Submission to the Productivity Commission on its Draft Report on Default Funds in Modern Awards

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About ASFA

ASFA is the peak policy, research and advocacy body for Australia's superannuation industry. It is a not-for-profit, sector-neutral, and non-party political national organisation whose aim is to advance effective retirement outcomes for members of funds through research, advocacy and the development of policy and industry best practice.

ASFA's focus is on whole of system issues and its core strategies are aimed at encouraging industry best practice, advocating for a system that plays a productive role in the Australian economy, and ensuring the industry delivers on its primary purpose of delivering decent retirement incomes.

Our membership - which includes superannuation funds from the corporate, industry, retail and public sectors, and, through its service provider membership, self-managed and small APRA funds - represents over 90 per cent of Australians with superannuation.

Executive Summary

This submission responds to a number of the statements and findings of the Productivity Commission in the Draft Report released by the Commission in June 2012.

ASFA acknowledges the importance of the debate, its complexity and the relatively short timeframe the Commission has had. As such in order to the aid the debate, the focus of this submission is on factual matters concerning superannuation and the operation of default fund offerings. The body of the submission provides a number of detailed comments on material in the Draft Report.

In terms of public policy, ASFA has two main points to make in response to the Draft Report:

- We are concerned that it is too early to make assumptions about MySuper offerings and as such setting firm policy on selection processes is not appropriate at this time.
- A minimum requirement should be that Trustee Directors (no matter though what process they are able to put themselves forward for a Trustee position) must have been assessed on criteria set by the Trustee Board, including meeting minimum skills and experience as well as and specialist or particular skills and experience that the Trustee Board considers are needed at the relevant time. We believe merit based appointments are a minimum standard expected by Fund members.

In relation to specific matters in the Draft Report, ASFA's response is as follows:

Page 7, first paragraph

Public offer funds are open to all individuals, not just employees. Public offer members of a superannuation fund can join when they are self-employed and even when they are not in the paid labour force.

While a number of industry funds were established to cater primarily for employees in specific industries, a number of others were set up to cater for all industries, either in a given State or nationally. From the start, such funds had the ability to have members from any industry provided that the employer of an employee member agreed to become a contributing employer. Public offer status allows for members to join a fund without the need for an employer sponsor.

Page 9, second dot on the page

As detailed later in the Draft Report, many of the Stronger Super reforms are aimed at requiring funds which offer MySuper to provide an offering which is in the best interests of the members.

Page 27, third dot point

Employers are not obliged to use a default fund in a modern award when an employee exercises choice or when "grandfathering" arrangements apply.

Page 29, second dot point in Box 2.1

Clare, 2006 is not authority for "90 per cent of employees will not choose a fund". The discussion in Clare, 2006 was about the number of employees who in the future would change funds, on top of the substantial minority who had already exercised choice at that date. The paper also pointed to how choice of fund had led to more employees exercising choice in order to stay in the same fund when they changed jobs.

Attachment A provides recent survey results on the proportion of employees who have exercised choice at some point in the past, along with current annual rates of choice.

Page 31, Box 2.2

It should be noted that most of the work of the Superannuation Complaints Tribunal relates to complaints in regard to the decisions of trustees of superannuation funds, rather than the conduct of trustees.

Page 32, second last paragraph

Rather than mergers of superannuation funds being influenced by a favourable capital gains tax outcome, they were discouraged by an unfavourable treatment. The government has legislated to remove that tax impediment to fund mergers.

Page 33, first paragraph

It is not correct to say that each individual holds an average of three accounts. The overall average is less than 2.5 when you take into account those who are retired, those not currently in the paid labour force, and Australians and New Zealanders who are no longer in the country but unable to access their superannuation. Most individuals have only one or two accounts with a minority having more three or more accounts.

Page 44, first two paragraphs

The ASFA estimate is not inconsistent with the coverage of awards for members of specific funds as the ASFA estimate is for the economy as a whole.

The calculation in the first full paragraph appears to be based on the incorrect assumption that only 10 per cent of employees make a choice about their fund.

Pages 88 and 89

The draft recommendation that the Government should consider assembling a panel of corporate governance experts and relevant regulators to assess the appropriateness of board structures of default superannuation funds arguably is putting off a matter that the Commission could itself come to a decision on.

ASFA suggests that it would be appropriate to recommend that all trustee directors regardless of whether they are elected or appointed need to demonstrate that they are on the board through merit. This would mean that a person standing for election would need to demonstrate they meet at least minimum specified criteria in regard to skills and expertise. If such an approach was adopted a trustee board would also have to document how any person appointed as a trustee director met the minimum specified criteria.

Page 136

The claim that default funds do not have a strong incentive to be responsive to employers' needs is disputed by ASFA. Most awards have more than one default fund listed. As well most funds rely for most if not a substantial proportion of their contributions from employers not subject to an award. There is strong competition in regard to signing up employers for default arrangements.

Employers also can make use of clearing house arrangements, including the Australian Government's Small Business Superannuation Clearing House[1] (SBSCH), in the case of small employers. This leads to standardised contribution processes.

