



COMMONWEALTH OF AUSTRALIA

# Official Committee Hansard

## SENATE

SELECT COMMITTEE ON SUPERANNUATION AND  
FINANCIAL SERVICES

**Reference: Roundtable on choice of superannuation funds**

TUESDAY, 14 DECEMBER 1999

SYDNEY

BY AUTHORITY OF THE SENATE

## **INTERNET**

The Proof and Official Hansard transcripts of Senate committee hearings, some House of Representatives committee hearings and some joint committee hearings are available on the Internet. Some House of Representatives committees and some joint committees make available only Official Hansard transcripts.

The Internet address is: **<http://www.aph.gov.au/hansard>**

To search the parliamentary database, go to: **<http://search.aph.gov.au>**

**SENATE**  
**SELECT COMMITTEE ON SUPERANNUATION AND FINANCIAL SERVICES**  
**Tuesday, 14 December 1999**

**Members:** Senator Watson (*Chair*), Senator Sherry (*Deputy Chair*), Senators Allison, Chapman, Conroy, Hogg and Lightfoot

**Senators in attendance:** Senators Allison, Chapman, Hogg, Sherry and Watson

**Terms of reference for the inquiry:**

On 22 September 1999 the Senate resolved that:

- (1) A Select Committee on Superannuation and Financial Services be appointed with effect on and from 11 October 1999, with the same functions and powers as the Select Committee on Superannuation appointed by resolution of the Senate on 5 June 1991, and reappointed on 13 May 1993 and 29 May 1996, except as otherwise provided in this resolution.
- (2) The committee inquire into matters pertaining to superannuation and financial services referred to it by the Senate and inquire initially into:
  - (a) prudential supervision and consumer protection for superannuation, banking and financial services;
  - (b) the opportunities and constraints for Australia to become a centre for the provision of global financial services; and
  - (c) enforcement of the Superannuation Guarantee Charge;and report on paragraphs (a), (b) and (c) by the last day of sitting in June 2000.
- (3) The committee have power to consider and use for its purposes the minutes of evidence and records of the Select Committee on Superannuation appointed in the previous three Parliaments.
- (4) The committee consist of 7 senators, 3 nominated by the Leader of the Government in the Senate, 3 nominated by the Leader of the Opposition in the Senate and 1 nominated by other parties or independent senators.
- (5) The nomination of the final member to be determined by agreement between the other parties and independent senators and, in the absence of agreement, duly notified to the President, the question of representation on the committee of other parties or independent senators be determined by the Senate.

(6) The Senate, by subsequent resolution, appoint a member of the committee as its chair.

---

**Participants**

**SANDERSON, Dr Michaela, Director, Policy and Research, The Association of Superannuation Funds of Australia**

**BERRILL, Mr John Gregory, Australian Consumers Association**

**BUN, Ms Mara, Manager, Policy and Public Affairs, Australian Consumers Association**

**BUTCHER, Mrs Frances, Special Adviser, Superannuation, Australian Securities and Investments Commission**

**CASEY, Mr Kevin Lawrence, Senior Strategy and Technical Adviser, AMP Financial Services**

**DOWNES, Mr Peter John, Manager, Government Relations, Jacques Martin Industry Funds Administration**

**GIBBS, Mr Stephen, Executive Officer, Australian Institute of Superannuation Trustees**

**GREGOR, Mr Bruce, Investment Consultant, William M. Mercer Pty Ltd**

**GUNNING, Mr Tim, Chairman, Superannuation Task Force, Financial Planning Association**

**HAJAJ, Mr Khaldoun, Researcher, Financial Services Consumer Policy Centre**

**HAMILTON, Mr Reg, Manager, Labour Relations, Australian Chamber of Commerce and Industry**

**HEALEY, Mr Gary Hugh, Director, Australian Bankers Association**

**JAMIESON, Mr Martin, Partner, Phillips Fox Actuaries and Consultants**

**LORIGAN, Ms Helen, Commonwealth Bank Representative, Australian Bankers Association**

**McILROY, Mr John, Board Adviser, Australian Retirement Income Streams Association**

**MULLIGAN, Mrs Katherine Anne, Senior Manager, Product Management, Australian Bankers Association**

**O'KEEFE, Mr David John, Chairman, Accounting and Investment Committee, Institute of Actuaries of Australia**

**ORCHARD, Mrs Susan Janet, Superannuation Technical Consultant, Institute of Chartered Accountants in Australia**

**PRAGNELL, Mr Bradley John, Superannuation and Financial Planning Consultant, Australian Society of Certified Practising Accountants**

**RALPH, Ms Lynn, Chief Executive Officer, Investment and Financial Services Association**

**RANKIN, Mr Ronald Jock, Executive Director, Institute of Actuaries of Australia**

**RICE, Mr Michael John, Managing Director, Phillips Fox Actuaries**

**ROBINSON, Mr Kenneth Norman, Board Member, Australian Retirement Income Streams Association**

**ROSARIO, Mr Howard Alan, Chief Executive, Westscheme Superannuation Fund**

**RUBINSTEIN, Ms Linda, Senior Industrial Officer, Australian Council of Trade Unions**

**SILK, Mr Ian, Industry Funds Forum**

**SMITH, Ms Philippa Judith, Chief Executive Officer, Association of Superannuation Funds of Australia**

**WALKER, Mr Wayne Edward, Executive Director, Superannuation, William M. Mercer Pty Ltd**

**WARD, Mr John David, Principal, William M. Mercer Pty Ltd**

**Committee met at 9.00 a.m.**

**CHAIR**—I declare open this roundtable public hearing of the Senate Select Committee on Superannuation and Financial Services. I give a warm welcome to everybody attending. The committee's terms of reference require it to inquire into and report on:

- (a) prudential supervision and consumer protection for superannuation, banking and financial services;
- (b) the opportunities and constraints for Australia to become a centre for the provision of global financial services; and
- (c) enforcement of the superannuation guarantee charge.

The aim of today's hearing is to provide the committee with an opportunity to identify, with the assistance of key individuals and organisations, the best features which might be considered in any future choice of funds regime. The committee would like to focus on solutions which will carry forward the process of developing a choice regime.

All of the witnesses who appear before the committee are protected by parliamentary privilege with respect to the evidence given before the committee. This means that they are given broad protection from action arising from what they say, and that the Senate has the power to protect them from any action which disadvantages them on account of the evidence given before the committee. The committee prefers to conduct its hearings in public. However, if there is any matter which you wish to discuss with the committee in private, the committee will consider your request.

Again, I would like to welcome everybody attending today's hearing. Because of the wide range of issues to be discussed today and the large number of participants, I would also ask you to be as concise as possible with all your comments.

**Session 1—An update on choice in the superannuation industry since 1997 and lessons to be learned from Western Australia, New South Wales and Queensland**

**CHAIR**—In our first session today, the committee would like briefly to examine developments in the industry since the committee last examined this issue, and look at the situation in some states, such as Western Australia, which already have choice of fund under state awards. Mr Peter Downes from Jacques Martin will give us a brief outline of developments in New South Wales and Queensland and other relevant matters.

I ask Mr Rosario from the Westscheme Superannuation Fund to commence by outlining the choice regime operating in Western Australia. We would like to thank you very much for coming across the Nullarbor to make your presentation here today.

**Mr ROSARIO**—Thank you, Senator. Choice of superannuation fund was introduced in Western Australia under industrial relations legislation which was passed way back in 1995-96. It came into operation on 1 January 1998. There was a period in which the Industrial Relations Commission had not moved to amend the awards that were affected by the

legislation. They did that by 30 June 1998 and, on 1 July 1998, employee choice of superannuation fund commenced in Western Australia.

It operates under section 49C of the Industrial Relations Legislation Amendment and Repeal Act 1995. Attached to that are some regulations about the notification that employees must receive that they have choice of superannuation fund. That was gazetted on 31 December 1997—No. 242, a special gazette.

The choice in Western Australia affects only people who work under Western Australian awards and industrial agreements. Because the industrial legislation in Western Australia operates under the common rule, it is often arguable as to who is covered by Western Australian awards, and that particular indecision, in many cases, has led to confusion. So it is not very clear-cut who is covered by this legislation and who is not. Of course, if people are obviously covered by federal awards, then the confusion is removed.

The problem with the introduction of choice first-off in Western Australia was that it was for a category of the work force, and in many cases you had the anomaly that people in the same workplace were covered under different awards. Western Australian coverage affected some of them, and employers did not know how to distinguish between people covered under federal awards and people covered under Western Australian awards. They wanted to offer choice all round, and it quickly became clear that that was not something that was available to them. That led to some concern in the workplace about fairness, but I am not aware that that has persisted.

The thing about Western Australian choice is that, where employees who are covered by awards are in agreements which are enforceable under industrial awards legislation, if those employees do not exercise a right of choice they default into the superannuation funds nominated in awards, or in those agreements. So there is a default provision. It is not for the employers to choose. And since at this stage non-award employees do not have the right of choice under federal legislation, again that is entirely up to arrangements between employers and employees.

There is another category of employment arrangement in Western Australia—the workplace agreements, which are registered under the workplace agreements legislation. Those agreements can usually provide for the award to be used by the employer and the employee. But it is an agreement between the two parties, and on that basis it is believed that that is a choice. That is arguable too.

As to the default superannuation fund, again where the award specifies a fund, it can be the default fund. There are, unfortunately, a number of instances where the default superannuation funds do not necessarily have the characteristics that this Committee recommended in an earlier set of recommendations. Certainly at Westscheme we applaud those recommendations, and we would really like to see them abided by and implemented.

I will give you an example of why those particular recommendations are important. We have a number of funds nominated in the awards which do provide for exit fees. If you have an employer putting somebody into a fund which has high exit fees, when they come to make their choice they are going to incur that particular impost. I think the recommendation

that exit fees be modest, if any at all, is very important, and certainly, in the case of Westscheme, we operate without any entry and exit fees. That means that employers have the advantage of putting somebody into Westscheme as a default fund while they are making up their minds, and when they have made up their minds they can then move out without any costs attaching to it. It means that the employer does not have the difficulty of arguments about money being taken out of people's accounts and people being ripped off.

There is also the issue of insurance, which is very important. In Western Australia, with Westscheme, we are able to offer insurance cover from the date of commencement of employment, so long as employers are in a bona fide relationship with us. That means that people are covered and employers do not have a liability that is uninsured. That is going to be a problem if it is not properly attended to under whatever choice regime is finally introduced by the federal government.

We have had such instances before. We at Westscheme were able to change our insurance cover where people who had not completed application forms did suffer disabilities which would have made them totally and permanently disabled. We did have people who died and they had no cover at all. I suppose the only recourse then is against the employer. The insurance coverage is going to be an issue where people are entitled to choose their own fund, especially if they delay making that choice.

The question of delays in making the choices comes back to the periods that are going to be nominated or proposed under federal legislation of 28 days for notification and 28 days for acceptance. In the Western Australian legislation there is no notification period so an employee, until he or she notifies the employer, can be in the default fund. When they notify, the choice operates and they can come back at any time in the future and change their minds. The employer must not unreasonably refuse to give effect to that particular nomination. I think that there has to be some reasonableness in changes made by employees. Certainly if they are going to change every month that would be unacceptable but if they are making informed choices then I do not know why they should not be allowed to pursue them.

The Western Australian legislation provides for a notification to be provided to employees who are entitled to choice. Again, this is in the gazette that I referred to. Attached to it is a notification of choice of superannuation fund and, as far as I can determine, that is about the extent of the advice and information that people get when they are informed that they have a right of choice. They are told about a whole list of things, many of which would be extremely confusing for lay people.

That leads me to suspect that - as to what is happening in Western Australia - people are essentially staying with funds that they have been with for some time. If we take Westscheme, we have had a growth in the number of employers who participate in Westscheme. The main reason that we can establish for that is that our members who are changing employment have decided that they will stay with Westscheme. That is what they nominate to the employers when they move and then the employers have to join us.

The other thing is that there is obviously a preference for well-known brands—people who are familiar with funds through advertising, nominate the funds that they know through

that particular exposure. What we do not have in Western Australia, as far as I can see—and certainly this is my view—is a low cost and easily accessible disputes handling mechanism. I am aware that there are a number of employees who claim they are not being given their choice. Their only recourse seems to be to use the industrial relations processes. I am not personally aware of any instances where this has been done successfully, yet I am aware that people are aggrieved about being told that they are not going to be given choice. More powerfully, sometimes people are told that if they want their jobs then they might as well take the fund that is being offered, and that is always a predicament.

