

Submission to the Productivity Commission Inquiry into Superannuation: Assessing Competitiveness and Efficiency

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INTRODUCTION

The ACTU seeks to make a submission into the Third Stage of the Productivity Commission Inquiry into Superannuation: Assessing Competitiveness and Efficiency. The ACTU has made submissions to the earlier stages of this Inquiry.

The ACTU is the peak council of trade unions in Australia and as such the representative body for employee associations who are respondent to Awards and Agreements of the Fair Work Commission. This is relevant to the extent that the framework for establishing the current system of default funds is through this Award and Agreement system. As such the ACTU and its affiliated unions have been pivotal and central players in the default system structures which have operated highly successfully within Australia for some 30 years.

Moreover the ACTU itself played a pivotal role in the establishment of occupational-based superannuation through the negotiation of an Accord with the incoming Labor Government in 1983 which in turn led to superannuation being determined to be an industrial issue, the establishment of award provisions providing for payment of superannuation into prescribed funds and the establishment and stewardship of many of the new industry funds prescribed by the Award system. The ACTU subsequently played a major role, through later Accords, in the establishment of the Superannuation Guarantee Charge by the Federal Government. As such, the ACTU remains one of the most significant ongoing institutions which has a legitimate voice in helping guide public policy in the area of superannuation and retirement incomes.

ACTU'S PRIMARY POSITION IN RESPECT OF THE INQUIRY

The ACTU has maintained a position during this Inquiry in which it has questioned the motivation for the Inquiry, the appropriateness of the core assumptions behind the Inquiry and the approach taken by the Commission. We maintain our concerns in regards to these areas and reiterate these concerns below.

The fundamental basis for the Inquiry appears to be an assertion by the Government (and not challenged by the Commission) that the current default arrangements are at various times not comprehensive, as well as being ineffective or inefficient. The assertion is then made that the process to remedy these supposed failings is to seek to find a competitive (and by the Commission's assumptions, therefore, efficient) system for determining default funds.

The ACTU believes this is completely refuted by the facts when any sort of objective review of superannuation arrangements in Australia, or of best practice in almost all advanced economies, is considered. Further it is our view that the path being followed is detrimental to the interests of Australian workers in their processes of trying to aggregate

a decent accumulation benefit in their superannuation schemes to provide for their retirement needs. It is also, in our view, potentially destructive in terms of public policy settings for the future.

The ACTU is a staunch defender of the initial architecture of the superannuation framework in this country. The ACTU maintains the view that the system provides widespread coverage for the workforce (and any deficiencies in this coverage are easily overcome), the system has proved highly efficient in delivering cost effective superannuation arrangements to Australian workers (and any short term problems within the system such as the proliferation of multiple accounts could be and should be solved by working within the system) and is world class in providing investment returns as part of an internationally highly rated retirement policy system (albeit recent Government decisions to allow inferior retail products into the system as MySuper products has done some damage to the system). The ACTU refutes the view that a comprehensive “start all over” approach is needed to the provision of (default) superannuation.

The ACTU also points to international best practice in superannuation and says that the most successful forms of delivery of superannuation in almost all advanced economies is through efficient, all profit to member default fund arrangements. This is certainly the case in North America and Europe who are widely recognised as having the best performing pension/retirement income systems and which have, at their heart, large scale, all profit to member superannuation funds.

The ACTU also strongly disagrees with the view that further introducing a competitive system in lieu of existing arrangements would lead to better outcomes for individual workers. This is best evidenced in that a competitive system will introduce a new layer of costs and charges to the operation of superannuation and, at the same time, the only assertion that such a change would lead to either improved operational efficiency or better investment performance outcomes comes from untested theoretical models.

The ACTU notes the output of the Commission in relation to the first two stages of this Inquiry and makes the following comments in relation to that work:-

- System-level objectives:-
 - The ACTU has supported the use of long-term net returns to members as the overwhelmingly most important issue in evaluating the utility of the superannuation system. The ACTU does not support the complication of this objective by the use of a myriad of ill-defined sub-measures nor the emphasis placed on other largely qualitative issues as system-level objectives.
- The development of Four Alternative Models to be assessed as potential Default Fund Models:-
 - The ACTU remains critical that no attempt was made to evaluate the existing Default Fund structure as a base model nor was there any attempt

to seek discussion on whether practical enhancements to that model could produce an outcome with a clearer framework for its operation. The ACTU's submission to the Second Stage of the Inquiry sought to develop a blueprint for this approach, but unfortunately has not been analysed in any sense by the Commission.

