Submission to the Productivity Commission

DEFAULT SUPERANNUATION FUNDS IN MODERN AWARDS

11 August 2012

Rural & Regional Promotions Pty. Ltd.

Robert Hennessy-Hawks

General comments on the Public Hearing on Monday, 30 July 2012.

Fund Comparisons:

The proposition that industry funds generally perform better than retail funds is arguable.

Whilst ASIC for example publish reports of fund performance these reports are usually provided to ASIC by the individual funds, also it does not appear to address the issue of published returns versus crediting rates.

As a general rule retail funds currently use unit pricing whilst industry funds as a general rule do not, thus it is difficult to establish a direct comparison of funds performances at any specific point in time.

Qualifying as a Default Fund:

We submit that there are two (2) issues which need further comment in relationship to any fund qualifying to be a default fund.

As the members in a default fund are often the least informed members, fund transparency and governance should receive the highest level of scrutiny. This can be greatly assisted by those funds wishing to be included as default funds replacing the audit requirement of the fund with forensic accounting reports.

This will provide a higher level of scrutiny, be more transparent, definitely more objective and more independent.

We are not suggesting that there have been any improprieties in fund administration or management, however forensic accounting reports would provide greater comfort for Trustees, Employers, Union representatives and members of the fund.

However if any unusual transactions or improprieties were discovered in the forensic accounting report, the fund should be unable to continue as a default fund until the matter was satisfactorily resolved.

Funds whose Trustee, Fund Managers, Fund Administrators are all inter-related, should be required to adopt a more independent structure, creating additional "gate keepers" to better serve the best interests of fund members.

Fund Balances:

Member disengagement seems to be having an effect on member's willingness to make additional contributions to their fund.

We have an ageing population. Australians need to trust the superannuation system and fund more than the mandated minimum contributions.

Treasury projections published in the 2010 Intergenerational Report outline a key challenge, that between 2010 and 2050 the proportion of Australians aged 65 to 84 will double, while the proportion of people older than 85 will quadruple. Concurrently the proportion of Australians working age will fall 7 percentage points to 60 per cent by 2050, meaning that the number of working people to support retirees will halve (IGR, 2010).

A recent Deloitte report warns that the average lump sum will be only $217,000 which means that the member has a 78% chance of outliving the income stream from his superannuation. These calculations take into account the rise in compulsory superannuation contributions from 9% to 12% (Deloitte 2008).

It would appear that the main drivers in this current disengagement by members is due to the following :-

- Lack of trust in Governments.
- Continual changes in fund regulations, particularly relating to tax deductibility of contributions, amounts of allowable contributions and proposed changes to retirement age are leaving members confused and lacking in confidence in when and what they will eventually receive on retirement.

- A lack of comprehensive advice to members as to their future requirements and the funding levels required to produce those outcomes. This would seem to indicate a greater involvement by the financial planning industry in advising fund members of their requirements, including death and disability benefits.

Choice of Funds:

The Productivity Commission draft report page 54 states *"switching rates between funds have declined from an initial rate of around 5% in 2005 to 2% in 2009".* Many members in default funds are unaware that they have the ability to switch from one fund to another, this also adds to their disconnect from taking an active interest in their fund.

There is a natural disinclination for funds, unions and employers to actively advise members that they are free to switch to other funds. This can best be addressed by requiring funds to include on their annual advice to members a notice that they have the right to switch to a fund of their choice if they so desire.

Proposal for quarterly reporting:

The Commission is recommending quarterly reporting by funds. It would seem unwise to include fund performance as quarterly reporting has led to a bad culture within superannuation funds with investment managers striving to be among the top quartile funds in every quarter. Superannuation is a long term investment and quarterly performance reports can lead to short term speculative investing by fund managers particularly if they are remunerated on a quarterly basis based on their performance for that particular quarter.

It would be more helpful if quarterly reports clearly showed a comparison between the current quarter and the previous quarter of what funds were invested in which investments and where funds are currently invested, with an explanatory note where major changes have occurred.