The other issue that has arisen in Western Australia and which has caused upset amongst the people who believe that they have freedom of choice is that they believed that they would be able to move their account balances as well. They assumed that they had portability under the legislation that gave them choice. You can imagine that in a number of instances people have quite sizeable balances, in their estimation, and when they have choice they want to move the whole of the account balance to wherever they are choosing to go. There are a number of funds which have said, 'No, you haven't changed employment,' or 'You haven't changed the industry that you are working in so we are not going to move your account balance. You can do that once you cease employment and once you leave this industry.'

That has caused upset among the people who have been affected by that particular rule. There is nothing in the legislation that recognises the portability issue. I think that if you are going to introduce choice you have to do something about portability at the same time, otherwise employers, in the first instance, are going to take the upset that employees feel about the whole process.

I said earlier that there was not much in the legislation about disclosure standards or anything like that. In fact, in Western Australia, as far as I can perceive, disclosure is not specified in the legislation and is certainly not approached in some sort of standardised way by employers. At Westscheme, being a multi-industry fund and covering about 90,000 people, we produce an introductory brochure that we give employers to hand out to people whom they are going to enrol in Westscheme. I think all of this is entirely dependent upon what the funds want to do; it is certainly not something that the employers are obliged to do or that anybody is entitled to just by operation of law. People have to ask and if it is available they get it.

It is going to be quite important to make sure that whatever information is provided to people is universally applicable, effective and fair, and it has to be followed by all superannuation funds and by the intermediaries. I also think that, since we have CLERP 6 proposals in the public arena at the moment, it is going to be important to have a single set of disclosure principles rather than having a multiplicity under different sets of legislation.

The other issue that has come up in relation to choice of fund is that some employers are saying, 'If you choose a fund then we will pay into that fund to comply with our superannuation guarantee requirements,' but, where the award does not specify monthly payments, some people are finding that the employer pays once a year to comply with SG. Often this can have a significant impact on insurance coverage because not all superannuation funds have changed their arrangements to cover people on the basis of

account based premiums. Many still work on contributions and that means that people are left without coverage.

There needs to be some recognition that, if the principle of choice operates on the basis that the money belongs to the member, then on that basis that money should be paid with the same sort of regularity that the Australian Taxation Office is paid group tax deductions. I personally cannot see why it should not be paid monthly but if we at least implement the group tax payment regime that would be a major advance.

I would also like to mention that the issue of the administrative burden for employers was something that the minister responsible for the introduction of the industrial relations legislation in 1995 referred to. He said that he recognised there would be administrative problems for employers in complying with the choice provisions but that he thought that the competitive benefits that would come from the introduction of choice would outweigh them in due course. Certainly funds like Westscheme have tried to rise to the challenge of the administrative burden by introducing the Westscheme Clearing House.

I am aware that there are a number of similar clearing houses operating in Western Australia. They are not sophisticated systems. Basically, they enable employers to pay all their superannuation obligations to one particular trustee service and that money gets distributed out to the fund run by that trustee and to other funds nominated under choice of fund by the employees concerned.

These are not sophisticated systems at this time, but I am heartened by the Australian Taxation Office project which is working to develop messaging standards between payroll companies and superannuation funds. I think that that will be a major advance in dealing with this administrative burden that choice is going to impose on employers.

I think the final point I need to make is that employers in many cases are faced with the problem of the joining requirements of funds that are nominated by employees. You get people who nominate funds that advertise widely, because they know them. Employers seek to make contributions to those funds and then find out that there are contribution thresholds or account balance thresholds. That becomes a difficulty for the employers.

The other problem that employers run into is the joining processes that funds impose on them. Because funds operate to comply with superannuation legislation they invariably have some form of joining requirement, and that becomes an impediment for many employers, for whom choice is really at the margin of the whole superannuation business. When you have to sign up for every new employee who comes to you, with the fund that they want to go to, it becomes a burden.

Certainly we have had a problem. We had one instance where an employer from Kalgoorlie offered his employees choice, because they had choice. He decided to use the Westscheme Clearing House, he made contributions in good faith to us, and we sent one of the contributions off to a fund in Queensland. The money was returned to us on the basis that the employer had not joined the fund. In the time that all of this correspondence was going back and forth, the member died. There were then questions about his insurance coverage and, fortunately, because of good personal working relations with the people in the

fund in Queensland, we were able to demonstrate to them that the employer had acted totally in good faith. He had meant to pay the contributions and had paid them on time.

We were able to overcome those particular problems, but they are going to become a problem once choice becomes more widespread, because those relationships are rare and people are not just going to rely on assurances. I suppose insurers are going to become more and more wary about claims that arise where people are not clearly members of a fund.

**CHAIR**—Thank you very much, Mr Rosario. I think it is appropriate that you started off, because obviously there are a lot of problems associated with choice. I think one of the benefits of this meeting today is to try to dot the i's and cross the t's. I now call on Mr Peter Downes from Jacques Martin.

**Mr DOWNES**—Thank you, Senator Watson. You have asked me to provide an update of the New South Wales and Queensland state choice of fund situation. That legislation has been in place for quite some time, and we at Jacques Martin have a number of state based superannuation funds in both of those states as well as national funds which we administer.

In talking to all of those clients of ours, the key word that comes across is 'confusion'—confusion between current state arrangements and proposed Commonwealth arrangements that have been floated from time to time. What we have actually found is a smoking gun, because a number of our clients complain about employers coming to them and saying that agents from large life offices have been approaching them, telling them—when they are federal employers under federal awards—that they must offer choice of fund under either Queensland or New South Wales state legislation. What these disreputable agents are doing is waving unproclaimed sections of Commonwealth law in front of employers, saying, 'This is how you must offer alternatives to industry funds to employers' and saying that it is actually state law. If they are registered under state awards, they are saying it is Commonwealth law and vice versa, so they are completely distorting the situation. On many occasions they have actually had employers leave industry funds because they have been talked out of it by this disgraceful behaviour.

What we are noticing more and more is that these sales forces are developing very quickly in anticipation of this Commonwealth legislation being passed. I think it very clearly points to the need for very transparent disclosure on fees and charges and for dispute mechanisms that will inevitably arise in situations where you have disreputable agents simply trying to line their pockets at members' expense. That has been the key development in the last year or so.

**CHAIR**—If anyone has a quick question through me to Mr Rosario or Mr Downes, now is your opportunity.

**Ms RALPH**—I do not really have questions, I just thought I would add some feedback that I secured from the member companies of IFSA which are operating particularly in Western Australia, because I thought that might be of interest to the committee. The general feedback is that basically there is not a lot of market activity yet in Western Australia. Of course it is always hard to put your finger on exactly why there is not a lot of market activity, but it does largely seem to come back to a range of issues, which Mr Rosario did

mention. The first is that because there is not an Australia wide consistent framework, you do get this confusion about who is operating under which types of awards. You also have the problem, for employer groups which have employees around the country, of having to treat certain employee groups differently from state to state.

It is also fair to say that the providers of services have not spent a lot of time and energy yet communicating in those markets, because again there is not this consistent framework that you can apply from state to state. There is some question amongst my member companies about the degree of enforcement on employers in providing the actual notification. Given that it is still early days, one would expect that that level of enforcement on employers has not had time to kick in yet, and you would see that develop over time.

Having said that, some member companies have been making efforts to make presentations to employees in Western Australia about choice and their rights under choice, and they do say that they do experience interest on the part of people in learning about this opportunity. I guess we have not, as yet—and certainly I would like to speak outside of this committee to Mr Downes about those issues of misselling that he sees—seen systemic examples of rip-offs or systemic market failures. That basically is the feedback.

I would like to make a quick correction. The project that I think Mr Rosario referred to as an ATO project, bringing messaging standards into superannuation, is actually an IFSA project with some assistance and involvement of the ATO.

**Senator SHERRY**—I have two questions for Mr Rosario. Firstly, have total operational costs gone up, or have they gone down as a result of the competition? Secondly, for those people who have actively made a choice—who have gone out and chosen a fund different to the default option—has there been a survey of what they have been doing, what the costs involved are, what the fees and charges are, and how often they move from one fund to another?

**Mr ROSARIO**—On the second question: no. I think it is still quite early in the whole program to assess that. On the first question: I think costs are increasing. I could not tell you how much, but certainly it is one of those balances as to whether we are incurring more costs to educate people and inform them about what they have with us so that when they make the decision to leave they are properly informed. So costs are going up in that regard.

For employers, I think costs do increase as more people say that they want to go to other funds. There is no doubt that just the cheque-drawing cost goes up for every employee who wants to go to another fund.

**Senator SHERRY**—Following on from that, what proportion of employers who use the clearing house facility have electronic transfer facilities? Is it significant? Are we dealing with employers who still make manual payments?

**Mr ROSARIO**—Most of the employers using the Westscheme Clearing House send over hard copies. Some are beginning to send it over via email, but it is still essentially hard copy sent over email.

**Mr HAMILTON**—Could I perhaps just add one thing to the interesting outline we have heard about choice in Western Australia, New South Wales and Queensland. There are also, of course, different types of choice available under different industrial awards. For example, you can have an award like, I think, the metal industry award, which does provide for some choice of a fund nominated by the employee, through to other awards that provide a choice of anywhere between two and four superannuation funds, through to awards that do not provide choice at all. So the choice regime is extremely complex because it does not vary just by state, whether it is a state award, a federal award or the type of state award; it also varies by industry sector.

So the position is a very complex one. I think the word ‘confusion’ is appropriate and it does provide some support for a simple national choice scheme that would introduce some sort of uniformity, some clearer rules, into the overall choice regime in the country. I do not think it is satisfactory to have a whole different variety of choice regimes in industrial awards, plus different regimes in state legislation. If we are going to have a workable system and reduce administrative burdens and costs, a simple national choice regime would seem to me to be the only way to go. If we do not do that, we will leave in place all the enormous complexities of choice, and lack of choice, that currently exist. We have a system at present that has no clear principles nationally, varies enormously and is costly and confusing. A simple national choice regime would, hopefully, solve a lot of those problems.

**Senator HOGG**—My question is to Mr Rosario and is in respect of your experience in Western Australia with choice of investment. Whilst choice of fund is not being taken up, is choice of investment seen as the substitute for choice of fund? If so, do you have any idea of the level of involvement in choice of investment in your state vis-a-vis choice of fund?

**Mr ROSARIO**—Yes. Westscheme introduced choice of fund on 1 October 1997. As I said, we have about 90,000 members. We offer choice of investment to any member who wishes to use it. At this stage, about 600 have taken up the offer. That is not to say that they have not chosen, because, anecdotally, we have talked to people about why they have not taken up investment choice. It may be that we misnamed our particular streams. We called one of our streams Westscheme Shares, and that has 100 per cent in equities, both international and domestic. The balanced fund we called the Westscheme Trustees Selection. I wonder whether we did not in fact suggest to people in that title that that was something that was okay for them. I suppose that, in a way, we did mean to say that that was a reliable balanced fund to be in. They may very well have said, ‘Well, if the trustees have selected it, who are we to question it? We’ll go with it.’ The last one was Westscheme Cash. We also allow people to blend between those particular options as they desire. So they can make any particular combination, and that has not been something that people have taken up in droves, either.

I think people, especially in the sort of fund that we run, are looking to the trustees to look after their best interests. But the investment choice is there. I will give you another instance—that of an employee whose employer uses a master trust, which she has been in since the 1995-96 financial year. She obviously had investment choice, but the default fund under the choice that was offered to her was Cash. In the period up to 30 June 1999, her interest earnings have been \$1,302. If she had been in Westscheme in our Trustees Selection, her interest earnings would have been about \$6,250. It is arguable that it is up to her to

choose, but she did not choose until April 1999. She then made the choice to go into a growth fund. For those of you who will remember, May 1999 was a particularly bad month in investment markets, and that is why she has ended up with \$1,302 for those four years of exposure.

**Mr DOWNES**—I would just like to add to that answer for Senator Sherry. We at Jacques Martin have about 2.6 million superannuation accounts, and we offer member investment choice to most of those people inside their account. We found that only about 15,000 people have made a deliberate choice. I accept Howard's point that many of those would say that the default choice is the one they would have gone for anyway, but we are not sure how many of those people have actually acted in that way. We have spent millions of dollars promoting member investment choice within their fund in brochures that we send out to people on a quite regular basis. We think that the take-up of internal member investment choice within a fund would be a good measuring stick for when we could launch into an open choice of fund environment. But we think that that threshold would have to be considerably higher than one per cent before we would have people educated enough to actually cope.