- The ACTU stresses the point which has made that at least two of the Alternative Models proposed are proxies for a model for “choice” at the workplace but without the legitimate input of the workforce. The ACTU's has stressed the issue that any attempt to implement such a model would be tested by the ACTU in the courts and we strongly believe such an approach would fall foul of the principles for the treatment of industrial issues as determined by the High Court.
- The ACTU strongly advocated that the Commission's work should seek to determine whether or not the choice model it finally proposed would lead to worker's having worse outcomes than they obtain under the current models which deliver occupational superannuation. The ACTU has asserted that it is almost certain that the four models proposed by the Commission would lead to this outcome. Whilst the Commission has introduced elements of this assessment into the third stage, there is still concern as to whether the modelling to be undertaken by the Commission will be done in a manner which allows for full and proper consideration of this issue.

THE COMMISSION'S REQUESTS FOR INFORMATION

The ACTU responds to the Commission's invitation for comment on Stage 3 of the Inquiry as follows:-

POLICY IMPEDIMENTS

The ACTU does not seek to refer its response to this issue using the approach sought by the Commission, being reference to the assessment criteria.

Fundamentally, in this request, the Commission repeats what the ACTU believes is its false premise for the Inquiry in that it seeks to elicit commentary on policy or regulatory issues which from their enactment have tried to establish an orderly, regulated approach to the delivery of occupational superannuation. It is our view the import of the commentary is aimed at reinforcing a view that any regulation in this area should only exist to promote competition. The ACTU believes the proper process for submissions being sought is one that allows for objective commentary about the merits of regulation being used to promote controlled systems as well as open systems.

The first premise in this regard which the Commission should have looked to was an examination of those policy and regulatory issues which promote different options for the operation of the system – viz those that promote a structured, regulated system and those which might promote a competitive system. The Commission seeks to define policy or regulatory issues which promote structure and order as impediments to competition (and at face value, that is what they might be), but if they are deliberate in purpose and effective in their outcome, then they deserve to be assessed in this light.

Clearly much of the regulation which has existed for 30 years has been developed with the policy intent of a structured system but one which maximises outcomes to the system participants. Hence the development of a system to regulate superannuation fund selection and default arrangements within the framework of industrial regulation is a cornerstone of policy settings in this area. Much of the regulation around superannuation emanates from this setting. The ACTU does not view this as an impediment to a successful superannuation system: we see it as the foundation of one. We say the true assessment measure for this is the outcome seen through the net returns to members which have been delivered under this arrangement. And whilst there is no single uniform measure applying to each individual worker under this approach, there is a clear and demonstrable pattern in which the performance of industry funds have clustered around consistent outcomes and have delivered consistently high level risk-adjusted returns. We say that the introduction of commercially constructed products in competition to these industry funds has not delivered the same level of returns and have reinforced the relative quality of the returns from all profits to members approach.

There are a range of incidental pieces of regulation, which the Commission identifies will have an impact on the effectiveness of the system – such as the treatment of capital gains at the time of fund mergers and the potential impact of new reporting legislation such as RG97. We do not comment in detail on this level of regulation as we do not believe it is germane to the central issue of whether a regulated system is more efficient than a competitive one.

HOW DO THE EXISTING DEFAULT ARRANGEMENTS MITIGATE THE PARAMOUNT RISK OF ANY DEFAULT SYSTEM – A MEMBER DEFAULTING TO A (LONG-TERM) UNDERPERFORMING DEFAULT PRODUCT? WHAT IS THE EVIDENCE OF LONG-TERM UNDERPERFORMING DEFAULT PROVIDERS EXITING THE DEFAULT MARKET?

