Asset Super
Our members first

5 April 2012

Default Superannuation Funds in Modern Awards
Productivity Commission
LB2 Collins Street East
MELBOURNE
VIC 8003

To whom it may concern,

Productivity Commission Enquiry
Default Superannuation Funds in Modern Awards

Asset Super was established in 1987 and since then has provided superannuation accounts for employees of all industries and occupations.

As a multi-industry multi-occupational superannuation fund, Asset Super was named in many NSW State awards and the Fund has, over the past 20 years, extended its membership coverage to take in employees in all States of Australia, many of these in regional and rural Australia. The Asset Super fund has historically had strong membership participation from a diverse range of industries and occupations throughout New South Wales. The fund provides a superannuation service for over 14,800 employers and over 85,000 members. Asset Super is listed as a default fund in 45 Modern Awards reflecting the diversity of industries of our employees and members.

Asset Super became a public offer fund in 1997.

As a profit-for-members fund Asset Super's mission has always been to offer a solid, reliable, complying superannuation fund with good governance and investment returns and efficient, low cost administration.

Current arrangements - Awards and enterprise agreements.

Of almost 12 million Australians who currently hold a superannuation account, approximately 80 per cent have their compulsory superannuation contributions paid into a default superannuation fund.

To what extent do default superannuation provisions in awards influence which superannuation fund (or funds) is listed in enterprise agreements?

As enterprise agreements are agreements made at an enterprise level between employers and employees about terms and conditions of employment. We consider that employers and employees would use their experience of award conditions as a basis when negotiating an enterprise agreement.

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Does the superannuation fund nominated in an enterprise agreement in any way impact on the assessment of the 'better off overall' test?

Some agreements reproduce provisions from awards, either by including relevant clauses or by cross-reference to award provisions. Single purpose agreements dealing only with superannuation are no longer allowed, but it is possible to include existing award provisions in agreements.

As most of Asset Super's employers are too small to negotiate enterprise agreements it is unknown whether superannuation features in the assessment of the 'better off overall' test. Asset Super's employers rely on award requirements and information supplemented, so far as superannuation is concerned, by the assistance they receive from the funds to which their employees belong.

How do employers currently choose between funds when there is more than one default fund listed in an award?

Employers rely on the default fund with which they are familiar, either because existing employees belong to it, or, because the default fund was nominated in a previous award or NAPSA (notional agreements preserving state awards). Employers have an interest maintaining existing arrangements because they have already organised their contributions to that fund. Employers are also advised by their relevant industry associations and the unions covering their particular enterprise.

How do employers currently choose a fund when there is no default fund listed in an award?

Employers are influenced by their current employees' choice of fund, if they have employees who have made a choice so far as their superannuation fund is concerned. They are advised by their relevant industry associations and the unions covering their particular enterprise, and they are also influenced by professional advice – their banks, accountants, etc.

To what extent have employers made use of the grandfathering clause as opposed to choosing a fund from those listed in the relevant modern award?

Employers are informed by the communications from the funds to which their existing employees belong, as well as by their existing employees' choice of fund. We are not aware that employers make conscious use of the Modern Award grandfathering clause. Modern Award grandfathering clauses are a safety net for small employers who do not have access to professional advice and who do not belong to industrial associations because these clauses enable them to fulfil their SG obligations within the award system.

A new default investment product: MySuper

Asset Super understands that default funds which will become MySuper account for 60% of superannuation assets and are used by an estimated 80% of superannuation members. Under MySuper default funds are offered where the member is disengaged and/or does not wish to make an investment selection.

To be eligible to receive certain award based contributions, MySuper funds will be required to have a single, diversified investment strategy at an overall cost aimed at optimising fund members' best interests, as reflected in the net investment return over the longer term.

MySuper funds will also be required to actively examine and conclude whether, on an annual basis, its MySuper product has sufficient scale on its own (with respect to both assets and number of members) to continue providing optimal benefits to members.

The aim of MySuper does not differ from the aim of existing industry superannuation funds, including Asset Super, i.e. **provide simple low cost default superannuation products**.

Asset Super recognises that superannuation changes and regulations over the next few years will make it even more complex and costly for super funds to meet new requirements, including those of MySuper.

Current superannuation industry consolidation will continue as the industry seeks further economies of scale. Asset Super is aware that in the longer term, our members stand to gain from the improved benefits that a large fund with more buying power can access. A merger would assist us grow to the size required to deliver benefits cost-effectively in the new environment.

The Trustee Boards of Asset and CareSuper have agreed that a merger is in members' best interests and have signed an MOU. The merger is contingent on:

- The merging funds meeting SIS obligations to ensure that the member rights in the new fund are at least equal to those that the members had in the original funds.
- Capital Gains Tax (CGT) rollover relief for merging superannuation funds. This is a key consideration for ASSET Super in making a decision to merge with CareSuper as the financial impact on its members of the loss of Deferred Tax Assets ("DTAs") would prevent this merger.

Investment strategy and funds management

Asset Super is aware that the Government will expand the investment strategy covenant to include "cost, tax and the availability of valuation information as factors to be considered when developing an investment strategy. There will also be a due diligence obligation in selecting and monitoring fund investments".

The fund currently discloses costs, tax and valuation information and exercises due diligence in selecting and monitoring its fund investments.