**Senator HOGG**—Mr Rosario, do you have any statistics on the take-up of choice of fund?

**Mr ROSARIO**—No, just anecdotal. I was talking with a service provider who looks after corporate funds, and they have found that particularly part-time and itinerant workers are not choosing the corporate fund. I think people at that level of employment have come to the conclusion that they need to be sure where their money is. So they are choosing the fund that they have been with elsewhere and are choosing to stay with those funds. It is causing a problem for that particular corporation fund because, obviously, none of their new employees are selecting it. That is a difficulty for them.

I also mentioned that we have had enormous growth in the number of employers using Westscheme because people are taking Westscheme to their new workplaces. I think it depends on how the work force stratifies. People who can see that they are going to be with an employer for quite some period of time might be quite happy to go with the default that the employer nominates or with the employer provided superannuation fund. I do not know whether people who know that their working lives are going to be broken up and changing might be focusing on this issue of what they are going to stay with.

**CHAIR**—Would representatives of ASIC or APRA like to comment on the matters that Mr Downes has raised?

**Mrs BUTCHER**—May I take the matters on notice?

**CHAIR**—You might like to discuss it later on and come back to the committee.

**Mr RICE**—I would just like to elaborate on the issue of people investing in cash or in master trusts. Firstly, there is obviously a problem with some people thinking that capital security is more important than investment earnings forgone. There is a mind-set amongst

some in the community—particularly the elderly—that money in the bank is safer than investing in equities, which over the long term is actually incorrect.

I would like to point out that at 30 June there was \$489 million of \$26.3 billion—which is less than two per cent of the total employer sponsored master trusts—held in cash, and a lot of that money would in fact have been held in a holding account for cash management purposes. So the example used there was actually an exceptional one.

**Mr CASEY**—Senator, I would like to ask a question of Peter Downes. We heard a lot from Howard Rosario about the Western Australian situation, but we have not heard much from Peter in terms of what the manner of operation is, how successful choice has been in New South Wales and Queensland, particularly as the New South Wales system has been in operation longer than the others, and what his impression is of the scheme. We saw him wave papers around in terms of mis-selling, but we have not heard anything else from him about the success or otherwise of the New South Wales and Queensland systems.

**Mr DOWNES**—With respect, I do not think that that was what I was asked to do. I was asked by Senator Watson to provide an update of what was new in the New South Wales and Queensland jurisdictions since this committee last reported. It is not incumbent upon me to sell the Queensland and New South Wales state choice environment, and I am not going to do that. I did what I was asked to do, and that was to provide an update of what we have found in the field in the last couple of years. As to waving papers around, I have names, dates, agents and copies of misleading and deceptive material, and I would be quite happy to table that for the Senate's consideration.

**CHAIR**—Is there anyone in the room who can give the descriptive position in New South Wales or Queensland to meet Mr Casey's request?

**Ms RUBINSTEIN**—I understand that the so-called choice system in New South Wales and Queensland is—unless there is something that I am not aware of—simply, at least in New South Wales, a provision in their industrial relations act which says that, with the agreement of the employer, an individual can choose to be in a fund other than that specified in the award. If that is right—and I am seeing a couple of nods—

**Mr DOWNES**—Yes, the award is the default.

**Ms RUBINSTEIN**—Yes, that the award is the default. It is essentially an individual opt-out type provision. It is really no different in essence from the position that exists in a number of awards, as Reg Hamilton has referred to. In fact, the outcome of the recent award simplification case, which used the building industry awards as a vehicle, determined that the current award provisions in relation to specification of fund would continue as a default, but then they have added 'or any other fund agreed between the employer and the employee'. That situation already exists in a number of awards. I think it is helpful to be clear about the difference between the New South Wales, Queensland and, in fact, federal award position in many cases and the sort of complex, regulated system in Western Australia.

**Mr CASEY**—That was actually part of what I was trying to get at. They are quite different systems, and I wanted to know whether we had any empirical evidence, et cetera in terms of whether one system worked better than another.

**Mr GIBBS**—My understanding of the New South Wales and Queensland system is that it is exactly as Ms Rubinstein has said.

**Ms RUBINSTEIN**—Perhaps I could just add one thing about experience. Again, I am not entirely sure, but we did have a look at this issue a while ago and my understanding is that, at least in New South Wales, the position is a bit like the position with investment choice, that is, the opportunity is there for people to do it, but by and large they do not, either because they positively choose the current arrangements or they choose not to choose. As I understand it, there is not huge use of that provision. Peter might know more about that with New South Wales.

**Mr DOWNES**—It is pretty quiet. There is not a great deal of usage of the system other than the building of the sales team and the beginning of this campaign.

**Senator SHERRY**—Firstly, it would be useful to have a summary, a collage, of the different systems we have across state and federal jurisdictions as a matter of fact. Secondly, it would be useful to have some detailed study of the outcomes that have emerged in each jurisdiction. It is a pretty important bottom line because there are a lot of people wandering around assuming that the federal government will legislate and that we will end up with a national, uniform, consistent, simple system. We will not. The federal government can only legislate in respect of employees under federal awards.

So, it seems to me that the bottom line is, whatever the system of choice is, if you want a simple, consistent system, you have to have joint legislation with the state governments and the state jurisdictions, and that is a pretty important bottom line. If people want choice but do not want a simple, consistent system, then we will end up with a blancmange of different choice options in different jurisdictions. It seems to me that we have not even started to get to that first base yet. I am not aware of any public discussions, at least, or any coordinated policy between the state governments and the federal government to date.

**Mr DOWNES**—And that is a very important area, Senator Sherry, because there are a lot of employers, as you would know, that have state and federal operations and use both sets of industrial relations processes. It is very confusing.

**Ms SMITH**—A point of clarification. In previous submissions to this committee—and, indeed, I think in some material we provided to you—we did set about doing a matrix and a schema of the divvying up of the 8.5 million employees. We showed whether they came under various state enterprises or federal awards. I was just trying to do a quick tally, but that schema is there for you. The confusion and the dividing up is a matter of importance, I think, to get consistency. In figure 1 we showed that only 10 per cent of employees were subject to such arrangements, that is, the federal workplace agreements, so it shows the importance of that issue.

**Session 2—Broad principles that should apply in a choice of superannuation model**

**CHAIR**—I have asked our secretary, Frank Nugent, to send around the table a copy of a paper by Neil Wilkinson who is the acting chairperson of the Superannuation Complaints Tribunal, because I think he raises some interesting questions from first-hand experience in relation to that tribunal.

So we work to the default fund and that matter is now on the table. Any comments on the default fund? We have heard some examples that it is either the employer's nomination or an award arrangement. What is the preferred model?

**Mr DOWNES**—I might start off again, Senator. I think, at this point, it would be really useful if we thought about some basic principles which should apply in the choice area and why we are actually thinking that this is such a great idea. In the default fund context, I would think that surely this is all about members of superannuation funds maximising their retirement incomes from compulsory superannuation contributions.

If that is the objective of this, then a default fund needs to have portability, it has to have zero or very cheap entry and exit fees, it needs to be subject to the industry wide transfer protocol so that we can move people and money around very quickly, it has to have internal member investment choice and it has to have insurance arrangements to provide people with death and invalidity cover from day one. I think those are the things that you would start to look at.

**CHAIR**—Thank you very much. It is probably appropriate that, when we are looking at the default fund, we also combine it with the issue of insurance, because they are inextricably bound together.

**Mr HAJAJ**—Our view in terms of default funds is that we are quite happy with the current arrangements whereby default funds are part of the award. We think that the current arrangements are basically quite efficient in terms of all the default funds being industry funds, having low fee structures and being fairly portable compared to other funds. However, in terms of what we think a default fund should have, it should be a balanced fund with long-term capital growth, with a basic level of death and disability insurance and with maximum limits on fees, particularly exit fees.

**CHAIR**—From the industry fund's point of view, would default funds be attractive knowing that they may only be a clearing house? There are costs associated with bringing somebody in and maybe not holding them. Would anybody like to comment on that?

**Mr SILK**—The issue you have raised is a concern to the industry funds and has been expressed to the industry funds by almost all their insurers as being an issue for them. The models to date that have been proposed by the government have all included, as an element of concern for insurers, that the industry funds might become the repository of bad insurance risks. The insurers have said to us that if that is the case, then we will need to review our entire insurance arrangements because they are not priced on that basis. The benefits are not calculated on that basis.

Some of the insurers have expressed to some of the funds that they might need to withdraw from the market if industry funds—this has been said to a number of the funds and it has been expressed in our forums—become the repository of bad insurance risks. The insurers, being commercial organisations, simply will not be able to operate on that basis.

On the broader issue of default funds, our position would be that the default fund for existing employees should be their existing fund. The introduction of choice should not of itself require employees to make a conscious decision to remove themselves from their current fund. That is, if they do not make a choice in the event that a choice of funds regime is introduced they should remain in their current fund. For new employees, we would argue that the default fund should be the award fund or the majority fund operating at the workplace.

**Mr HAMILTON**—It seems to me there are four options for default funds: firstly the award fund, secondly the employer chooses, thirdly the majority fund or fourthly, for existing employees, the existing fund. There is a problem with award funds which is that, in future, federal awards are not going to be able to provide choice of funds for non-unionists in most cases. So there is a jurisdictional limitation on the capacity of award funds federally to do that in future because of the High Court Financial Clinics case.

In relation to the employer choosing it, that is very problematical because it raises questions of employer liability if there are gaps in insurance or whatever. We would not be supportive of the employer choosing it. The majority fund has a lot going for it. We would be in favour of a majority fund or, for existing employees, the existing fund because it is a neutral thing.

**CHAIR**—Mr Ward, would you like to comment on your administrators? How do you see the default fund and insurance issues?

**Mr WARD**—Senator, I think the main items have been raised. We have a big concern about the insurance aspects and the default fund being the repository of bad risks. As soon as premiums start going up in those funds, the better risks will opt out and go into another fund. Similarly, with administration costs, it would be nice to say that the default fund should have no entry and exit fees, but a member going in and out of a fund does cause costs. Even if that member is not wearing those costs, somebody else is and that will be the other remaining members of the fund.

**Ms RUBINSTEIN**—The ACTU's position is that any default fund should be the award fund where there is award coverage. There are a couple of reasons for that. One is that the award funds are specified generally either as a result of agreement between the parties in the industry or a decision of the Industrial Relations Commission that has taken into account the nature of the industry. The awards do not always specify industry funds; sometimes they specify just a corporate fund, as in the case of single employer awards and more often a choice either between a number of industry funds or an industry fund and a corporate fund.

But the insurance arrangements that apply to award specified funds are generally designed to meet the needs of a particular industry. As you can understand, the needs of employees in, say, a clerical industry where most of them might be full time and fairly

longstanding are completely different from employees in the building industry, which involves very dangerous work and is short term, or in the hospitality industry, which has mostly casual and young people, and so on. So it is absolutely critical that the insurance arrangements are taken into account, and those funds providing particularly tailored insurance products are absolutely vital.

Secondly, I think Mr Hamilton has somewhat anticipated the results of a case which is currently before the Industrial Relations Commission. Without trying to confuse people unutterably, it is not, in our view, correct to say that the High Court determined that awards could not specify funds for non-union members. That matter is currently before the commission and will be resolved. Even if the case went that way, there are ways to address those issues. It is a bit like anticipating choice. The legislation is already there so some agents are going in and asking employers to implement it immediately. There should not be the impression created that awards are not applicable to non-union members—they are.

**CHAIR**—I would like to raise the question: what practical differences would occur if employers could not choose a default fund for new employees?

**Ms RALPH**—Sometimes we get hung up on choice and default funds as if they are one and the same issue. We have to be very careful to not forget that right now everyone is in a default fund. Everybody who has no choice is basically in a default fund, and that is probably most people in the country. So when we start to talk about issues of asset allocation and fees, et cetera, those are issues which may exist today but do not arise purely and simply because of choice. We have to be careful about combining these issues and confusing them.

