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Dear Commissioners

Personal submission on draft report "Superannuation: Alternative Default Models"

I appreciate the opportunity to make a brief submission on the Draft Report Superannuation Alternative Default Models.

I am making this submission in a personal capacity although I would declare that I am an employee nominated non-executive Director of an industry superannuation fund (Club Plus Superannuation).

I have several core issues with the proposals outlined in the draft report. I would summarise them as:

- Failing to consider the differing needs of individual members or to the characteristics of different industries;
- Proposed models that would discourage diversity of offering;
- Models which would result in Income Protection disappearing from superannuation;
- A failure to model the proposals against the current system or to model the current system against the base line.

There are two things that I welcome in the draft report:

1. The objective of having a single default fund which automatically carries through to future employers if the member has not nominated another fund; and
2. The fact that the draft report effectively acknowledges that a complete withdrawal of any default would leave many people without the knowledge they need to make an informed choice. In my view, removing any default system would mean dominance by big funds with massive advertising expenditure, something that would not be conducive to low fees and good returns. I welcome the fact that even the options presented rank better than the no default model.

Unfortunately, your terms of reference fail to acknowledge the great success of the Australian superannuation system (even with an inadequate guarantee level). The fact that it has produced excellent returns over a long period of time, as well as turning around the Australian savings performance over the last three decades.

Despite assertions, I have seen no credible evidence that current system fails its members. The drive to change, is driven by ideology backing a for-profit sector which sees an opportunity to increase profit for shareholders.

I find some of the reports' options counterproductive and even a little odd. They would introduce additional layers of intervention into the market and effectively reduce competition. There is even a sense of 'nationalisation' of superannuation with the proposal for the last resort fund.

The other general flaw with the proposals is that, even though they talk about assessing options on multiple criteria, that tends to imply that the multiple criteria matter evenly across employees in a range of different industries. I know from my experience that they do not. Workers in lower wage industries or heavily casualised sectors have very different requirements from their superannuation funds than workers in higher paid full time permanent occupations.

I note the failure of the draft to mention Income Protection in the listing of insurance coverage. IP is not required, but in the club industry for example, market research and employee choice indicates that it is seen as a vital component of cover.

Comments on options.

Option 1

- Even greater intervention in the market by Government with the heavy administrative filter
- judgements made on what is 'good' without any knowledge of the characteristics or needs of the industry being serviced.
- Participating in the shortlisting process would impose a significant administrative burden on superannuation funds and would disadvantage smaller funds.
- Putting a single body in charge of approving a shortlist of funds opens up opportunities for corruption and exercise of undue influence via promotion and advertising.
- The proposed system of product accreditation would reduce diversity of options from superannuation products. It ignores the fact that people have very different requirements from their superannuation funds. That includes the level of risk they wish to take and their insurance needs.
- A last-resort fund sounds a little like nationalising superannuation, instead of having a default fund negotiated industry by industry the default would be imposed by Government. Hardly a way of increasing competition.

Option 2

- Many employers already chose a default fund for their employees, this is simply a way of imposing more Government intervention and allowing for profit funds to force their way on to approved lists. It has no benefit at all over the current system.
- The proposed filtering process is again completely unnecessary. The current system is heavily regulated, every fund approved to operate in the Australian market meets

stringent standards. Increasing those via a strengthened MySuper authorisation can hardly be described as a "light filter".

- The heavy filter would be a completely detrimental step which would narrow choice in the market. What would the definition of best performing be? Would it be based on fee levels, returns, risk or the insurance offering and how could this system with its limited number of funds meet the differing needs of different industries?
- This option would mean a forced contraction of the number of funds and choices in the industry down to a "narrow" number of very large funds all offering a very similar product. Funds which have established models to suit the needs of particular types of employees would be squeezed out of this market and the member would be disadvantaged.

Option 3

- This interventionist model would produce a series of monochromatic offerings that met the national criteria. There would be no room for variation based on the needs of employees in different industries.
- There is no one size fits all fund and seeking to create them ignores the ability of industry funds and smaller funds to tailor their offering to fit their member's needs.
- The model requires a high level of Government or regulator activity which would introduce significant additional cost into the system. Presumably this cost would be borne by the whole community while the benefit went to the 10 selected winners.
- Government has a bad record of 'picking winners' and this process introduces a level of intervention in the market that is completely unjustified given the very good performance of the Australian superannuation industry.
- The selection process would give a massive market advantage to the 10 winners. Potentially that could be an artificial way of forcing consolidation in the industry.
- The selection process again introduces the potential for corruption or undue influence.

Option 4

- I am very pleased to be a trustee on fund which is a low fee fund, however that does not mean that I believe that is the only criteria that is important in the selection of a fund. This model is simplistic and lacking in capacity to provide for different needs.
- Having low fees is just one consideration for a good fund performance, investment return, insurance and customer service are others that might be considered to be important.
- As mentioned above employees in different industries have different needs and the current system allows funds to tailor their default product based on the research they do with their customers.
- A low fee auction would see funds stripping down their offerings to win the tender. That would be particularly the case in insurance. Income Protection is not offered by all funds and it would disappear (despite being highly valued by some industries); life insurance and TPI would be hollowed out with benefits lowered and (importantly) conditions changed to minimise successful claims.

- On the investment side of the equation a low fee auction is likely to lead to funds being less likely to invest in less liquid, more expensive, asset classes such as property, infrastructure, private equity etc. That means less diversification in the investment portfolio and potentially lower returns. In the long run that puts into question whether the superannuation system would be meeting its core objective of providing a retirement income.

It is very telling that none of these options has been assessed against the current default system. None would perform well and indeed the current system has proven itself to be one of the world's best.

These proposals introduce more cost, more intervention and more administration - but result in a system that is less tailored to the needs of its customers.

They do nothing to help meet the overall objective of the superannuation system to provide a retirement income for Australian workers. Indeed, they could make that less achievable.

I would submit that the only part of the draft report that should be pursued is the goal of automatically continuing the original default fund for an employee, unless they make and active choice.

Yours sincerely

Steve Whan
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