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Productivity Commission
Level 12, 530 Collins Street
Melbourne VIC 3000

Submission to the Productivity Commission Issues Paper on Stage 3 of the review of the competitiveness and efficiency of the superannuation system

Dear Commissioner,

AMP appreciates the opportunity to provide a submission in response to the Productivity Commission's (the Commission's) latest issues paper for this review.

This submission essentially reiterates the points we made in our earlier submissions to the Commission and may be summarised as:

- It is still too early to judge the effectiveness of the recently implemented MySuper reforms and accordingly too early to recommend major reforms.
- The default super system should be opened up to provide a level playing field to improve efficiency, competition and member outcomes. It should not be replaced with an alternative default model that will focus solely on lowering fees or significantly reducing the number of participants.
- Insurance in super, and in particular insurance provided on an opt-out basis with default super, is a critically important feature of the super system for members, including young members.
- Conclusions from comparisons of super funds can only be meaningful if the comparisons are conducted on a like-for-like basis.

1. **It is still too early to judge the effectiveness of the recently implemented MySuper reforms and accordingly too early to recommend major reforms.**

In our first submission to the Commission on 9 September 2016 we agreed that the Commission is the appropriate body to conduct an inquiry into competition and efficiency in the superannuation system. We also argued that 2017 was not the right time to do it.

Put simply, there has not been enough time for the new MySuper system to deliver as it was intended before conducting such a significant review of the superannuation system.

MySuper was designed as a simple, cost-effective superannuation product that would replace, not complement, existing default products. While MySuper commenced on 1 July 2013 as the new default, the replacement of existing default products with MySuper was not completed until 1 July 2017. MySuper therefore needs more time to deliver its intended benefits.

The Stronger Super Reforms including the introduction of MySuper in 2013 were probably the most important and significant changes to superannuation since the introduction of the Superannuation Guarantee in 1992. These reforms were intended to foster competition between superannuation funds and by implication also to foster efficiency. APRA was tasked with the responsibility of publishing data on fees and other indicia of competition.

Insufficient time has elapsed since the start of these MySuper reforms for a reliable assessment of the efficiency of the system, particularly given the long-term nature of the assessment as outlined by the Commission in Stage 1 of this review.

Objective 1 of the Commission's review focuses on the superannuation system contributing to retirement incomes **by maximising long-term net returns**.

The Commission's indicators for that objective are defined as 'long-term (5, 10 and 20-year) historical net investment returns'. On 1 July 2017, the start date of Stage 3 of the Commission's review, only 4 years had passed since MySuper, and many MySuper default investment options commenced. In these circumstances it is impossible to conduct a review as the Commission intends. Long-term 5, 10 and 20-year return information for many MySuper investment options is not yet available and there is simply no way for the Commission to tell whether the system, as envisaged and reformed by MySuper, is working well or not.

Nor is it possible to assess whether it needs further major reform.

As indicated above, many of the MySuper options only commenced in 2013 so they still have a number of years to go before they will have 10 years of performance to measure. Comparisons of 10-year returns for the MySuper default system will not be possible until after 1 July 2023. If comparisons are made using 10-year returns before that date, the funds and investment options being compared are not MySuper investment options but likely the previous default options that MySuper was intended to replace. **Such comparisons are inaccurate and misleading and should not be used in the Commission's assessment.**

Another factor to be borne in mind is **that accurate and meaningful fee comparisons will not be possible until late 2017** because there are likely to be changes to the total fees and costs disclosed and reported to APRA as required by ASIC's updated Regulatory Guide RG97 *(Disclosing fees and costs in PDSs and periodic statements).* These reforms take effect for PDSs from 30 September this year. The outcome of RG97 will be to level the playing field on how similar costs are disclosed and to therefore increase transparency and comparability.

This has been very difficult to achieve.

While RG97 was recently updated along with an ASIC Corporations (Amendment) Instrument 2017/664 to modify the fees and costs disclosure regime by amending Class Order CO 14/1252, AMP considers that it could still be months before accurate like-for-like fee information is available on the APRA website. The industry has and will continue to work with ASIC in order to clarify details for compliance with RG97 and the new Instrument (and amended Class Order). We believe it will be some time before accurate comparisons can be made between individual superannuation funds and their investment options in terms of fees and costs.

In summary, after such significant changes to the system including the Stronger Super Reforms, the introduction of MySuper, the regulatory changes including RG97, the 2016 Federal Budget and the recently introduced draft legislation to improve accountability and member outcomes (which include changes to broaden the outcomes test for MySuper), it is far too soon to review the superannuation system.