Our view, certainly about the default fund, is based on that. We sit down and say, 'Hang on a second.' You can have concerns about default funds and those concerns may exist today but they do not necessarily get triggered by choice. Everyone is in a default fund today. To the best of my knowledge—and if I am wrong, please would someone correct me—there is no requirement for minimum insurance coverage, et cetera, today in the default funds that people are all in. If we are all concerned about insurance issues and default funds, we can certainly talk about that, but it is not necessarily an issue that is purely and simply triggered by choice of fund. We should acknowledge that.

In doing that we look at issues like asset allocation and fees on default funds, and we say that those issues should be separated from the discussions of choice. We do not try to mandate asset allocation in default funds today, and we know from the APRA statistics that, as Michael Rice has earlier pointed out, while there are isolated examples of people ending up in cash arrangements, the actual overall systemic figures show that we do not have a lot of people sitting on cash.

If we want to start thinking about mandating asset allocation inside default funds, we are going to have to start to think about how you legally define asset classes. In my experience that is an incredibly difficult thing to do; we will spend the next 10 years trying to decide what is and what is not in various asset classes. Our view is that the way the default fund is effectively being chosen now seems generally, across the whole system, to be working. Effectively you have the default fund being chosen by the employer under the current award

system, and that seems to us to be effectively, systemically, working across the board. There are always going to be isolated examples that we can point to where there are individual problems but, if you look at how the thing is generally working across the market, it seems to us that the system we have for selecting the default fund is basically working.

If we do get into a choice environment, we do believe that, ultimately, the employer will need to have the ability to change default funds down the track, for a variety of reasons, not just because the fund becomes defunct or it loses its complying status and you cannot contribute to it, but for a variety of other reasons which may be appropriate at that time. We say the way the default funds are effectively being selected now is not working too badly, and is probably the direction we would support.

When we get into issues of insurance and coverage, I am not aware of any legislative mandate that says funds all have to have a certain type of insurance or certain levels of coverage. We have that issue now and, yes, we can acknowledge that people have some concerns about how insurance will work in a choice environment. Some of the issues raised by the paper of Neil Wilkinson from the SCT about insurance indicate that the problems effectively exist now when group insurance is transferred between insurers. A lot of the issues he raises are actually occurring now. In fact, in about the middle of 1999, IFSA released a guidance note which effectively addresses a lot of the concerns that arise when insurance is transferred from one insurer to another. We are certainly making every effort we can to ensure that not only IFSA members comply with that guidance note about how to transfer insurance policies, but also companies who are involved in this who are not IFSA members.

We think we are already starting to see some solutions in the marketplace in the insurance area, and we think that will continue to happen. At the end of the day, we would be quite disappointed to see some minimum mandated level or style of insurance, because we do think that the market is already starting to show evidence of addressing these issues. For example, we are currently seeing a lot of corporate funds being unwound, and in that process we are tending to see the employers offering group insurance outside of the superannuation to their employees. That is one type of solution that the market is basically generating to address these sorts of issues. We think we will also see employees wanting more tailored insurance solutions for themselves, not typical, standard TPD sorts of insurance. The market will start to offer those tailored solutions. Overall we would be disappointed to see minimum mandated types of arrangements because we think that will start to work against the innovations and solutions that the market will tend to find in this area.

**CHAIR**—Could we have a copy of that paper—the guidance note?

**Ms RALPH**—Yes, I would be happy to provide a copy of IFSA's takeover terms.

**CHAIR**—Thank you.

**Ms BUN**—We agree that the current arrangements may well be a good framework for default mechanisms, although we do not necessarily agree that, simply because things are as they are, they could not be improved. We certainly share the broad policy objective that

there should be a net gain in terms of choice in superannuation and, of course, we measure that not only from the opportunity cost of being in cash over too long—which could well not be a big problem—but also the risk of being exposed to risk at the wrong period of life. We would start by acknowledging that, yes, there should be some default standards. It is not just how things are today and where things are today, but key items which have already been mentioned.

The only one that I will add to that is that in the United Kingdom—although I gather the committee is probably more up to date on this than we are—although things are not finalised, the concept of a tracker fund which matches risk with age in relation to default is an interesting one. We have a problem here: the more we rely on default funds by weight of market force, the more sophisticated they need to become to keep up with the more contestable models, and that is expensive in relation to switching mechanisms and the like. However, we are hopeful that the industry can cooperate to compete, particularly with respect to e-commerce standards—they should be open standards and very functional in relation to portability.

The other issue is to do with this notion of employer choice. I can understand from the point of view of an employer that it would be best to keep open flexible options. However, from the point of view of the member, it could well be that the corporate incentive is slightly different to the individual incentive. When we have powerful possible bundlings of other financial services at a corporate level which could make it attractive to switch an entire class or category of workers towards a different default fund, that may not necessarily offer the best possible options over the long term. We think it is pretty crucial, although we should talk about the need for flexibility, that choice be driven by people as opposed to companies.

**CHAIR**—Thank you.

**Mr SILK**—I would like to comment on two points that were made by Lyn Ralph. Before that, though, let me come back to a comment I intended to make right at the outset, and that is that the Industry Funds Forum does not support choice of fund at this time. We do not believe that the foundations are there for choice of fund to operate in the interests of members, and as far as we are concerned members are the primary concern. That may not be the case with others, but certainly the optimising of members' interests is what we are about. We do not think the building blocks are there that can sustain choice operating in members' interests at this point. The comments that we will make throughout the day are based on an assumption that some legislation is going to be formed and, if that is to be the case, then we will be making suggestions as to the means by which that legislation might be the best in the circumstances.

The two points that I wish to respond to are, firstly, IFSA said that choice of itself does not trigger the insurance concerns that I enunciated. In fact, those concerns are felt by a number of the trustees of industry funds, but they are based on concerns that are expressed to us by the insurers, many of whom are IFSA members. They have made the obvious commercial point that if industry funds—and indeed others, but in our case industry funds—are to be selected against they will either radically change their insurance structure or vacate the field. That is a perfectly understandable commercial proposition, but I wanted to make

the point that it was not a partisan statement I was making, it is a reflection of the views of insurers.

The second point relates to whether a default fund should have a stipulated investment mix. We would support the views of the Financial Services Consumer Policy Centre to suggest that a balanced option, however defined—and I do not think it would be as difficult to define as perhaps others—should be the default model, because if cash is the default model everyone around this table would understand the long-term adverse implications of that for members.

**Mr GIBBS**—The Australian Institute of Superannuation Trustees is still opposed to the introduction of choice by legislation as the overwhelming majority of trustees that we represent do not think it is necessary. However, if we are going to have legislated choice—and, to be constructive, my comments today are based on that premise—then I think the default thing is relatively simple. As a number of people have said, it is a regime where for existing employees the default is their current fund; for new employees the default is the award, where award coverage exists; and where award coverage does not exist or where the award does not apply to certain groups of employees, if certain events happen in the courts, then the default fund should be the fund where the majority of employees have their contributions made.

If you could get consensus on that, you could then go and, as a secondary issue, deal with exceptions where one or all of those funds become non-complying. I cannot imagine that that would ever happen; if it did, yes, you could have an exception then and have some other way, but it would be one in a million. You could then also—and I do not know whether you will spend time on this today—constructively set up some standards that those default funds should have. But I think we are getting confused between standards and the principle of how you determine the default fund. It seems to me we can get reasonable consensus on the principle of determining the default fund and then move on to the exceptions and standards.

**Mr HAMILTON**—We do support choice of funds. We think it can be made to work well. However, we want to keep the employer out of the choice mechanism; it is not the employer role to choose. What criteria would the employer use? They are not financial advisers, they do not have a financial adviser certificate. The idea of a small business or whatever choosing superannuation arrangements for their employees is stretching it a bit. So, in relation to the default fund, we see it as important that you use a non-employer default fund, you keep the employer out of the default issue. The non-employer default mechanisms that exist are the award fund, the majority fund in the workplace or the existing fund for existing employees. I do not have a strong view on any of those, except that there is this legal cloud over the award default fund because of the Financial Clinics case, where the High Court said that unless there were exceptional circumstances the awards cannot direct choice with respect to non-unionists. So there is a High Court exceptional circumstances test. We will see how that plays out in the Industrial Relations Commission, as has already been determined; but there is a High Court cloud over the award option.

In relation to majority fund, that is a simple test. There is not a cloud over that. That is simply what the employer currently pays with respect to the majority of employees, so it is

quite simple. If there is an existing fund for an employee, again, there is no cloud over that, but there is a serious cloud over employers choosing it. All sorts of issues are raised: employer liability; what happens if the employer makes a mistake? And employers are not financial advisers, so they cannot possibly play that role.

**Ms SMITH**—A number of the points I was going to make have already been made. From where we sit, ASFA certainly support the need for members of super funds to have funds that are appropriate for their need to have retirement objectives as the primary purpose and which are cost-effective both for the funds to administer and for the members. To make a choice environment work, we see the safeguards and also the transition steps as being imperative to ensure that we meet those goals that we are all trying to strive for.

I differ very much in terms of what Lynn Ralph of IFSA was saying in that we already have, in effect, a default mechanism—because the choice environment will by itself necessitate those safeguards to be stronger than they are now. I think it will necessitate, in particular, certain minimum standards, particularly in relation to insurance and also to having either balanced or growth orientated standards being there in terms of the default schemes.

First, in terms of insurance arrangements. I think we have to remember that a default scheme is a scheme for those people who, for whatever reason, do not want to make an active choice. So talking about other tailored schemes that might be available in the marketplace is a non sequitur when you are talking about what we are trying to define here. It could well be that the bulk of people do not want to have to make an active choice, because they think the trustees will do a better job for them. Certainly, from the independent research which we commissioned looking at people's attitudes towards superannuation and government policies to superannuation, the primary thing that people want is a system that is simple and safe: they do not want to have to be investment gurus when it comes to superannuation; they want to leave it to people who are better equipped. So that is a good reason why we need to ensure that the default scheme does have good standards.

In terms of insurance, the bulk of people at the moment expect that their superannuation covers insurance, and there are good reasons why it is a good way of going about it, because the economies of scale mean it is very much cheaper to buy-in the insurance through superannuation. The automatic cover, as Howard Rosario indicated, becomes a critical step. If we move into a choice environment and some of the other options which are perhaps being marketed at cheaper rates, and the cover of insurance is not transparent, people unwittingly move into that, and they have caught themselves in a real trap.

Take for example someone with \$500,000 death and total disability cover, who is male, a non-smoker, with no health problems. The cost of that insurance in an 800-member company is \$260 per annum. The cost for an individual insurance policy retail premium would be \$1,600. Unless we are talking about setting standards there, in terms of the norm of what a lot of people are expecting, the cost for those individuals is going to skyrocket and they are unwittingly going to get into gaps that they were not expecting. I would urge that insurance is a very critical part of the default arrangements: even though they are the bulk of what people get now, with moving into a new situation it may change. So that is a fundamental point, as is, we believe, a scheme that is either balanced portfolio or growth linked—perhaps with age as another criterion.

**CHAIR**—The last question before we break before morning tea goes to Michael Rice. After morning tea, I think it might be useful to carry on with this issue of the default fund and adopt the approach that Steve Gibbs suggested of looking at two things—firstly, the principles; and then the standards that should apply.

**Mr RICE**—I would like to speak briefly about insurance as well. Firstly, it is worth pointing out that the coalition policy under David Connolly, before they gained government, was in fact to have compulsory insurance in all funds. I believe it was a simple formula—\$2 a week premium for members up to age 45. For a number of reasons, it was dropped. It was thought to be too difficult: people had other cover, it was not needs based and it is certainly no longer policy. There is no requirement to have any insurance. Notwithstanding that, most funds do provide some cover. Philippa has given a good run-down of why group insurance is viable over the retail market. I am not that concerned under a choice environment that the market will disintegrate entirely. I think we will still get similar terms in default funds as we now do in master trusts.

The critical issue is that insurers will provide medical free cover, provided that they can get enough members and that the cost of the additional claims that are generated from people that they would not normally cover is less than the cost of underwriting those people in the first place. There are other examples where they will underwrite people free of medical cover—for example, direct marketing.

The real issue, though, is one for the industry funds, because their insurance bases have inherent cross-subsidies. Some of their members may not be insurable because they are in dangerous industries. There is a tendency for the younger members to subsidise the older, for females to subsidise the males and for clerical to subsidise manual. Any system that has inherent cross-subsidies is going to come under threat in an environment where people can opt out. But, for master trusts and the rest of the market, I suspect that the changes will actually be minimal.