The existing Award allocation system has always had the potential for participants to seek to change the allocation or default allocation system through a number of mechanisms – through variation of general Award provisions, the insertion of either alternative or additive provisions or the development of Enterprise Agreements to allow for a default arrangement other than that applying in an Award. It is also fair to say these mechanisms have not been widely used; it is also fair to say that the work of the Expert Panel within Fair Work Australia, which ultimately would have had some responsibility to overview a regulated default fund system has not been given the opportunity to function

properly and hence allow a judgement on how an enhanced evaluation process might perform in an area such as this.

It should be noted that in our submission Stage of the Inquiry, the ACTU proposed that performance review of default fund arrangements should be a specific function of the Expert Panel. The ACTU proposed this as an enhancement to the 2012 Fair Work Legislation which established the Expert Panel.

HOW DO THE EXISTING DEFAULT ARRANGEMENTS CREATE INCENTIVES FOR FUNDS TO MAXIMISE LONG-TERM NET RETURNS AND ALLOCATE MEMBERS TO PRODUCTS WHICH MEET THEIR NEEDS? HOW COULD THE EXISTING ARRANGEMENTS BE IMPROVED TO ACHIEVE THIS GOAL?

The first issue which should be said in respect of the issue of the creation of incentives to maximise long-term net returns is that this has never been an issue within existing arrangements primarily because this very aim has been the single focus of the bodies which have effectively been the sponsors of the existing arrangements. It is, simply, not as though there has ever been another goal for Trustees to focus on.

A form of review which would help reinforce this process would be the regular review process envisaged under the Fair Work legislation in which performance would be monitored on a regular basis. Hence any movement away from a motivation to maximise long-term performance might well be a factor which could exercise the Expert Panel and the Full Bench's views on the suitability of a particular fund as a default fund.

In addition to this APRA has had a substantive role in keeping this issue in its proper focus initially through the development of its enhanced reporting standards. This level of reporting has, by and large, kept a regular public focus on the issue of returns and created an environment where there is little tolerance for underperformance of any nature, be it relative or absolute. Alongside these reporting standards, APRA has expansive supervisory powers and could move to question the motivation of Fund Trustees should it believe that issues other than the maximisation of long term returns had begun to intrude into decision making processes.

The Government has also recently proposed to extend APRA's powers in this regard through the introduction of an Outcomes test which would mean any fund which performed, at a reduced level, presumably because they were seeking to serve another motivation, would be subject to significant sustainability review. The ACTU has expressed its concerns over some aspects of the Government's proposals in this area albeit a feature of the approach could have, if properly and fairly put into practice, an ability to ensure funds with other motivations could be forced to justify their existence.

The ACTU would argue that the process to allocate members to "products" has largely been a successful one in that what has generally been established is a default benefit regime – that is a balanced investment strategy and default insurance arrangements - which has been widely tested for its effectiveness as a best fit "product". The ACTU would

acknowledge that any default approach has limitations in that it is limited in understanding all the outside factors which apply for individuals. But what it does seek to do is to provide a best in class approach is taken to gaining the maximum net investment return – in the end, to ensure that the objective for members is an optimised outcome. Ultimately the system alone cannot determine how much an individual can accumulate for their retirement needs through investment allocations alone. The biggest influence on adequacy on a retirement outcome and how it is the level of SGC contribution and in the end, this is a decision of Government, not the industry. The default offering the funds provide work well within this constraint.

The industry has a record of being effective in dealing with issues to ensure the balanced default product remains optimal. An example of this is the response to recent concerns about issues associated with insurance, following on from a number of issues exposed in the general media. The development of an Insurance and Superannuation Working Party, aimed at establishing better minimum standards is a means by which the industry responds to the need for products to remain relevant and meet their needs.

The industry is also an international clearing house for changes in policy and practice. The consideration of life cycle products would be an example of this whereby some funds have investigated a different type of policy solution and determined to offer it, whilst others have done their own research and not sought to implement the product. The point is that the issues are well known and well considered and simply because one fund has not chosen to implement a new development does not mean that products haven't been fully examined. In any case, on an issue like a life cycle type of investment arrangement, the Funds have developed sufficient variability in their operating platforms which, together with the advice platforms funds offer, allow for individuals to choose an investment approach of their own, should they feel they wish to pursue such an alternative.

