><br>(e.g. Australian Communications Consumer Action Network) | <ul style="list-style-type: none"><li>• <b>Adequacy</b> - If funding is benchmarked against industry spending on advocacy, it can help ensure balance in public policy debates</li></ul>   | <ul style="list-style-type: none"><li>• <b>Independence</b> - similar models are dependent on the renewal of short term contracts, which have been used by industry bodies to threaten funding during funding renewals</li><li>• <b>Sustainability</b> - There is a constant threat that funding will not be renewed in the future</li><li>• <b>Adequacy</b> - Given funding comes from a levy on industry there is an internal conflict built into this system between industry and the consumer organisation which can threaten adequacy</li></ul> |

# How large an endowment would be required?

## What size fund is needed and how long would it last at the three annual budget options?

Jeremy Duffield (ex Vanguard Australia CEO) estimates a fund of:

- \$118m to support an annual spend of \$8m for 20 years
- \$147 m to support an annual spend of \$10 million for 20 years
- \$176 million to support an annual spend of \$12 million for 20 years

Calculations by Jeremy Duffield and Mikhail Tupitsyn - SuperEd, September 2018 (see appendix 2)

## How can the fund be built?

The most simple approach would be for a one off funding injection from the Federal Government. Alternatively, a mixed method may be used to get to the final funding target:

- A one off starter contribution by the Federal Government,
- With the balance funded over a defined period e.g. three to five years through a mix of:
  - superannuation industry levy,
  - the forward estimates,
  - penalties and fines from breaches of superannuation law

Other steps which would assist the organisation in reaching its funding goal would be:

- specific listing as a deductible gift recipient to help the centre raise its own funds from donations and/or philanthropic sources
- scaled up spending over the first three to five years of operation to allow the organisation to bed down staff and functions, while allowing the principal investment to grow.

# Accountability

We acknowledge that this would be a sizable contribution for the Federal Government to make. We will demonstrate that the organisation is delivering on its purpose in the most efficient way possible.

The organisation will publish audited financial reports annually that clearly indicate how expenditure has been allocated across key functions, as well as reporting on the status of the endowment. The organisation would also report on key outputs and outcomes from this expenditure, such as:

- The number of people it has assisted through its direct assistance program
- Outcomes for those assisted
- The number of people it has assisted through its education tools
- User engagement and satisfaction
- Engagement in consumer policy and advocacy debates and progress toward publicly stated goals

The organisation would also be committed to transparency and public access to its research, information and services, for example through:

- Publication of research and submissions
- Free access to content and education tools
- Free access to its direct assistance service

## The Centre is currently governed by an independent, consumer-focused, skills based board

- The Centre was registered with the ACNC and ASIC in 2013
- It received \$2.5 m in community benefit payments in 2018 via ASIC enforceable undertakings
- The SCC is governed by a three member Board



Jenni Mack - Board Director (Industry and consumer experience)



Susan Thorp - Board Director (Academic and consumer experience)



Rod Stowe - Board Chair (Government and consumer experience)

Under the Constitution the Directors together must have:

- knowledge about consumer policy and consumer advocacy
- knowledge about superannuation policy and the superannuation industry; and
- an appropriate level of financial knowledge and skills sufficient to properly oversee the prudent administration of any endowment fund owned, operated or maintained by the company.

The Board is appointed in accordance with ASX's corporate governance principles and ensuring a spread of skills and expertise

# Evolving the governance of the Centre

While the current approach to governance has served the Centre well in its establishment phase, the Centre is committed to adapting its governance to larger scale operations and a new funding model.

The Centre would amend its constitution in the following ways:

## Board appointments

- Board members would need to have demonstrated skills and experience aligned to the purpose of the Centre
- Members would be appointed by a Nominations Committee based on a skills matrix, consistent with the ASX corporate governance principles.
- The Nominations Committee would consist of two directors of the SCC and three external members, appointed by other consumer organisations.
- The Government could appoint a minority of members of the initial Board, similar to the appointment of the first board of the Australian Financial Complaints Authority.

## Board composition

- The Board would ideally have a maximum of seven members, with some flexibility to ensure the right mix of skills.
- Given the technical nature of the superannuation industry, it will be necessary to have some directors with specialist knowledge but to protect the independence of the Centre, Directors with any current industry involvement must always represent a small minority of directors.

# Membership of the SCC

The Centre has been established as a membership-based organisation. This is an important accountability mechanism to protect its independence. This aspect of the organisation would also evolve to support a new model:

- Individuals and consumer organisations that support the purpose of the Centre could apply to become members.
- Membership applications would need to be approved by the SCC Board.
- The Board would retain a discretion to reject an application where it might compromise the independence of the Centre.

Each member would have the right to:

- receive notices of and attend and be heard at any general meeting of the company; and
- vote on resolutions at any general meeting of the company.