**CHAIR**—We will break now for 10 minutes.

**Proceedings suspended from 10.21 a.m. to 10.41 a.m.**

**CHAIR**—I might resume by asking Steve Gibbs from AIST to develop this concept of a set of principles and, having established those principles, developing some appropriate standards. Steve, could you follow that through, because I found that an interesting approach.

**Mr GIBBS**—What I was getting at was establishing, firstly, how the default fund is to be determined, and then going on from there and looking at whether there were any exceptions to those things for reasons such as those Lynn Ralph mentioned, that the default fund so determined cannot be because it becomes non-complying and what then happens. As I said earlier, I think that would be highly unusual, but we may need to have certain provisions to deal with that. Finally, there is a need to deal with any standards that are thought necessary for the default fund established by the principles to meet, otherwise it would then cease to be an effective default fund.

In simply addressing the principles, I was restating what I thought I had heard from a number of people around the table. In fact, I do not think I heard from anybody around the table who had put up a case strongly arguing with the principles of existing employees existing fund, new employees award fund where it exists. Where no award exists or where the award does not apply to all employees for one reason or another, the default would be the fund that currently applies or applies in the future to the majority of employees employed by that employer in that workplace or location, or whatever words we want to add.

**CHAIR**—Thank you. Brad Pragnell from the ASCPA.

**Mr PRAGNELL**—Building a bit on what Steve has argued regarding the default fund, the issue of new employers obviously would need to be addressed as well, in particular new employers who were award free. I think there will probably need to be some decision about how in those instances a default fund was actually selected. As much as we would support the position raised by Mr Hamilton from ACCI about the need for employers to be out of the default system, there is going to have to be a point where the employer will make some choice. Where it is a new employer and where it is award free, the employer will likely have to choose the fund or else will have to choose another party, that is a financial adviser, to choose the fund on their behalf. If either option happens, there could possibly be issues of liability in regard to that, either choosing the default fund or choosing the third party to select the default fund. If standards are required on default funds, this would further complicate the issue, particularly for small to medium employers in terms of their ability either to make the selection of the default fund or in terms of being able to assess whether or not the third party had made an appropriate selection.

Regardless of how we push forward, it is important, particularly in the context of CLERP 6 and all-encompassing investment advice rules that appear to be flowing from that, that employers, particularly small and medium employers, are somehow shielded from the issue of liability in the selection of the default fund.

**CHAIR**—Do trustees find it increasingly difficult nowadays to secure low cost life and disability cover? Is it becoming harder to secure low cost cover? Do you have any comments on that?

**Mr ROSARIO**—Since we have actually had the experience of the introduction of a choice regime, I can talk from Westscheme's experience. As I explained, the Western Australian choice legislation started on 1 January 1998 and came into effect on 1 July 1998. In the first half of that calendar year, we were looking at changing our insurer. We went to the market looking for renewal of the terms that we were then on. We found that the insurer that we were with was extremely cautious about the offer that we had had from 1993 up to that stage. They had increased the premium and they were certainly looking for further increases for the same amount of cover, and they were looking at changes in terms and conditions which, in effect, reflected an increased cost of insurance to be borne by the members.

We found that a number of other insurers, having looked at what we wanted to cover, then said that in the context of choice of fund they were unsure what the experience would actually be. So I think they were reflecting this issue—that our experience might be more

adverse with people selecting against us and bringing people into Westscheme as a default fund. In the end, we had to go outside the normal list of insurers that the insurance consultants take our sort of business to. We had to go to a second-tier insurer who then arranged reinsurance behind themselves. Yes, the premiums did go up a bit in price. But we were able to negotiate arrangements so that for the additional insurance cover, we were able to recognise the difference between non-manual and manual workers, so that people who want more than the automatic acceptance levels in Westscheme can get cover that reflects their clerical work or whatever.

**CHAIR**—What are those levels in Westscheme?

**Mr ROSARIO**—The additional insurance now allows people to take up to the pension RBL limit in cover, both for death and TPD.

**Mr HAJAJ**—I might just pick up where we left off before the break and declare that the Financial Services Consumer Policy Centre does actually support the provision of choice of fund. However, certainly our support for it is not unconditional. So we do not support the current model put forward by the government. However, the reason why we did finally arrive at supporting choice is simply that we have had enormous feedback from the consumer movement and from consumers that they want a choice. They feel that it is undemocratic that they do not have a say of where their money is invested. The reason why that feedback is arriving to us now is basically that it is seven years after the mandatory superannuation guarantee was introduced. Finally, now, people are looking at their statements and realising that they have got \$10,000, \$15,000, \$20,000 and hence they want to do something with it, which basically leads me to the issue of default funds.

Somebody mentioned earlier that one of the problems with default funds is that they may end up being merely a clearing house for people while they make up their mind. We do not think that is going to be the case, and the reason why we do not think that is going to be the case is basically the level of education that is currently out there. People do not make a choice. People fall back on a default fund because they do not have the relevant education. They do not have the relevant know-how and knowledge to make an educated choice.

The people that we identified as falling back on to this position tend to be young people who are just entering the work force, people of any age from a non-English speaking background—this is some of course—who do not have the right language skills and the right levels of financial literacy, and people from blue-collar industries. With young people and with people newly entering the work force, the default fund will definitely not be a clearing house, simply because the reality is that it will be a long time before they start taking a proactive interest in superannuation and their retirement. It is such a long way down the track and, to begin with, the amounts of money are so minuscule. We do believe they should be looked at seriously, but we just do not think it is an issue to begin with—it will be a good five, six or seven years before people may be making an active choice.

We basically think that superannuation choice has the potential to undermine affordable access to life insurance. Indeed, fragmentation may result in funds and insurers lacking the critical mass to enable them to take the risks involved in mass insurance to safeguard against the likelihood of employees losing coverage. The centre recommends measures to ensure

that, when an employer hires a new employee, they must arrange payments of insurance contributions into the employee's existing fund so that the employee's continuity of insurance is not broken, the employee is not denied total and permanent disablement insurance as a result of a pre-existing condition and the level of cover is not reduced.

As opposed to so many of the organisations which represent industry, we are not as sanguine about the ability of the free market to regulate itself in such a manner as to actually provide the right cover. We believe that it is a task of government to codify and to put in place—into awards or whatever the relevant area is—the relevant default and life insurance provisions.

**CHAIR**—It was said that some actually get second-tier insurances to get the cover. Mr Silk, from your experience, are your members finding it increasingly difficult to get the cover and at the right price?

**Mr SILK**—Are you suggesting, Senator, through their funds or through other mechanisms?

**CHAIR**—From your experience of the Industry Funds Forum, are your members finding it increasingly difficult to get insurance, and what about the cost?

**Mr SILK**—Members are certainly not finding it more difficult to obtain cover. I think I am right in saying that all of the industry funds—certainly all of the industry funds in the Industry Funds Forum—have, as a compulsory feature of membership of their funds, compulsory death and disability cover, unless they have alternative cover elsewhere. So they do not have difficulty in obtaining cover per se, although I think it is a general feature of the insurance market that costs are increasing. Leaving aside choice for one moment, I think that people who are more practised in this area would confirm that costs are increasing. I would go back to the point that has been expressed to us by insurers that it is their expectation that choice will lead to an increase in costs in this area—so much so that some of them will either significantly change their operations and/or vacate the field as a result.

**Mr HEALEY**—Just picking up Ian's theme on tiering the debate, on the insurance issue I think it might be worth us discussing the gap question identified in the Senate report. Then, having discussed that, it may be worthwhile tiering down into these other issues about the nature of cover, et cetera. I wonder whether the committee should be seeking advice from, say, a reinsurer or one or several insurance companies that look at the market solutions to the gap issue. For example, insurance, as the report quite rightly pointed out, often extends beyond the term of a particular insurance contract. The question is: could the market viably provide insurance that covered the 28 and/or 56 day periods? I do not know the answer to that, but I think it is a question that could usefully be asked of one of the commercial providers.

We also need to talk about what extent of insurance cover is necessary. I think we have got a whole range of ideas floating around here, and my understanding of a lot of the group insurance arrangements is that they are not of the sort of magnitude that many of the other arrangements can be because they obviously cost a lot more. So the questions are: what is

the basic minimum level that we are talking about, and how would the market provide that? I just think that might be a way through this debate.

**CHAIR**—We will come back to that.

**Senator HOGG**—Mr Hajaj, you spoke of the growing consumer demand for choice of fund. Can you provide us with the evidence of that—the statistical evidence?

**Mr HAJAJ**—I do not have a quantitative analysis of it but, certainly, the reason why our centre has developed an interest in superannuation choice is because, at the financial services network conference in Melbourne last year, of all the issues that concerned consumers within the financial services field, it was superannuation choice of fund that was identified as the one being in most need to be tackled by us and, hence, it was the impetus for us looking at that. But, certainly, we do get a lot of inquiries and everybody that we talk to seems to be of that opinion.

**Senator HOGG**—I am interested in the statistical data if you can provide it to me and if you can't, then you can't. Thank you.

**CHAIR**—Before I call Philippa Smith, the issue that I think we might also like to take up is Gary Healey's question: to what extent should we have a minimum cover? What figure should it be? Obviously there are different levels for different firms et cetera. Philippa, if you have got any information on that as part of your presentation I would appreciate it.

**Ms SMITH**—I suppose I wanted to comment on two things. One was the availability of group cover, which is becoming more problematic. From the work that ASFA has been able to put together in terms of industry fund insurers, in 1997 I think there were 12 major insurers in Australia providing that form of group cover. By 1998, it had dropped down to eight insurers, so it shows that that market is, in fact, becoming more shallow. This feeds in, I think, with the more general feedback that we are getting from a number of funds.

Some of the questions that are starting to be asked in a choice environment are about whether those insurers will provide automatic cover; about the sorts of protocols that will happen with their changes; and about misunderstandings or contributions that have not been kept up to date—those sorts of things. The depth of the market means that perhaps the reinsurance has to come from overseas increasingly, but there is a real issue there as are the transfer protocols, I would say. I have not got the instant answer in terms of what is an adequate level of cover. Others like Howard and Ian might be able to comment on that more fully, but I think the issues about disclosure, protocols and transfers have to be very carefully thought through.

On the question of consumer support for choice, there was a request for quantitative data. I perhaps should indicate I was surprised by the assertions that were being made that consumers were overwhelmingly wanting choice of fund. For most people portability—and there is a confusion I suppose between choice and portability—is already there and I have seen no mass demand for that nor mass demand for investment choice. We did some quantitative research, commissioned through Mark Textor's people, and it can be made available to the committee. It started with focus groups and then quantitative research of 400

people across all demographics; choice of fund was wanted by only a very small number of people.

What people said overwhelmingly was that they wanted the system to become less complex and they wanted it to be safe. They wanted a transparency about what they were getting. Those were their priorities. Choice of fund was not a priority and many were saying that they did not want to have to acquire a sophisticated investment knowledge.

**Senator SHERRY**—I want to raise an issue while we are discussing insurance and it follows in part from Gary's comment. Should we be restricting the form of insurance that is available? The reason I raise that is that, in the Tasmanian jurisdiction, I have recently had drawn to my attention a couple of cases of workplace agreements which are outside the award process, where an agent has entered into an agreement with the employer and the employees to provide insurance for loss of employment and, obviously, total death and disability. The cost of that is two per cent of the seven per cent superannuation guarantee. I would pose the question: is such a product appropriately debited against the cost of superannuation guarantee?

Secondly, I have also had a couple of examples of employers funding workers compensation insurance with the superannuation guarantee, and in that case there is nothing left. My advice is that this is legal because it is an insurance product. We are talking about death and disability insurance, but should other insurance products be allowed as a debit against superannuation guarantee?

**Mr RICE**—To my knowledge, the only types of insurance allowed for superannuation funds are death cover, term insurance, and disability cover, either as a lump sum or as an income benefit, and there are certain rules. I would imagine anybody claiming workers compensation or unemployment insurance is breaching the SG.

**Senator SHERRY**—That is not the advice I have had.

**Mr HEALEY**—I would be interested in whether Philippa knows, for this 1997-98 data, what the coverage is on the death issue versus the TPD issue. I think there are some legitimate questions there. What is the minimum death cover that is out there under group arrangements at the moment—again, I do not know the answer to that, but I think that is a significant issue—and what are the kinds of TPD cover that exist at the moment? Is that something you have got?