Moreover, further substantial reforms as proposed by the Commission will create further consumer uncertainty and reduce confidence in the superannuation system, which is the last thing needed at the moment.

2. The default super system should be opened up to provide a level playing field to improve efficiency, competition and member outcomes. It should not be replaced with an alternative default model that will focus solely on lowering fees or significantly reducing the number of participants.

In addition to being too early to review the superannuation system, AMP believes that the way forward is to retain the broad system architecture but to open the system up to genuine competition by allowing any APRA approved MySuper product to be a superannuation default.

The existing default system architecture has still not had the opportunity to perform to its full potential with an open market and choice of fund for all employers and employees.

It certainly makes no sense to change to a radically different default superannuation system, without first giving the system the opportunity to operate on a level playing field with open competition.

We note that the Commission is no longer releasing a final report for Stage 2 of this review, but rather incorporating the findings into Stage 3 of this review. We reiterate our views provided on Stage 2 which were that the default superannuation system should be opened to equal competition amongst all APRA approved MySuper products, with time for superannuation funds to compete for employer choice of default, before the system is reviewed and substantial changes made to the default system.

We also believe that opening the system up to all APRA approved MySuper products will be further strengthened by the recent improvements proposed by the Government in draft legislation. The change to broaden the MySuper scale test to a test based on member outcomes will improve the quality of participating MySuper products and put further pressure on incumbent funds to compete.

The default superannuation system needs time for the benefits of these latest reforms to be realised before any review can commence on the system's efficiency and competitiveness.

It is widely recognised that with economies of scale, costs and therefore price can be reduced.

Fees have come down since the introduction of MySuper in 2013 and its replacement of the previous default superannuation investment options.

AMP considers there is further scope for fees charged to customers to be reduced further if the market was fully open and a level playing field. Equal competition will result in further downward pressure on fees, increased product innovation and better outcomes for members.

The existing Australian default superannuation system is recognised as one of the best systems in the world. It could work even more efficiently and with more competition if the market was opened up to allow employers to choose from any APRA approved MySuper product.

Following the Government's recent proposed reforms focusing on improved member outcomes, AMP encourages the Commission to consider recommending an open market with equal competition, rather than alternative default models with a focus solely on lowering fees or significantly reducing the number of market participants as these approaches may reduce competition and produce negative member outcomes.

We are also supportive of the Government's recent inclusion of 'choice of fund' in draft legislation to enable genuine choice to take effect from 1 July 2018.

We believe that all employees, existing and new, should be provided with the ability to choose their own superannuation fund.

3. **Insurance in super, and in particular insurance provided on an opt-out basis with default super, is a critically important feature of the super system for members, including young members.**

AMP considers that the opt-out nature of insurance provided with default super is vitally important.

It enables vulnerable members of the community to have access to insurance that they otherwise would not receive. And, insurance in super also has an important role in contributing to the objective of superannuation to provide an income in retirement.

Many Australians who have been provided insurance on an opt-out basis with their super, not just for death but also for disability, have suffered from disability or illness which has prevented them from continuing to and/or returning to work. Without work, these superannuation members are not able to earn an income, nor contribute to superannuation to continue to save for their retirement. Insurance in super enables them to do this.

This is also the case for young members.

We note that there is a current focus in the industry in relation to the appropriateness of insurance in super for young members, who are most likely to not have dependents or significant liabilities and therefore not likely to need death cover. Disability and illness are unfortunate events that can, and do, occur to individual members, including young members, regardless of whether they have dependents.

AMP Life has paid a number of claims to young members for both Total and Permanent Disablement (TPD) and Income Protection as part of our group cover for employer plans in super. These members' claim payments have helped to pay for medical treatment, rehabilitation support and other expenses at a time when they were not able to earn an income from work. And, for many members with Income Protection, their claim payments have enabled them to regain their health and facilitate their return to work.

Without this insurance provided on an opt-out basis with their super, these young members are not likely to have applied for personally underwritten cover and therefore not likely to have had access to insurance, or income, at a time when they were unable to work due to disability or illness.

Insurance provided with default super on an opt-out basis also means that members are capable of being insured as part of a group, at a much lower cost, without being personally underwritten for individual health and personal circumstances as is required for retail insurance inside or outside of super.

This is particularly the case for younger members – premium rates for young members are significantly lower than they are for older members, in both insurance in super and retail insurance outside of super. We have attached in an Appendix to this submission, some premium examples that indicate the level of difference between group rates in default super and the rates for personally underwritten (retail) insurance outside of super.

There are therefore advantages for young members of being provided insurance on an opt-out and group basis through super. For older members, the benefits of group insurance in super are also significant.