The bigger problem appears to be unwillingness on the part of some small employers to make use of the solutions currently available. The ability of a fund to process a contribution for multiple employees which is made by way of a cheque accompanied by a 'post-it' note (a contribution method favoured by at least some small employers) should not be a criteria for the administrative efficiency of fund.

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[1] The SBSCH is a free superannuation contributions clearing service offered by the department of Human Services to employers with fewer than 20 employees. It was formerly known as the Medicare Clearing House.

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If you have any queries or comments regarding the contents of our submission, please contact me on (02) 8079 0809 or via email to rclare@superannuation.asn.au.

Yours sincerely

Ross Clare

Director of Research

ATTACHMENT A: INCIDENCE OF FUND AND INVESTMENT CHOICE

It is possible to directly determine the incidence of fund choice and investment choice by surveying fund members.

In this regard, research commissioned by ASFA was carried out in May to June 2010. An online quantitative survey was used to ask around 35 questions. The survey involved a randomly selected consumer sample from the provider's proprietary panel of over 100,000 Australian consumers, with data collected from a representative grouping of the population of those aged 25-69, currently in the labour force and numbering 609 in total. Results were analysed with segmentation from a range of perspectives.

In summary, around 57 per cent of respondents reported that they chose the main fund they are in or were specifically happy with the default fund offered. Around 30 per cent of respondents reported that they specifically chose the main fund that they are in rather than just being happy with the default fund on offer from their employer.

Males were more likely to report choosing their main superannuation than females. Only a relatively small proportion (20 per cent) of respondents indicated that while they could have chosen their superannuation fund they went with the default offered (Table 1).

The finding that the majority of fund members are in a fund they chose or are happy to be in even though it is the employer default is consistent with ABS survey findings in 2007 that just over 50 per cent of employees indicated that their employer pays into the employee's fund of choice.

The results also indicate that a significant minority (around 20 per cent) of employees do not have choice of fund. Employees who are in public sector and private sector defined benefit funds do not have choice of fund. As well, collective industrial agreements can exclude choice of fund.

The incidence of actively choosing a super fund tends to increase with age and with household income. While only 16 per cent of those aged 25 to 29 reported that they specifically chose the fund they are in, the figure lifted to 50 per cent for those aged 60 to 69. Account balances are strongly correlated with age and when there is more at stake, in terms of a higher balance, then there is more interest in choice of fund.

Table 1

Did you choose the main super fund that you are in?	Female %	Male %	Total %
Yes, I specifically chose it	24.0	32.9	29.3
Yes, I was happy with the default fund on offer by my employer	27.3	27.5	27.4
No, I did not have a choice	25.6	21.3	23.1
No, while I could have chosen I went with the default offered	23.1	18.3	20.2
Total	100	100	100

Table 2 sets out the responses on choice of fund split by the type of fund the respondent is in. Not too surprisingly all the respondents who were in a SMSF chose their fund. At the other end of the spectrum only a small proportion of corporate fund members specifically chose to be in the fund although it should be noted that the majority of members of such funds were happy with the default on offer.

The responses in regard to members of public sector funds clearly indicate both that many members of such funds did not have a choice about being a member but they also were generally happy with being a member.

The highest proportion of respondents specifically choosing the fund they are in was for members of retail funds. Over a third of respondents in retail funds specifically chose the fund that they are in.

Table 2
Did you choose the main super fund that you are in?

	Type of fund					Total %
	Industry %	Retail %	Public sector %	Corporate %	SMSF %	
Yes, I specifically chose it	31.6	34.9	7.6	13.6	100.0	28.3
Yes, I was happy with the default fund on offer by my employ	29.9	24.0	24.8	50.0	0.0	27.4
No, I did not have a choice	19.2	13.7	51.4	18.2	0.0	23.3
No, while I could have chosen I went with the default offered	19.2	27.4	16.2	18.2	0.0	21.0
Total	100.0	100.0	100.0	100.0	100.0	100.0

In other surveys conducted for ASFA in 2010 and 2011 around 15 per cent of respondents indicated that they had changed jobs in the previous year. Of these respondents changing jobs, around 70 per cent kept their old fund. While in some sectors a particular fund might be a common default fund for employers, these figures suggest a substantial proportion choose their fund when they change jobs rather than just going with the default. This is likely to apply regardless of whether the individual was defaulted into the fund when they were first employed. Attachment to a fund tends to grow over time.

CURRENT INCIDENCE OF INVESTMENT CHOICE

The majority of fund members surveyed also reported that they actively selected the investment option that they are in. There would be a significant proportion of fund members who both choose the fund they are in and the investment option that they are in.

As shown in the following table, males were more likely to select their investment option than females but with proportions for both being very substantial. While the numbers in the default option are lower than the 80 per cent figures that have been used by some, they are very consistent with APRA figures showing that only around 30 per cent of sector assets are invested in default options of funds. Those exercising investment choice are likely to have higher account balances than those that do not. However, in some funds (particularly those with younger and/or lower average account balances) the percentage in default options will be higher than these average figures.

Table 3

Did you actively select the investment option taken with your main super fund or are you in the default option?	Female %	Male %	Total %
I actively selected an investment option other than the default	46.7	58.1	53.5
I am in the default investment option	53.3	41.9	46.5
Total	100.0	100.0	100.0