**Ms SMITH**—Perhaps. I will have to seek advice.

**Mr HEALEY**—If you can just give us some ballpark figure.

**Ms SMITH**—I have not got it off the top of my head.

**Mr CASEY**—With respect to Senator Sherry's comment, I would definitely support that there ought to be some limitation on the forms of insurance, certainly if employers are seeking to provide some form of employer insurance out of the superannuation. I do not think that should be allowed. In terms of level of cover, as a basis we could start with the

fact the industry funds over a period of time had a minimum or had a level of cover based on a dollar a week, which might have to be upgraded. Over time, they have allowed greater variety in terms of options of units of cover, et cetera. But I think something starting off at \$1, \$1.50, \$2, whatever is an appropriate and reasonable amount which does not eat too much into the retirement savings—because you do have to balance up the need for the death and disability cover against the ultimate retirement savings—is a reasonable basis to start from if you are looking at a minimum level of cover to be provided.

**CHAIR**—What does that \$1 a week give the estate if the person dies?

**Mr CASEY**—The figure is something like \$35,000 or \$40,000 a year. Would that be right, Ian?

**Mr SILK**—It varies considerably from fund to fund. If it is a fund comprising people largely drawn from a dangerous industry, where there is likely in particular to be TPD and to a lesser extent death exposure, then the amount you get is simply not comparable with what you might have in a fund that largely comprises white collar workers. It might be a ratio of five to one, for example.

**Mr CASEY**—Yes, it does vary quite substantially with the actual structure of the fund itself.

**Senator HOGG**—Just a point of clarification from you, Mr Casey. Are you suggesting that there should be an upper limit such that the cost of the death and disablement benefit does not eat into the final long-term insurance benefit?

**Mr CASEY**—I think you have to be a little bit careful because of the needs of the individual, if we are looking at choice as being the individual choosing the options that best suit their needs. For a person who is aged 35 who has five children and has a high need for a reasonable level of insurance cover, at that point in time it might not be unreasonable for a higher percentage of their SG to be absorbed into—

**Senator HOGG**—Are you suggesting some sort of flexible scale? I am not trying to tie you down to it; I am just trying to get some sort of feel as to whether it might be, say, two per cent, and as you got closer to retirement your cap might be one per cent, and there was some sort of flexible scale in between. Is that the sort of thing you are advocating?

**Mr CASEY**—There are options that we can look at, but you have to be a little bit careful about setting upper limits. At this stage, death and disability benefits are not compulsory elements of superannuation. We are now seeking to make them a compulsory element. You have to very carefully balance up the needs of the individual through their stages of life in terms of saving for retirement and their immediate needs, because the reason for providing the death and disability cover is to provide for the immediate needs of dependents on the superannuant's death or to cover them in the contingency of disability.

**Mr BERRILL**—In the context of disability insurance, you need to be mindful of your target audience; that is, generally speaking, people with acquired disabilities. Compulsory superannuation is about adequate self-funded retirement income but people with acquired

disabilities leave the work force early and, because of that, have inadequate retirement incomes. The whole idea of disability cover in superannuation is to put them in the position—or something like it—that they would have accrued an adequate retirement income, but for their disability. We see as an example—it was in the papers not long ago—that the increase in the number of persons on disability support pensions has risen by nearly 100,000 in the last—some time.

If you are looking at the self-funding of retirement benefits, then disability cover, whether it is by insurance or otherwise, effectively puts people in a position to self-fund their retirement. There are problems, particularly in the accumulation schemes where there is insurance based disability cover, in providing adequate retirement income or adequate insurance to match what people would have accrued had they continued working until normal requirement. In typical examples of industry funds, the base levels of cover do not get anywhere near that for most people. The level of insurance does vary, as Ian pointed out before, from, say, \$25,000 up to \$60,000 or \$75,000 on a base level of cover, and you can buy extra units of cover which can provide adequate retirement benefit. But I think it is important to keep in mind the target audience here; that is, generally speaking, people with acquired disabilities.

**Mr DOWNES**—Senator Watson, you asked about the experience of getting insurance and whether, in a bulk sense, it was getting more expensive. At Jacques Martin, our experience would be that most insurers priced the product wrongly when compulsory superannuation first arrived—they under costed. For instance, we found over the last three years, as a company with 2.6 million superannuation accounts, that we have paid less in premiums to insurers than we have paid out in death and TPD benefits. So there is a movement amongst insurers to get their pricing right. That is driving costs up, obviously, but in a choice of fund environment, we think also that the insurers are very aware that people will anti-select. They will move around because of insurance options, especially the continuation options that are available to people once they stop employment.

We had an insurance workshop where some of these insurers presented to us just three weeks ago. One of the things they told us was of their experience on continuation options, where people have left work and are able to buy their own insurance but at subsidised rates through the fund. They are 12 times more costly in terms of claims than normal insurance. So there is that scope, too, in the choice environment that we need to watch.

**CHAIR**—Is there anything further on the default fund?

**Senator ALLISON**—There was a question left in the air, I think by Mr Pragnell, about new employers and where they might be in an arrangement where existing employers would pick up on the existing fund or the majority fund. I wonder whether there are any other ideas on new employers.

**Mr HAMILTON**—As I understood Mr Pragnell, the issue was raising the point of where there was a new employer and the situation was award free, you could not use the award default option and, given it was a new employer, the majority option would not exist, nor would the existing fund exist. In other words, it would fall through the three non-employer default mechanisms. I am sure some sort of variation on one of the three non-

employer default funds could be found, such as some sort of equivalent award mechanism or what the most common industry fund is, or something of that sort. I am sure a mechanism could be found to cover that hole. It might not be easy, but I am sure it could be done.

**CHAIR**—We now move to unlimited choice, e-commerce solutions and portability.

**Ms RALPH**—Before we do, I am not sure we have solved the problem. Before I ask Stephen Gibbs a question, I would like to make one point. We talk about whether there is demand for choice from consumers. I am surprised that the doors of this hearing are not being beaten down by a bunch of consumers demanding choice. I do not think a lot of people know about it. As Khaldoun Hajaj mentioned earlier, we are only now getting to the point where people's balances are accumulating to the sorts of levels where they are starting to think about it. A decade ago, there were some visionaries who had a view about SG. The consumer was not bashing down the door at that time for SG either, but there were some visionaries who looked ahead and saw a need in the community and saw good public policy and implemented it at that time.

Concerning Stephen Gibbs' mechanisms for the default funds, my only question to him is whether he ever envisages that, aside from a fund becoming non-complying, there might be occasions where it would be good for the default fund to change and, if so, what mechanisms would be in place under his model for that to happen? I am one of those people who believe that there is a probability of everything happening out there and you have to have a system that is set up to cope with almost every probability. At some point, there will be a situation occur where a default should change and needs to change. How would that occur?

**Mr GIBBS**—I do not accept the proposition that there is some undefinable event in some time that is also not specified when you would want to change a default fund. Who would want to change a default fund? I think that is the question. If an employee wants to change the default fund, they choose. It is axiomatic. We are hearing from—I think I heard—the ACTU, ACCI, the consumer groups and all of the bodies representing trustees or superannuation funds saying, 'These are the principles.' It would seem to me that the only people who would then be advocating that you need to change your default fund somewhere down the track would be organisations which have a profit motive for doing so.

**Mr HAMILTON**—It would be possible to develop a mechanism for changing the default fund; for example, a ballot of a workplace or some such provision. That can be added to the model we have before us, if you want it.

**Mr HEALEY**—On the insurance issue, I think it is also important to bear in mind that part of that issue is a disclosure issue about the need for employers to clearly indicate to employees the nature of death and disability cover. We should keep that in mind. It would be worth re-emphasising the point—the committee getting some actuarial advice potentially on the group cover issue so that we know actuarially what we are dealing with and to split that into an advice on the death question and the disability question.

**CHAIR**—Our next topic obviously offers great possibilities for reducing cost—e-commerce. Can somebody with experience in that area start the discussion?

**Ms LORIGAN**—I think the point that we would like to make is certainly that e-commerce solutions have been around for some time. Certainly four years ago, large organisations, be they fund managers or administrators, were looking at putting in place one-to-one arrangements between funds and administrators so that both data and money could be transferred seamlessly and, more importantly, reduce costs and inefficiency. So there was certainly an administrative driver of that initially.

For the last three or four years, I think, most of those disk transfer systems have become online systems. I think the technology now exists whereby you can transfer from one employer to multiple administrators and fund managers both data and money. Certainly, that technology exists overseas.

I think the real issue though is one of how you effect it. How do you implement this e-commerce solution? There has been an industry party that was referred to by Lynn Ralph and certainly by Philippa in relation to trying to get the industry to develop standardised protocols so that it would be very simple and seamless to transfer money and data between fund managers, administrators, employers and, ultimately, employees. The real issue is how quickly you can actually implement anything through an industry forum like that without some sort of regulation or legislation to push it forward more quickly.

The other issue is that there are multiple providers, including the Commonwealth Bank, that have developed electronic solutions. Is it really in the best interests of the industry to have multiple providers with multiple solutions? Probably it would be a good idea to have a more standardised approach.

Certainly some discussions we have had with various political parties previously have indicated they favour a standardised approach. I think the other key issue is about portability. We have discussed the need, certainly in a choice environment, for members or employees to be able to take their funds from employer to employer. Certainly the vision we would see there in that sort of environment is that when an employee started at a new employer's premises, they would hand over their bank accounts so that their salary can be credited to that bank account and, similarly, their superannuation account. It was not that long ago that employees did not really have the choice even of which bank account their salary was to go into. They were told, 'This is how you'll be paid.'

We think that the whole e-commerce thing obviously facilitates portability. The real issue is what will happen in terms of cost. We certainly see the cost going down. Certainly on the administration side of the business, experience amongst the industry would indicate that you can reduce your data entry cost and cost of re-work by up to 40 per cent. The obvious issue then becomes one of, 'Will those costs be transferred over to employees?' Our view is certainly that in an open competitive environment, the pressure on management fees will almost force those costs to be passed on to members over a relatively short to medium term. I think they are the main points.

**CHAIR**—Mr Walker, would you like to comment as an administrator?

**Mr WALKER**—I think I will. We, like everyone else in the industry, are developing e-commerce solutions. Partly that has been driven by the prospect of choice of fund and the

need to remit contributions to multiple superannuation funds. We deal with some 600 or 700 employers around the country and to date the great limiting factor for us in implementing the e-commerce solutions we have is the administration capability within the employer organisation. That stems from the variety of payroll systems, sometimes the lack of reliable payroll systems and the ability to get those organisations to upgrade to the point where they can actually have cut-through processing into our administration system.

Indeed, just going back to default funds—and I do not know how you do it—one of the standards you will want to apply to a fund is the ability for employers to link into that fund at low administrative cost. In our submission we actually talk about the potential impact of cost on employers. E-commerce offers the potential for dramatic cost savings but a large part of Australia is not ready to actually use it.

**CHAIR**—Mr Casey, you have been involved in this area. Have you got anything you can share with the committee?

**Mr CASEY**—I would echo the comments that a large percentage of the implementation issues revolve around the ability of employers to be able to communicate consistently through e-commerce. We can establish through the industry and through the project which is being sponsored by IFSA and ASFA on this, but it is a matter of how you potentially link into 800,000-odd employers around the countryside through their various payroll systems. That is the limiting factor. Over a period of time that will be resolved but it is a solution which is not immediate. If we had unlimited choice of funds now where employers had to distribute contributions to a wide variety of funds, then that would have to be done at this point in the majority of cases on an manual basis and that would be very costly at this stage.

Certainly e-commerce has the ability to dramatically reduce the ongoing administrative costs of running superannuation. I think that is the next watershed that we will see in terms of cost reduction in superannuation.

**CHAIR**—I might be wrong but, judging from the comment around the room, we are moving more to favour a situation of unlimited choice as one of the options. As part of that discussion, is the government's previous position in relation to the four choices still viable? Should we stay with that or should we move on? What sort of choice regime should we really be looking for?

**Mr HEALEY**—We certainly would not have a problem with an unlimited choice environment. Certainly we see the debate has moved on a bit and, if there is a way that we can do it that satisfactorily solves the e-commerce issues, I think it is definitely well worth thinking about. Helen will obviously comment more on this but it is just worth mentioning that there are e-commerce solutions out there on offer now to employers—certainly by seven or eight providers that I am aware of—and they are now sending contributions to a range of super funds quite satisfactorily.

**Mr HAMILTON**—Our position is, as I indicated before, supportive of choice being provided, provided it does minimise the compliance burden for business.