Hence it is not clear existing arrangements need to be altered to accommodate an approach. If sufficient variability exists in product platforms, this issue is not one which causes significant concern.

WHAT IS THE EVIDENCE THAT EXISTING DEFAULT ARRANGEMENTS ENCOURAGE OPEN PARTICIPATION (CONTESTABILITY) AND RIVALRY BETWEEN FUNDS FOR THE DEFAULT MARKET (COMPETITION FOR THE MARKET)?

The simple answer is that this is not the design of the existing system. It is an ordered system in which there is a structure to which default funds are allocated to particular industries. The design of the system is also more efficient and effective than a contestability driven system and to that extent, this should be recognised.

There are, of course, some areas of the system where several funds have been named as default funds to particular awards. This has largely arisen through the process which

consolidated a myriad of awards into the current modern awards in the late 2000's. The process at that time led to a situation whereby if a fund had standing in an existing Award it was given recognition in the modern award. In some cases this meant that a fund which previously only operated in a confined environment, say at a State level, was given the status to be a default fund across the entire country. However, this has not led to a proliferation of default fund competition with, by and large, funds largely choosing to continue to operate in the jurisdiction in which they had traditionally operated.

It is also not to say there has never been competition in situations where two funds with different characteristics have operated – say one coming from a geographical perspective and another from an industry sector perspective. In such limited competition has always existed and generally resolved by the employee and employer at individual workplaces. Similarly there are instances in which funds which have derived from a State based system perspective effectively do compete against funds inserted into awards from a Federal perspective. Such cases are rare and often end in an amalgamation between funds and/or are discouraged by industrial players from being an issue, often for the reason to avoid spending large amounts on competition costs.

WHAT IS THE EVIDENCE THAT THERE IS COMPETITIVE PRESSURE THAT DRIVES INNOVATION, COST REDUCTIONS AND MORE EFFICIENT LONG-TERM OUTCOMES FOR MEMBERS? HOW COULD EXISTING ARRANGEMENTS BE IMPROVED TO ACHIEVE THIS GOAL?

Clearly competitive pressures, as viewed through the lens which the Commission would wish us to approach this sector, have not existed and hence have been the driving factor for innovation or cost reduction. However it is also not fair to say that the industry hasn't found other motivations to drive innovation, cost reduction and maximised long term outcomes.

To this end, some of the most important innovations in respect of long term performance have come in this area through collaborative effort rather than competition. The most obvious example of this is the adoption of the use of real, unlisted assets by industry funds in the early 1990's – a factor which has been at the heart of the superior performance of the funds for more than 20 years. And not just because an efficient asset class was used, but also because the structures which were established were benchmarked against fee levels which were appropriate to the funds and much lower than what was available in comparable products in the market.

It is worthwhile to note that this approach essentially didn't exist in investment regimes in other areas and indeed, many international funds have now followed the approach in both the use of unlisted assets and the use of collaborative investment vehicles.

Beyond this it is also appropriate to say that the default structure has not been blind to either international developments or efficiency developments in areas like technology. The large funds substantially benchmark themselves against world's best practice and engage with the world on developments; many local funds subsequently benchmark

themselves against these larger local funds. These approaches have driven issues like cost reduction in investment fees and custodian fees and are now driving administration approaches which adopt best in the world approaches to drive cost efficiency.

The counterpoint to this is that too much competition might in itself limit innovation and cost reduction. If competition was to lead to a more crowded market (which could easily eventuate in a market of our size) then it would result in smaller local players, unable to gain the sort of efficiencies which large funds are able to obtain in international markets, especially when some of that economy comes from being a significant investor and asset owners.

HOW DO EXISTING DEFAULT FUND ARRANGEMENTS PROMOTE ACCOUNTABILITY AND INTEGRITY IN THE SELECTION AND DELIVERY OF DEFAULT SUPERANNUATION PRODUCTS? HOW COULD EXISTING ARRANGEMENTS BE IMPROVED TO ACHIEVE THIS GOAL?