The membership would also be able to approve changes to the SCC constitution through special resolutions. This would allow the governance model to evolve to ensure that it is fit for purpose as the Centre grows.

# Indicative Centre financials summary

## P&L Summary – Superannuation Consumers’ Centre

### P&L Summary – Superannuation Consumers’ Centre

|                                | \$8 million p.a. | \$10 million p.a. | \$12 million p.a. |
|--------------------------------|------------------|-------------------|-------------------|
| <b>INCOME</b>                  |                  |                   |                   |
| Endowment income               | \$ 8,000,000     | \$ 10,000,000     | \$ 12,000,000     |
| Total INCOME                   | \$ 8,000,000     | \$ 10,000,000     | \$ 12,000,000     |
| <b>CAPITAL EXPENDITURE</b>     |                  |                   |                   |
| Property                       | \$ 350,000       | \$ 400,000        | \$ 450,000        |
| IT                             | \$ 350,000       | \$ 400,000        | \$ 450,000        |
| Misc.                          | \$ 150,000       | \$ 200,000        | \$ 250,000        |
| Total CAPEX                    | \$ 850,000       | \$ 1,000,000      | \$ 1,150,000      |
| <b>OPERATIONAL EXPENDITURE</b> |                  |                   |                   |
| Property                       | \$ 325,000       | \$ 375,000        | \$ 400,000        |
| Legal                          | \$ 200,000       | \$ 250,000        | \$ 300,000        |
| Staff inc oncosts              | \$ 3,600,000     | \$ 4,400,000      | \$ 5,500,000      |
| Other Staff Costs              | \$ 400,000       | \$ 500,000        | \$ 600,000        |
| Specialist Support             | \$ 1,500,000     | \$ 1,750,000      | \$ 2,000,000      |
| IT                             | \$ 700,000       | \$ 1,000,000      | \$ 1,300,000      |
| Total OPEX                     | \$ 6,725,000     | \$ 8,275,000      | \$ 10,100,000     |
| Contingency/development        | \$ 350,000       | \$ 600,000        | \$ 600,000        |
| TOTAL EXPENSES                 | \$ 7,925,000     | \$ 9,875,000      | \$ 11,850,000     |
| SURPLUS/DEFICIT                | \$ 75,000        | \$ 125,000        | \$ 150,000        |

Appendix 1

About this presentation



## About this presentation

- Sections one and two of this presentation was prepared by Oliver Wyman on behalf of the Superannuation Consumers' Centre in 2012 and updated in 2018 by the Superannuation Consumers Centre with the assistance of CHOICE and Oliver Wyman. Section 3 has been prepared by the Superannuation Consumers' Centre with the assistance of CHOICE.
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## Appendix 2

# Endowment modelling

Prepared by Jeremy Duffield and Mikhail Tupitsyn SuperEd, September 2018



# Centre for Superannuation Consumers

Considerations in creating an Endowment  
September, 2018



Prepared by Jeremy Duffield  
and Mikhail Tupitsyn  
SuperEd

# Endowment Objectives

- A target spend for the Centre of \$8 million to \$12 million a year, increasing with inflation, funded through an endowment. The foundation would expect a life of 20-25 years.

## Considerations:

- What size endowment would be required to ensure an income stream of that magnitude?

# Underlying Investment Assumptions

- We use investment returns and volatilities based on Morningstar long-term forecasts and 2.5% inflation. These seem reasonable assumptions, even in this current environment of low interest rates.
- Modeling is based on balanced (50/50) and growth (70/30) allocations.



# Long-term Return Expectations

## Capital Market Assumptions

| Before Tax Nominal Returns      | Arithmetic mean | Income | Geometric mean | Volatility |
|---------------------------------|-----------------|--------|----------------|------------|
| Australian Equity               | 8.68%           | 4.00%  | 7.45%          | 16.50%     |
| International Equity (Unhedged) | 7.31%           | 2.50%  | 6.65%          | 12.00%     |
| International Equity (Hedged)   | 8.00%           | 2.50%  | 7.10%          | 14.00%     |
| Emerging Market Equity          | 9.65%           | 2.25%  | 8.20%          | 18.00%     |
| Australian Composite Bonds      | 4.08%           | 4.08%  | 3.95%          | 5.25%      |
| International Composite Bonds   | 4.52%           | 4.52%  | 4.40%          | 5.00%      |
| Cash                            | 3.26%           | 3.26%  | 3.25%          | 1.75%      |

## Asset Allocation

| Asset Class / Portfolio         | Balanced | Growth |
|---------------------------------|----------|--------|
| Australian Equity               | 20%      | 28%    |
| International Equity (Hedged)   | 9%       | 13%    |
| International Equity (Unhedged) | 18%      | 26%    |
| Emerging Market Equity          | 3%       | 4%     |
| Australian Composite Bonds      | 15%      | 9%     |
| International Composite Bonds   | 35%      | 21%    |
| Cash                            | 0%       | 0%     |