**CHAIR**—What sort of choice?

**Mr HAMILTON**—The sort of choice we would support would be something along the lines of the previous government proposal which was to provide, in effect, three streams which the employer would choose: firstly, a choice of five or fewer—whatever it is; secondly, leaving it to the employee—unlimited choice; and, thirdly, some sort of workplace agreement. In other words, the employer would choose which choice stream would apply of those three: unlimited employee choice, the employer offering a choice of four, five or whatever, or the employer entering into some sort of workplace agreement with the employee providing choice. It would be a three-stream approach and each of those streams would offer choice to the employee in a slightly different way and the employer would choose, if you like, which stream.

**Mr DOWNES**—I would just like to talk a bit about electronic commerce too. We do not think electronic commerce is anywhere near ready to facilitate the sort of unlimited choice that some people would be advocating at the moment. We deal with 70,000 employers every month, which is quite a deal, probably getting on towards 10 per cent of the employers in this country, and we find that only 20 per cent of the active memberships of our funds submit electronically at the moment. The reason for that is that 80 per cent of our membership is with employers with less than 20. They are in small pubs or they are those subcontractors on building sites that work out of the backs of utes. These people are not ready for e-commerce.

**Mrs ORCHARD**—I had something to add to that point in relation to the small and medium entities. Not only do they not necessarily have the capability of e-commerce at this stage, you will often find that they are using a proprietary based product that may not be being generated from Australia—accounting packages like MYOB and things like that—which would make an industry standard which is developed in Australia difficult to apply to those funds. They also do not necessarily have the resources nor have they anticipated the need to purchase additional software in order to deal with superannuation e-commerce. They will then have to resource any manual processes in order to be able to supplement that. I think we need to keep our large, small and medium enterprises in industry in mind when we are considering the e-commerce issue.

**Ms SMITH**—If we can get adequate safeguards, the model that ASFA would prefer is either collective agreements, whether they are awards or other collective agreements, or unlimited choice. We do not see any particular reason or advantage through the ‘forced four’ option because it does not get to the principle of an employee choosing in the way that that principle was there and it raises a whole host of other issues about small employers or others having to be experts in the area of superannuation and those sorts of issues. Our model is either a collective award or collective agreement, or unlimited choice.

That said, getting back to the electronic commerce, the electronic commerce in an unlimited choice regime is a very necessary precondition to make that work without cost escalating in a very real way and, as was indicated before, ASFA and IFSA are looking. We have now got a roundtable looking at protocols in terms of what messages to facilitate that, but I think, in truth, we are some way out in terms of having it implemented. But that, certainly, I think is one of the transition or implementation steps that needs to be there.

Just by way of background as to its importance, ASFA last year did do a benchmarking as to cost within the superannuation funds area, which covered corporate funds, industry funds and public sector funds. Unfortunately, the retail sector did not participate in a way that we could include them in the benchmarking but, across the other areas, the many funds reported that for the collection and processing of contributions the proportion of cost was less than five per cent, but some funds, particularly industry funds, reported that the cost of that collection and processing was anywhere between 20 per cent and 50 per cent of cost. Obviously, those costs in a choice environment would increase and this underscores why the e-commerce is so important. Most respondents considered that electronic transfer of contributions would decrease administration costs up to five per cent although some said it is up to 20 per cent, so the savings were seen to be quite considerable if we can get those standards and protocols in place.

**CHAIR**—Ms Rubinstein, in answering the question, you might also tell us whether industry is ready for unlimited choice.

**Ms RUBINSTEIN**—I would think that most employers are not ready for choice at all and do not want it. It has been described before, I think, that choice is a solution looking for a problem or an answer looking for a question. There is simply no evidence of any significant demand by employees or employers in relation to a specification of fund. There are other problems to do with superannuation that come well ahead of that one.

The problem with the four- or five-fund model is that, firstly, the employer, presumably, chooses the funds. That raises a problem which I think the employers and their organisations are very cognisant of, which is that they do not want to have responsibility for choosing the fund because of the dangers of having to wear some liability if things go wrong. Secondly, it leads to the possibility of the provision of bundled products that are then associated with other financial services and leads directly or indirectly to inducements to employers to go down a particular path. Thirdly, it is completely irrational—for example, the inclusion of an RSA as a choice is absurd, given that funds with investment choice provide a very similar investment option in a capital guaranteed or capital stable type choice. You can only say, ‘The reason why RSAs are in there is to give business to the banks.’ You could also analyse the other choices in that way. They are not giving people choices of outcomes; they are giving them only choices of providers. It is not a choice of product, really; it is a choice of provider, which is not the same thing at all.

The problem with unlimited choice is the problem of having to join the funds being talked about and is the problem of the administration attached to it. That is why the choice models that exist in New South Wales and in Queensland, for example, and in fact which were arbitrated by the Industrial Relations Commission in respect of the building awards, require the employer to agree to the fund as well as the employee. Arguably, if we are talking about choice as being for the benefit of fund members—and it is hard to see why anyone else should benefit—then the employer should have nothing to do with it whatsoever. But that does raise humungous administrative problems. I think what it really all shows is that we are trying to deal with little bits of a problem—of an issue that really should be put away at least until the infrastructure for it is in place, until e-commerce is developed for everybody, until the education campaigns and the consumer protection legislation and everything else has been in place and has been tested, and there is a real demand for it and a

real facility to do it. Otherwise, you are fiddling around with something where every time you try to address a problem you see 14 others arising around it.

**Mr McILROY**—I would just like to make one basic point, and that is that all the research that we have seen come out in superannuation over the years and the research which people are referring to today comes back to the point where people want something to be quite simple. When we are looking at the choice model, or whatever that may end up to be, we need to keep in mind that it needs to be as simple as possible. I think, where we have a situation in which there are three streams of choice, disregarding the fact that we then have unlimited choice with that, the number of streams or the number of options that need to be made available needs to be limited so that it is as simple as possible. From the employers' point of view, adding the four- or five-choice options is certainly not making it any more simple for them.

**CHAIR**—What would you suggest?

**Mr McILROY**—Probably taking out the second stream that has been referred to earlier of the four- or five-choice model—so unlimited choice or a form of workplace agreement.

**Senator ALLISON**—I would like to press this question of 20 per cent readiness with e-commerce and to ask the question: is this a temporary situation, and could we envisage 50 per cent being e-commerce ready in 10 years time or are most businesses going to be e-commerce capable because of the GST? What is the future in terms of the uptake of technology which would allow e-commerce?

**Mr DOWNES**—We have found that the percentage of our membership that is providing data to us electronically is increasing. As you say, it is up to about 20 per cent at the moment. We employ what we call client services advisers to go out and visit employers and provide them with desktop technology in order to submit in this way because, as the banks were saying, there are advantages in that to us through cost reduction. We do find that in industry funds where you are in the building industry, the hospitality industry, and industries like that, there are very small employers and they come and go very quickly. Many of these employers will never be ready for electronic commerce. But, yes, we do think that, over time, we can increase that 20 per cent, and we are trying very hard for our own purposes as well as for any future choice that might come in. I could not predict where it might end up. We would be hoping for 40 or 50 per cent, but we have got a long way to go.

**Ms SMITH**—I could just add that the roll-out we saw in terms of the council of industry parties and the development of protocols was in the order of 18 months to two years. That was in terms of getting agreement with regard to protocols as to the messages. It does not quite get to the question you were asking as to whether everyone will be capable of taking it up, but that was the time frame.

**CHAIR**—What form of choice, if we are going to consider choice, should we be offering?

**Mr GUNNING**—I could make a comment on that point and perhaps pick up on quite a bit of the discussion that has been happening. There has been quite a lot of focus on the issue of cost to employer and—

**CHAIR**—That is our next topic.

**Mr GUNNING**—those sorts of issues, e-commerce, et cetera. It is probably worth making the point at this stage that, in terms of unlimited choice, perhaps we should focus on what the investor wants or what it means to the investor. Something that the Financial Planning Association spends a great deal of time on with their clients is talking about issues of long-term approach to investment and asset allocation. Clearly, where a person, through unlimited choice, could effectively select a fund for throughout their lifetime that would be portable from one employer to the other, that would facilitate a consistent approach to investment. I do not think anyone would argue that that is not a good thing.

The other issue there is that in terms of churning—and I understand we are going to cover that as well—it will reduce costs that are associated with a person changing industries, for example, or changing employment. So, clearly, an unlimited choice has in essence a great deal to offer in satisfying that objective of consistency and lack of change.

**Mr HAMILTON**—I would like to respond to one or two comments made by Ms Rubinstein and another speaker. In relation to the second stream I mentioned, which is the choice of five or fewer funds, our support for that stream was always conditional on the employer being fully protected in terms of liability, so the point was well made by the ACTU and the other speaker. I would just emphasise that that is a very important issue for us in relation to that option; if it does continue, our support is conditional on proper protection.

**Mr SILK**—On the question of what form of choice model should apply, I would restate our position that we do not support the introduction of choice at this time. Were it to occur, the fundamental point we would make is that it should be employee based—that is, the employer should not have a key role in determining the choice of fund. Having said that, there are two ways in which that can be implemented: one is collectively and the other is individually. We would say that it is imperative that any model that emerges in legislative form should provide explicitly for the possibility of collective choice of fund as well as individual choice of fund.

**CHAIR**—Would you do that by ballot?

**Mr SILK**—There is a range of mechanisms that occur currently in workplaces. Ballot is one, but there are many instances where a ballot is not required and a collective decision can be arrived at. The key point is that a collective model should apply in the event that choice of fund is introduced; it should not simply be that an individual choice is the only option available.

**Ms RALPH**—I would like to reiterate that in our last appearance before the committee back in February 1998 we were supportive of the government's choice of fund model at that time. Since that time, we feel the market has moved on. There have been significant

developments already in e-commerce, both at an industry level and at an individual firm level. That pace is really picking up steam. We also know that the research we commissioned recently from Phillips Fox shows us that the wider and more unlimited the choice is, the greater the potential for actually achieving consolidation benefits in superannuation. Therefore, at this point in time we would support unlimited choice because we believe it does generate the sorts of cost savings that you would not achieve by the more limited version of a three-, four- or five-fund choice.

**Mr RICE**—I would add that there are actually more superannuation accounts than people in Australia today. If we divide the number of accounts amongst the workers, we get an average of about 2.7, all of which attract fees. There is a base unit cost applied to all accounts. Our analysis for IFSA showed that there would be a saving of \$328 million a year from a 15 per cent consolidation of accounts and \$424 million a year from a 30 per cent consolidation. And consolidation in an e-commerce environment would be a lot higher than that.

The problem with the government's model of four funds is that that would be a barrier to consolidation because many people would not want to choose one of those funds or they may have money elsewhere. We really feel that unlimited choice is the best way or the most effective way of saving money. In terms of timing, because they are annual savings, the sooner the better. The balance, of course, is to try and do this in an environment of proper disclosure and education of members, but the sooner it could be done the more money people would save.

**Senator HOGG**—Just on that issue of consolidation, if there are such savings to be made, what would provide the incentive, the impetus, for people to consolidate? It is one thing to say the savings will be there. What is going to be the impetus?

**Mr RICE**—In terms of future contributions, if people go into one fund and stay in it they will not get future segmentation. In terms of trying to consolidate the past situation, there are a number of things. Firstly, you would need to have portability across the whole member account balance and not just the SG contributions. You would need to change the trust deeds of many funds—for example, industry funds may have a monopoly clause written into their trust deeds to stop money being taken out other than to other industry funds. The same might happen if employers make the decision. At the moment many employers will not allow people to move to a fund of their own choice except in situations where the employers have a strong negotiating point. There is \$50 billion in self-managed funds now, where wealthy people with average balances over \$100,000 have been able to negotiate deals. In terms of other people being allowed to move their money, it is the legislation, the employer groups, the attitude of unions—currently, everybody wants to protect their own turf. No-one wants a free market because they are afraid of losing business to others.

**Mr SILK**—If I can just make a point, we think the Phillips Fox report on this point grossly overstates the benefits to be derived from choice of fund. The fact is that on our surveys of our members—I am talking about our fund, the Australian Retirement Fund, with 450,000 members—we know that well over half have at least one other account and that the overwhelming majority of those people face no impediment on transferring it into the fund. It is apathy and inertia.