4. Conclusions from comparisons of super funds can only be meaningful if the comparisons are conducted on a like-for-like basis.

With the large amounts of evidence that the Commission will be collecting for its analysis in this review, AMP would like to emphasise the importance of validating the data provided and ensuring that comparisons between super funds, products and/or investment options are done on a like for like basis.

For example, while there are benefits to the publicly available MySuper data published on the APRA website, APRA has recommended that 'users of the statistics exercise caution in analysing and interpreting the reports, particularly while the annual superannuation data collection is still relatively new. It will take some time for the information reported to APRA to reach an appropriate level of quality and consistency'[1]. Despite this warning from APRA, we are concerned that data on the APRA website is already being used incorrectly by others in the industry for super fund comparisons.

Conclusions drawn from incorrect analysis can have critically important negative consequences – flawed analysis and recommendations.

The *Annual Fund-Level Superannuation Statistics* page on the APRA website includes, amongst other things, 10-year rates of return. That page of the APRA website includes data for each overall superannuation fund, for example AMP's Superannuation Savings Trust (AMP SST) which is reported to have 290 investment options, eight MySuper products authorised (this includes a standard MySuper offer and multiple tailored MySuper offers for large employers) and 2,023,686 member accounts.

The AMP SST also has over 20 different products within the super fund, including superannuation accounts and account based pensions, each with a different range of membership.

Some super funds listed on that page of the APRA website have a smaller number of investment options and only one MySuper product authorised. With each investment option, whether MySuper or an alternative option, having a different risk profile, asset allocation and investment performance, it is not possible that the overall super fund 1, 5 or 10-year rates of return listed on the APRA website can be in any way comparable.

These returns are not like for like comparisons and should not be used for that basis.

[1] http://www.apra.gov.au/Super/Publications/Pages/superannuation-fund-level-publications.aspx

Accurately comparing the 10-year return of the AMP SST to the 10-year return of another superannuation fund, as shown in the example Table 1 below for the AMP Eligible Rollover Fund or the AMP Retirement Trust, with different investment options, risk profiles and other variable investment option metrics is impossible and therefore meaningless.

Table 1 – extract from APRA Annual Fund-Level Superannuation Statistics June 2016[2]

Fund name	Number of investment options	Number of MySuper products authorised	One-year return	Five-year return	Ten-year return	Total number of member accounts
AMP Eligible Rollover Fund	1	-	3.1%	2.6%	3.1%	571,671
AMP Retirement Trust	228	1	1.4%	-	-	297,715
AMP Superannuation Savings Trust	290	8	1.3%	6.6%	3.6%	2,023,686

In addition, we note that in a recent submission by the ISA to the Commission for this review on 3 August 2017, that references were made about AMP which were incorrect.

For example, while it is correct that some AMP superannuation products are listed on some of the modern awards, the total number of member accounts stated in the ISA submission, 2,023,686, is not the total number of AMP member accounts in the awards. That figure of 2,023,686 is the total number of all member accounts in the AMP SST, shown in Table 1 above, in which there are more than 20 different products including superannuation accounts and account based pensions.

Only two of those super products in the AMP SST super fund, SignatureSuper and CustomSuper, are listed on a total of 14 modern awards. The total membership in CustomSuper and SignatureSuper is approximately 275,000 and the majority of these members are not under a modern award. It is therefore inaccurate and misleading to make statements about AMP having 2,023,686 accounts in modern awards.

The same ISA submission makes comparisons using APRA data of 10-year returns of a number of super funds including AMP. As we have previously stated in this submission, we believe it is inaccurate to make comparisons of 10-year returns from the *APRA Annual Fund-Level Superannuation Statistics* on the APRA website, when the actual default MySuper investment options have only been in operation for the last 4 years.

It is not possible at this point in time to conduct any long-term net return analysis of MySuper default investment options.

5. Conclusion

AMP believes that:

- It is still too early to judge the effectiveness of the recently implemented MySuper reforms and accordingly too early to recommend major reforms.

- The default super system should be opened up to provide a level playing field to improve efficiency, competition and member outcomes. It should not be replaced with an alternative default model that will focus solely on lowering fees or significantly reducing the number of participants.

[2] http://www.apra.gov.au/Super/Publications/Pages/superannuation-fund-level-publications.aspx

- Insurance in super, and in particular insurance provided on an opt-out basis with default super, is a critically important feature of the super system for members, including young members.

- Conclusions from comparisons of super funds can only be meaningful if the comparisons are conducted on a like-for-like basis.

Should you have any queries, or wish to discuss any elements of this submission, please do not hesitate to contact me

Yours sincerely

Alastair Kinloch