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Super System Review
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Joint Submission – Super System Review – Proposed architecture for superannuation

This joint submission is provided by the Association of Superannuation Funds of Australia (ASFA), the Australian Institute of Superannuation Trustees (AIST), the Investment and Financial Services Association (IFSA) and the Corporate Super Association (CSA).

We urge you to reconsider your recommendations contained in the Phase One – Preliminary Report in relation to the proposed ‘choice architecture model’ for superannuation.

For more than 25 years, Australia has enjoyed a world-class superannuation system. All of the leading superannuation bodies are united in the belief that the changes proposed by the Cooper Review, in its Preliminary Report issued on 14 December 2009, are unnecessary and will not ultimately benefit members of funds.

We agree with the Panel that superannuation is not just another financial product, and that it does serve “an overarching social policy objective”.

We acknowledge the need for governance structures that fit the circumstances and needs of the members whose funds are governed.

However, we do not accept that the implementation of the “choice architecture” as outlined in the Preliminary Report will enhance this social policy objective. We note that the Panel questions the view that super “ain’t broke, so don’t fix it”. However, we also note that in establishing the Review, the former Minister, Senator the Hon. Nick Sherry, expressed the view that the Panel’s task was to “renovate the house”. We are concerned that the effect of the choice architecture model would be to demolish the house and start again.

Additional layers of cost and complexity

We believe the proposed model does not focus on the key issues of making the system more efficient but seeks to fundamentally alter an existing structure that has served members well. We do not believe that this was the intent of the review.



The application of the proposed model will be detrimental in both the short and longer term to the practical interests of the overwhelming majority of members.

The current model successfully services both engaged and disengaged members, while ensuring that adequate information is provided.

Rather than driving efficiency and reduce costs, the proposed system as outlined in the Panel's preliminary report would add additional layers of costs and complexity.

It is difficult to establish how the Panel envisages the 'universal' and 'choice' options would operate in practice.

However in simple terms, if an existing superannuation fund chose to participate in any new model and still offer a range of investment options, it would have to establish separate fund structures to cater for the members categorised as either 'universal' or 'choice'. This would inevitably increase the administrative burden on the total fund, which would translate into higher, not lower costs per member.

In an attempt to shift the cost of administration on those who use it most, and protect those who use it least, the Panel has proposed a rough model which will, perversely, result in the opposite effect.

Requiring the separate trust structures we believe will erode the economies of scale that currently exist.

Level of member engagement

We do not accept that all those currently in a balanced or default fund are necessarily disengaged with their superannuation. Many people in this category communicate with their funds through call centres and take a great interest in their annual statements (particularly post the GFC). They also make active decisions in regard to taking out extra insurance or making additional contributions.

The model also fails to recognise that the level of engagement is also a factor of age and stage of life.

How will or should funds determine the level of engagement? From a process perspective, determining whether an individual has in fact made a choice can be very difficult and it is unlikely this information can be ascertained without direct consultation with the member concerned.

Lifecycle investment strategy

The Panel also proposes to couple this 'universal' option with a lifecycle investment overlay, which is itself a contentious proposition for members who it is claimed, have made no (or at best a feeble) choice to participate.

There are serious industry misgivings on the appropriateness of lifecycle funds.

We believe that the existing system allows for trustees to focus not simply on costs, but also on returns for the default options.



Disengaged members

We do not agree with the Panel's view that disconnected members should be provided with a 'conservative' investment strategy. Whilst the strategy certainly needs liquidity, to suggest that disconnected members shouldn't be also growing their account balances seems counter intuitive.

We also seek changes to SIS so that the industry can appropriately cater for members who make investment choice within their fund.

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We trust that the information contained in this joint submission is of value. We would be pleased to discuss our submission further with you.

Please note that each organisation has addressed further issues in their separate submissions.

Yours sincerely

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