- Tax free returns
- Gross of 0.50% fees
- Franking credits included
- No alpha

# How much do we need to raise?

## Growth Fund Allocation

| Real Annual Spend                     | \$8 million |        | \$10 million |        | \$12 million |        |
|---------------------------------------|-------------|--------|--------------|--------|--------------|--------|
| Failure Probability Threshold To Last | 25%         | 50%    | 25%          | 50%    | 25%          | 50%    |
| 15 Years                              | \$107M      | \$95M  | \$134M       | \$119M | \$160M       | \$143M |
| 20 Years                              | \$134M      | \$118M | \$168M       | \$147M | \$201M       | \$176M |
| 25 Years                              | \$158M      | \$136M | \$197M       | \$171M | \$237M       | \$205M |

Assumptions: Vanguard **Growth** ETF allocation; 4.4% real arithmetic return, 8.4% volatility; inflation 2.5%; 10,000 simulations. By failure probability threshold we indicate the probability of failing to maintain the spend rate.



# How much do we need to raise?

## Balanced Fund Allocation

| Real Annual Spend                     | \$8 million |        | \$10 million |        | \$12 million |        |
|---------------------------------------|-------------|--------|--------------|--------|--------------|--------|
| Failure Probability Threshold To Last | 25%         | 50%    | 25%          | 50%    | 25%          | 50%    |
| 15 Years                              | \$108M      | \$98M  | \$135M       | \$123M | \$162M       | \$148M |
| 20 Years                              | \$136M      | \$123M | \$170M       | \$154M | \$204M       | \$185M |
| 25 Years                              | \$161M      | \$144M | \$202M       | \$180M | \$242M       | \$216M |

Assumptions: Vanguard **Balanced** ETF; 3.67% real arithmetic return, 6.4% volatility; inflation 2.5%; 10,000 simulations. By failure probability threshold we indicate the probability of failing to maintain the spend rate.

# What Real Spend Does an \$X Million Fund Subscription Support? Growth Port.

| Amount Raised                         | \$50 million |        | \$100 million |        | \$150 million |         |
|---------------------------------------|--------------|--------|---------------|--------|---------------|---------|
| Failure Probability Threshold To Last | 25%          | 50%    | 25%           | 50%    | 25%           | 50%     |
| 15 Years                              | \$3.7M       | \$4.2M | \$7.5M        | \$8.4M | \$11.2M       | \$12.6M |
| 20 Years                              | \$2.9M       | \$3.4M | \$6.0M        | \$6.8M | \$9.0M        | \$10.2M |
| 25 Years                              | \$2.5M       | \$2.9M | \$5.0M        | \$5.9M | \$7.6M        | \$8.8M  |

Assumptions: Vanguard **Growth** ETF; 4.4% real arithmetic return, 8.37% volatility; inflation 2.5%; 10,000 simulations. By failure probability threshold we indicate the probability of failing to maintain the spend rate.

# What Real Spend Does an \$X Million Fund Subscription Support? Balanced Port

| Amount Raised                         | \$50 million |        | \$100 million |        | \$150 million |         |
|---------------------------------------|--------------|--------|---------------|--------|---------------|---------|
| Failure Probability Threshold To Last | 25%          | 50%    | 25%           | 50%    | 25%           | 50%     |
| 15 Years                              | \$3.7M       | \$4.0M | \$7.4M        | \$8.1M | \$11.1M       | \$12.2M |
| 20 Years                              | \$2.9M       | \$3.2M | \$5.8M        | \$6.5M | \$8.8M        | \$9.7M  |
| 25 Years                              | \$2.5M       | \$2.8M | \$5.0M        | \$5.5M | \$7.4M        | \$8.3M  |

Assumptions: Vanguard **Balanced** ETF; 3.6y% real arithmetic return, 6.4% volatility; inflation 2.5%; 10,000 simulations. By failure probability threshold we indicate the probability of failing to maintain the spend rate.

# Preliminary Conclusions

- Investing in a growth fund, (at 50% success probability) the Centre needs an endowment of
  - \$ 118 million to support a spend of \$8 million for 20 years
  - \$147 million to support a spend of \$10 million for 20 years
  - \$176 million to support a spend of \$12 million for 20 years
  - \$ 136 million to support a spend of \$8 million for 25 years
  - \$171 million to support a spend of \$10 million for 25 years
  - \$205 million to support a spend of \$12 million for 25 years
- A higher confidence level for success (lower failure threshold) or more conservative portfolio would require a greater endowment.
- Investment policy would be based on modeling and risk tolerance of the board
- Inflation breakout – unmatched by an increase in returns -- is a significant risk