Should the fund receive CGT roll over relief and fulfil successor fund transfer deed requirements, a merged fund would optimise resources allocated to members' investments and improve access to sufficient scale (with respect to both assets and number of members) to continue to provide net investment returns that are in the best financial interests of members.

The fund targets its member information according to member's stage of life and with increased resources and scale would be in an improved position to consider life cycle investment strategies. The fund's existing default investment option endeavours to offer to members who do not make an investment choice a balance between growth and less volatile investments.

Fees

As a not-for profit fund Asset Super's mission has always been to offer a solid, reliable, complying superannuation fund with good investment returns and efficient, low cost administration. Many of Asset Super's members have intermittent superannuation contributions and relatively small account balances, therefore lower costs combined with good median returns are essential if they are to accumulate adequate retirement savings.

Insurance and other member services

Asset Super's current Death and Total and Permanent Disablement (TPD) cover fulfils the requirements for MySuper i.e. "Death and TPD cover must be offered on a basis that allows members to 'opt out' within 90 days of joining the fund" and Asset members are offered income protection insurance on an underwritten basis. Members can opt for higher insurance cover and for increased cover for "Life Events" – marriage, divorce, birth or adoption of a child or a first mortgage.

Asset Super's insurance cover is age based or fixed if a member chooses this. Asset considers that default superannuation funds should offer minimum levels of insurance cover with, as is currently the case, the option to increase cover. We advocate minimum cover because we are a multi industry fund which covers industries with high numbers of casual, part time and seasonal employees e.g. the Racing and Wine industries. Many employees have intermittent superannuation contributions and low account balances. The fund must balance retirement benefit accumulation with insurance cover, and higher insurance premiums will erode retirement benefits for casual and low wage employees.

Asset Super outsources its administration, custodian, investment management and insurance. These outsourced service providers are chosen via a full market tendering process. The criteria for selection of outsourced providers are based on both professional reputation and technical ability and value for our members' membership fees.

If default funds abide by the existing legislation, including the SIS covenants as well as Corporations Act requirements, there should be no need for further aspects of fund governance to be considered in the selection of default funds in awards.

Fund size

As we have mentioned above merged funds in general would optimise resources allocated to members' investments and improve access to scale (with respect to both assets and number of members) to continue to provide net investment returns that are in the best financial interests of members.
The default investment options of most industry funds currently aim to satisfy the criteria that have been proposed for MySuper funds.

Transparency

The current process for listing default superannuation funds in awards is transparent. The superannuation funds currently nominated as default funds in Modern Awards were not automatically nominated, they were nominated by means of public submissions based on their standing in previous awards or NAPSAs (notional agreements preserving state awards). By this means they sought to maintain existing arrangements for their employers. The nominated funds sought inclusion in the awards covering the industries in which they covered members since the beginning of award superannuation and later SG compulsory superannuation.

Performance

Entities with more than four members

	Jun 2002	Jun 2003	Jun 2004	Jun 2005	Jun 2006	Jun 2007	Jun 2008	Jun 2009	Jun 2010	Jun 2011	2002 - 2011	
											Average ROR	Volatility
All entities	-4.9%	-2.1%	12.2%	12.2%	13.3%	14.5%	-8.1%	-11.5%	8.9%	7.8%	3.8%	9.9%
Corporate	-3.7%	-3.4%	12.2%	12.8%	14.0%	15.3%	-9.3%	-8.2%	9.4%	7.7%	4.3%	9.7%
Industry	-4.5%	-1.8%	13.4%	13.2%	13.1%	16.0%	-6.0%	-11.7%	8.5%	9.0%	4.5%	9.9%
Public sector	-5.8%	-0.9%	13.9%	14.1%	14.9%	15.1%	-5.8%	-12.3%	9.8%	8.9%	4.7%	10.4%
Retail	-5.0%	-2.5%	10.8%	10.6%	12.4%	13.4%	-10.2%	-11.5%	8.7%	6.5%	2.9%	9.6%

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How should expected consolidation in the superannuation industry be taken into account? What would happen in the event of product mergers?

Modern awards contain succession clauses.

Should some type of grandfathering clause remain in modern awards? What are the advantages and disadvantages of retaining such a clause?

Yes, otherwise many small employers will be put to additional administrative complexity and cost.

What should be the role of the industrial parties to the awards? What should be the role of FWA?

FWA is the organisation to determine these issues.

Are Employers best placed to choose one default fund among those listed in awards?

Yes - employers rely on the default fund with which they are familiar, either because existing employees belong to it, or, because the default fund was nominated in a previous award or NAPSA (notional agreements preserving state awards). Employers have an interest maintaining existing arrangements because they have already organised their contributions to that fund. Employers are also advised by their relevant industry associations and the unions covering their particular enterprise.

General Comment

Asset Super believes that the existing “fund choice” regime allows any member to select a superannuation fund of their choice. The inclusion of nominated default superannuation funds in modern awards provides a mechanism that ensures that unsophisticated and disengaged employees have access to low cost superannuation options. It also provides an easier selection process for under-resourced small business employers so that they can efficiently and quickly arrange to meet their Superannuation Guarantee obligations whilst being comforted that their employees are utilising default superannuation fund(s) that have been supported and/or recommended for inclusion in modern awards by their respective industry association.

In summary Asset believes that the industrial parties under Fair Work Australia are best placed to negotiate conditions of employment, including superannuation, as they have done since awards were established many years ago.

Yours faithfully

John Paul
CEO Asset Super