There is a strong case for saying that a relatively high level of accountability and integrity exists amongst the existing default arrangements. The case for this is built around the following:-

- Essentially no significant cases of failure by a provider; there has been no evidence of widespread fraud or misappropriation of funds, no scandal or substantial adverse public policy concerns of the like we have seen from the banking sector;
- A high level of oversight by the Regulator is an issue which not to be underestimated in this outstanding record of delivery;
- Net returns are benchmarked against the best in the world, meaning that the industry sees itself as being accountable to have world class performance outcomes;
- The development of a level of professionalism across the sector requiring Trustee directors to have respected industry qualifications;
- The development of credible industry professional associations to overview and support the standards observed in the sector;
- Industry leading response to better disclosure on websites and in Annual reports;
- Demonstrated high levels of satisfaction amongst members.

In the light of this, it is therefore not surprising that, up until recently, we have not seen a movement for root and branch review of the default fund arrangements. And the ACTU would also say there is very little public call for such a review. However, ultimately it should be said that there is no barrier to such review and had the underlying levels of

accountability and integrity not been so high, it may well have been the case that such review would have been warranted. The threat of review is a form of implicit factor which means that industries such as superannuation often self-developed high levels within these areas to ensure that a lack of accountability and integrity doesn't become a reason for a public call for review. Clearly this is also an expected function of the Expert Panel within Fair Work Australia which will have a greater power and responsibility to review the performance of funds. Such a mechanism is an effective means to further entrench standards.

It is also not to say that further measures are not appropriate to reinforcing these levels of accountability and integrity. An example of this exists in the Federal Government's proposed Outcomes legislation in which there is to be mandated Annual Meetings and other enhanced levels of reporting. The use of Annual Member Meetings is a measure a number of leading funds already adopt, but the requirement for such strong public disclosure further assists accountability and will assist the appropriate bodies in their assessment of these issues.

Improving accountability and integrity is not a static issue in funds. It is consistently under review – an example is the response by the Australian Institute of Superannuation trustees to governance concerns by establishing a mandatory Code of Conduct/Governance Framework for Trustee Boards. A means of entrenching a continuing focus on accountability and integrity would be if it was a specific consideration for the Fair Work Expert Panel in their processes of reviewing defaults arrangements on whatever periodical basis is adopted by legislators.

DO THE EXISTING DEFAULT ARRANGEMENTS CREATE CONCERNS ABOUT STABILITY IN THE SUPERANNUATION SYSTEM THAT COULD LEAD TO SYSTEMIC RISKS?

The ACTU's response to this issue is to say that we are not aware of concerns in this area or scenarios which might affect stability.

Quite to the contrary, we are concerned that changes to the system could be the catalyst for concerns. Our view in this area is informed by the concern that adding a layer of competition to an industry that is not structured for competition disrupts that industry. For instance, instability amongst the largest owners of assets in the country may disturb equity and asset markets, harming investment returns. This would be to the detriment of long term net investment returns. Costs might also rise through the loss of scales of economy.

All this adds to the potential that if the system was to start to not meet the public policy goals it has in a partnership with Federal Governments, then long term instability starts to enter into the system. Ongoing instability is a threat in many ways – apart from concerns about the viability of investment markets, it may limit the opportunities to invest in technology, it may disrupt insurance pools to the long term detriment of the

members and their families who rely on these arrangements. None of this in the interest on the system at large.

DO THE EXISTING DEFAULT ARRANGEMENTS MINIMISE OF OVERALL SYSTEM-WIDE COSTS, TAKING INTO ACCOUNT COSTS ON MEMBERS, EMPLOYERS, FUNDS AND GOVERNMENTS? HOW COULD THE EXISTING ARRANGEMENTS BE IMPROVED TO ACHIEVE THIS GOAL?

The ACTU does not take a head in the sand approach and say that the current default arrangements are such that there are no measures to be improved or cost efficiencies to be gained. An issue we do point to in this is that some of the opportunities for cost improvements have simply not been available to the sector and it is only the advances in technology which are helping realise some of these cost savings.

Examples of this include the issues of multiple accounts and the treatment of non-active members in funds. The ACTU sees considerable potential in the development of the government projects such as mygov, Single Touch Payroll and SuperStream. Had such developments been available in the past and had the Government been prepared to work actively with the existing default funds, then significant progress would have already been made on the issue of multiple accounts. This is still possible as an enhancement to existing default arrangements and the appropriate introduction of those arrangements would be a considerable opportunity for the sector.

Similarly, technology to identify and communicate more rapidly with individuals will play a substantial role into the future in managing non-active accounts. Some of this is in new technology, some follows logically from the enhancements made in Treasury's work, mentioned above.

There is no doubt the use of technology in organisations of scale will change the cost basis members see into the future. Work currently being pioneered by some industry funds will deeply examine the structure of administration costs and where efficiencies can be gained. Organisations of scale are now also much better placed to negotiate on an "equals" basis with major financial institutions in areas like custody, the delivery of technology platforms and insurance and all these provide areas for lower bases for cost operation. Indeed, and critically, the growth of the size of funds under management will lead to a lesser reliance on more costly external managers and hence improve net returns to members.

The ACTU believes there is no reason as to why costs under existing default arrangements would be any greater for employers compared to the alternative models proposed by the Commission. In the early days of occupational superannuation, cost to employers was an important issue given that most employers manually produced returns to superannuation funds. Having a plethora of funds operating at a workplace greatly increased the cost of processing superannuation.

However, the advent of technology and efficient clearing house arrangements mean that almost all employers do not face any cost burden from their employees being in a variety of funds. Enrolment procedures for differing funds are essentially identical – so again, in this area there is no obvious cost burden for employers.

If some of the proposed enhancements to easier processing proposed by the Government were unable to be utilised within the existing default system, then a case could be made that these developments helped reduce costs for employers (in that they provide an easier, more efficient process to enrol new employees into their existing fund or a new default fund). However, there is nothing within these technologies which wouldn't be compatible with existing default funds and hence the cost to employers will be the same provided the technology is equally available for all funds.

The ACTU does not believe that existing default arrangements have added to system costs in any direct manner. Initially, of course, the spread of superannuation on mass scale provided mass scale of economies and led to an effective revolution of fund/system costs. However, these costs have very much stabilised and operate at relatively efficient levels. It is also the case that the system is at maximum scale – it is not as though changing default arrangements will lead to an increase in the number of overall accounts in the system and hence allow an administration provider to redefine the market because they have access to a large base of new customers. The existing market is well structured in terms of the number of operators and the scale they have, individually and collectively. Simply redistributing those total number of accounts within those existing operators will have little effect on overall system or fund costs.

Whether, for instance, the entrant of a global administration player with a different efficiency base (say coming from having a large international administration platform) would affect system costs is an exercise worthy of providing some comment upon. The case that this is unlikely to change the market on system costs is largely as follows:-

- A number of these players have previously attempted to enter the market; none of them have demonstrated an ability to bring an offering which radically changed cost structures
- Larger funds, particularly, operate at a scale which is already, internationally, significant and are able to benchmark their costs against other large international funds. That benchmarking has generally shown the Australian system to operate on a basis which is comparable to the operating bases of other large international funds – generally indicating that international experience is not showing a massive opportunity to bring in international administrators with cost/efficiency advantages.

This is not to say that system costs, and the manner in which funds relay them, will not come under a major readjustment when a greater rationalisation of multiple and inactive accounts occur, as it will under any of the proposed reforms going forward.

An area which seems to attract the Commission's interest in respect of system costs is whether adding a layer of competition will lead to a level of price competition between funds which will advantage funds and ultimately members. The response to this is that the current evidence says this is simply not likely to happen. That evidence is initially built around the experience which potential disrupters to the existing default arrangements have in that they already operate in the current system with their own MySuper offerings. These offerings are now at a significant enough scale to understand what their long-term operating cost models look like. APRA data on fund costs indicates there is little efficiency in this area – in fact the primary case is that these disrupters/retail funds are operating less efficiently than industry funds. The ACTU would not support a view that we conduct some form of grand experiment with default superannuation based on a theoretical view that competition will decrease costs when the live evidence is that those who would be amongst a new regime of default operators are not bringing system efficiency in their operations.

Finally, the ACTU believes there is an overwhelming case against changing default operations when the issue of (long term) Government costs is considered. This view is built on the performance data (which APRA collects) which consistently repeats the story of industry fund outperformance over retail funds (and is based on a narrative which is well understood in the nature of asset allocations and the cost of running investment platforms, both of which have told a story of underperformance by retail funds). There is a potential long term cost to the Government of any person moving from a better performing fund to an underperforming fund – simply less money in a retirement account means a greater reliance on the Aged Pension, it also means a faster draw-down of retirement savings and a longer period of time on higher levels of Government support. When the implications of these costs are drawn system wide, then they are substantial for Government.

THE COMMISSION'S METHODOLOGY GOING FORWARD

The ACTU does not support the proposed manner in which the Commission is proposing to conduct the third stage of the Inquiry, with an almost total reliance (outside it's the Commission's own resources) on Funds collecting data and the Commission relying on interviews with Fund staff.

As a matter of proper process, those parties which have had significant roles in the 30-year partnership of the development of the occupational superannuation system, should be afforded a proper place to comment upon the issue the Commission is considering before a final report to Government is prepared.

CONCLUSION

The ACTU concludes its submission with the following overview of this Inquiry:-

- This Inquiry is born of a desire to impose competitive arrangements in an area which simply will not benefit from the traditional outworkings which competition might bring.
- The ACTU has long struggled with the motivations for the Inquiry which we have rarely seen cast in a light of trying to provide better outcomes for Australian workers. The nature of a range of aspects of the Inquiry support our scepticism in this regard, including the following:-
 - The Inquiry does not make sense unless there is a view that the potential providers of (default) superannuation can operate in a more effective and efficient manner than the current providers.
 - Who are these potential alternative providers – mainly Banks and life insurance providers – and where is the case which says they may be able to operate more effectively or efficiently than existing default providers.
 - In an investment sense, the evidence of investment markets in Australia (and world wide) says that the retail providers are not effective in competing at a wholesale level against the low cost (often collaboratively structured) fund investors. A core outworking of any change in default markets will see a shift towards higher cost, lower return investment products, since this is the experience of these products when they are promoted through traditional institutional investors. This means that a core thesis of the review – that competition will lead to more effective investment outcomes, is not valid. If a change in (default) superannuation provision does not lead to investment arrangements which are structured to provide better returns – then how is it possible that an Inquiry could recommend changing default arrangements to favour such a system?
 - The core element in the analysis of efficiency within the industry is whether changing default arrangements invokes any additional costs (such as distribution costs) and will the market operate in such a way that other efficiencies gained will offset these additional costs. There is no question on the issue as to whether altering default arrangements will add to distribution costs – this is the case, in some way or other, in each of the Commission’s four proposed alternative models: there will be additional costs brought into the system. Is there any case that material efficiencies will be gained through competition to mean that the superannuation fund member will be better off – the answer is none that have realistically emerged.

- So if there is in fact a strong case that changing default arrangements will lead to less efficient and effective outcomes, the ACTU challenges the Commission to say what could possibly be the thesis for seeking to change (default) superannuation arrangements – and the answer is that it cannot be found in evidence, but in ideology.
- The ACTU believes the Productivity Commission needs to be cognisant of its function and operations in this regard. If the Commission is to maintain some regard for having a role in providing balanced and intellectually well-founded assessment of economic matters – it must be able and prepared to call out issues where no case for a particular thesis exists on analytical grounds. If it does not, the Commission simply opens itself up to being a party political body aimed at delivering answers which suit the interests of political bodies (of any character) and not an authoritative economic assessor. This Inquiry has become a stark example of this issue – there is simply no credible evidence which supports the thesis upon which the Inquiry is based, and yet the Commission is not willing to call this out.
- For these reasons, the ACTU believes the right approach for the Commission is to say that the evidence points to a reaffirmation of the current default arrangements, with enhancements consistent with that proposed by the ACTU in its submission to the Second Stage of the Inquiry

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