If you introduce a choice of fund regime, it will pick up some of the points that Michael Rice made, but in our submission they reflect a minority of instances. You can have any regulatory regime you like and, short of compulsion of consolidation into one account—which, I guess, is the logic of Senator Hogg's question—it will not occur. That is not a reason not to introduce choice, nor is it a reason to advocate choice.

**Mr O'KEEFE**—I just want to reinforce the fact that the institute is quite supportive of choice as it is, but we are also quite flexible in terms of whether we are talking about a four-fund choice or an unlimited fund choice. I think what we feel is that member choice is not the real issue here. It is much more that adequate disclosure is going to be provided and education. I know that is a section which we will talk about shortly but, to us, that is probably the key point. I think we have made the suggestion at different times that perhaps what we should be looking at as well is considering actually splitting the issue of choice from disclosure, in that disclosure is the thing we should really be looking at first of all. That really fits in, I think, with CLERP 6 proposals as well. So I think that is probably something I would like to put up front.

**Mr HEALEY**—I think we would be happy to get each of our members who are currently involved in providing real e-commerce solutions to help people put their funds into different super accounts. We could give the committee the details of that, so the committee can judge that and just try to get a little bit more information. As I said, I think there are about six or eight currently in the market, and they do work for paper-based employers as well.

**CHAIR**—I would like to put to all the people attending today that, if you have a supplementary paper to put in arising from the hearing, we would very much like receiving it. Senator Sherry, you might like to introduce the next topic.

**Senator SHERRY**—We are moving on to cost. I just want to pose a couple of points and questions, and people might encompass them in their comments. There are obviously a variety of costs in running a system that has a greater choice element. Everyone is for choice; it is motherhood. One of the costs I can see savings in is electronics, where it is applied—e-commerce. I can see savings in consolidation, depending on the model. I agree with the comments from Michael Rice, although I am not quite as optimistic about consolidation.

What really worries me with cost is: are we going to enjoy the liberation that Chile enjoyed with a choice model? There is the cost of distribution *à la agents* in a competitive model—advertising—and at the end of the day will we end up with a lower cost in terms of the total cost of running the system and the components within it? My particular personal concern, from a philosophical point of view, is this: is there a guarantee that the cost to low and middle income earners will go down and not up in a choice environment?

**CHAIR**—Are there any contributions from the floor about the cost to employers, employees or members?

**Senator HOGG**—Before everyone rushes in, Mr Chair—I notice everyone champing at the bit—the other issue that interests me is whether there will be a cost burden that is shifted

on to the vast majority of those who choose not to make a choice in favour of those who are making the choice. In other words, can anyone quantify that for us? What will be the cost for those people who do not make the choice bearing it for those who choose to make the choice—given that there are few at this stage who seem to show an interest in going down that path? So people could comment on that.

**Mr RICE**—Could I start by saying that, if there were unlimited choice, it is fair to say that initially many members will do nothing. After all, they have come from a position where they have not been able to do anything. But if they move into an environment where they are given choice, I think they will take a keener interest. The interest is likely to be higher for those close to retirement and for those with a higher account balance, because they are the ones more aware of their benefit.

Once people with money above, say, \$10,000, \$20,000, or whatever the threshold is, realise that they can save money by taking a simple action—at the moment it would be quite a battle to try to fight to consolidate your business—I think an increasing number will do so. We do not know where they will go. If the industry funds are the cheapest, which on the surface they are, then they could expect to pick up membership. There are certainly many employees who have been put in master trusts by their employer and have had no say in the matter. Conversely, if people are in an industry fund and they feel that the choice and flexibility is not enough for them or the insurance cover is not adequate or is too expensive or for whatever reason, they will then have the opportunity to move. In a free market, people are bound to be better off. The funds will compete, and I would imagine costs will come down further.

**Mr RANKIN**—A lot of these issues are linked. I think the fact that you were not bowled over with people wanting to make predictions about savings or rises is indicative of the fact that people do not know. It is one of the reasons why the institute has emphasised disclosure as being critical to the introduction of whatever choice model is chosen. If you are able to compare clearly and accurately all the fees, costs and charges, and the returns being offered, then you are an informed consumer who will actually make the marketplace work. As Michael says, that free market does have the capacity to drive down costs.

That is why I am talking about linking disclosure into this. If you do not have clear disclosure—and I know the minister's adviser is here and he does not want me to mention the war—you will get a UK pension mis-selling scandal. That is what happened in the UK, and I have four volumes of the fair trading inquiry back at work to show to people if they want it, when you had mandated choice and no clear disclosure. People came in and mis-sold holus bolus the same sort of product that we are talking about.

So we would urge the committee, if you do decide to recommend in favour of choice, that as a precondition to recommending whatever model clearly you have to put a process and a time frame on it. That is what everybody is saying today, not now, but if you do it and set it up for one or two years out, you have to have simplified disclosure of fees, costs and charges, and you have to be able to compare the returns. We have said in our electronic submission to this committee that you have to have a time weighted index and you have to have a common reporting period for returns so that people can actually compare apples with apples.

I will just pre-empt one antidisclosure argument that I know somebody around the table will put. They will say, 'This is a complicated business. It is too hard to disclose.' That would be like me saying to my friend Mr Morrow from the tax office, 'I would love to tell you all the different sources of income that I get so that you could tax me on all of them, but it is just too complicated. We have to draw a balance here between simplicity and accuracy, so I am going for simplicity. I will tell you this little bit.' Good luck! I think clear disclosure is possible. I am not saying it is easy, but it is possible. So I say in answer to Senator Sherry's many questions that I do not think people can give you categorical answers to that, but if you do have a free market operating, as Michael Rice said, then you have all the preconditions for driving down costs.

**Mr DOWNES**—I heard it said just a few minutes ago that industry funds had some sort of monopoly, and it was inferred that it was a bad thing and needed to be broken down. Let us put it clearly on the table. The industry funds are not about profits; they are not about commission sales; they are about providing all of the income to members, minus the very modest administration fees. On the other hand, this not-for-profit sector is being asked to compete with the for-profit sector, where shareholders come first and commissioned agents come second. Members come third on that list. That must increase costs because there are more people taking money out of members' pockets. It must increase costs. Then you have the industry funds and others that will have to compete for the first time. They will compete and they will compete very hard to get the true story of the benefits of industry funds out to the membership and that will cost money.

Most people will not do anything about moving funds in a choice environment, but all members will pay for that advertising. You then have the funds themselves, which will change their behaviour because of a choice environment. All of a sudden, they are only as good as their last crediting rate. So we have incredible short-termism being built in. They will not get into long-term asset investments, such as infrastructure and venture capital, because that will reflect on their next crediting rate. It has to be a good one.

They will also need to be cashed up, because as people move around between funds, they will need the cash to flow around the system. Cash produces less income than other asset classes. That will be more costly for members as well.

We have the potential for the big end of town to unravel the wholesale situation, where they have to deal with large superannuation funds now, and get back to the good old days where they can treat people as individuals and charge retail prices for each one of them. That is what this is all about.

**Ms SMITH**—I very much endorse the comments of Jock Rankin regarding disclosure. It is critical. With that are the rules, both CLERP 6 and the regulations, that get down to the detail of the disclosure of fees and charges, commissions and performance rates and the like. There is also an education program, which can happen after it to ensure that those who will make a choice can do it in an informed way.

We started with the actual cost. I return to the benchmarking survey which I mentioned before regarding corporate funds, industry funds and the public sector. At the moment, about five per cent of the administrative costs are related to communication. One would have to

anticipate that that is an average. For public sector funds, it is about two per cent. You would have to anticipate that in a choice environment those costs will have to go up. One indicator I have—I give it as a pro forma—is the costs associated with the introduction of the investment choice. Unfortunately, we do not have an across-the-industry profile on this. It is something that we will be looking to get. I know one example that was provided to us by a corporate fund which has a bit over 4,000 members. In its introduction of the investment choice, their accounted budget for that was \$500,000. That translated to \$130 per member. That was the investment that that corporate fund put into play. They decided as a corporation to wear the costs themselves. In other fund situations, that benevolent attitude may not occur.

**Mr GIBBS**—I want to make two points. The first relates to the issue of costs. The institute believes that costs will rise. No-one can say for sure whether they are partly or wholly offset or indeed exceeded by cost reductions due to competition, consolidation and other factors. The only thing that is certain is that, on the introduction of costs, some costs will go up. We believe that cost increases will not be offset by those other factors, particularly in the short to medium term. We think that in the long term there may well be cost reductions, but they are likely to happen anyway because of factors such as e-commerce and the like.

The second is the issue of disclosure. I too want to support what Jock Rankin had to say. We believe that there ought to be very clear disclosure rules, but they ought to be out in the public forum many months, if not years, before the introduction of choice. Some years ago—I do not know how many now—when we had some meetings at the ISC, as it then was, about these issues, a paper was produced afterwards saying that the industry could not agree on the specifics of disclosure so the ISC was not going to recommend anything. That is a very unsatisfactory view. You will never get complete agreement amongst the industry about all the specific rules of disclosure. If you wait for it, you will never get it. Somebody has to make a decision. You could easily get substantial agreement amongst the key players on some of those disclosure issues.

**Mr SILK**—We acknowledge that there are some arguments in favour of broadening the choice of superannuation fund. However, cost and cost reduction is most surely not one of them. Costs will increase and are increasing because of the anticipated advent of choice legislation. In our case, a number of industry funds are participating in marketing campaigns, including the Bernie Fraser campaign, which most people would be aware of. Were it not for the speculated introduction of choice of fund, that money would be residing in members' accounts. It is not there. It is in the hands of television stations, newspapers and advertising agencies and the like. The net cost to members of us doing that is a negative.

The funds participating in it are doing it because we think it is an appropriate investment that will in the long term be to the members' benefit. These funds are based on economies of scale. We do not want to lose those economies of scale lest they operate less efficiently than they do now. There will be some developments in the superannuation industry that reduce costs. There has been a discussion about e-commerce. In the medium to long term, it is the widely held view that it will lead to reductions in cost. Hopefully, they will be significant reductions in cost. But that is not tied to the choice of fund; it is occurring now. If the government walked away from the choice of fund issue, the same organisations

investing in e-commerce solutions will continue to do so. So it is not a trade-off between increasing costs associated with the choice of fund and a corollary of decreasing costs associated with e-commerce. The decrease in costs associated with e-commerce are coming in any event.

Somebody asked before what the view of employers is. I can only talk in relation to participating employers in the Australian Retirement Fund. We have been conducting workshops throughout Australia. So far, they have been in Western Australia, South Australia, Queensland, Victoria and Tasmania. They are small focus group workshops on a number of issues associated with the fund. Over 100 employers have participated in those workshops over the last eight to 10 weeks. One issue we have covered is the choice of superannuation fund.

We have gone through what the choice of superannuation fund might mean in the new regime and asked employers whether they would prefer their status quo arrangements, whatever they are, or one of the three models proposed by the government. One employer has said that they would prefer the government's new model. That employer currently offers unlimited choice to their employees; it is a very small employer. It is a small printing concern with four members. The other employers, without exception, said that they wanted the status quo arrangements, whatever they were.

I can provide details to the committee. This is not an off-the-top assertion. These are, in a sense, public forums. We invited a number of employers to attend. All bar one said that they preferred the current arrangements over choice of fund. In relation to this issue of cost, be it financial or administrative costs or any other resources expended by an employer—presumably, that is the primary basis on which they would respond to that question—all bar one said that they would prefer the status quo.

**Mr CASEY**—I do not think we would find anybody—there might be a very few—around the table who would disagree with Jock's comments about disclosure. Whether or not we introduce choice, more open disclosure and consistent disclosure across funds is an absolute necessity.

In respect of costs, it is a matter of timing in all of these sorts of things. We will see market pressures help to reduce costs over time. Ian said that it is a matter of time in terms of e-commerce. It is coming in anyway. That is true, but the fact that choice has been in the public domain, at least in terms of the debate, has promoted the projects that are looking at e-commerce. That will be introduced at an earlier stage than it otherwise would have been.

If you introduce options into funds, that is going to increase the basic cost of those funds. If you option up a car, you get an increased cost. Increased options in superannuation will add to the cost. I take Senator Hogg's comment that, if this cost is increasing when the vast majority of people do not at the moment exercise choice, are we doing the right thing? What we have to look at is the timing situation. At some point in time, people are going to want to take greater ownership of their investment in superannuation. It is a matter of when we introduce these sorts of things. The market has introduced choice over a period of time. This legislation has just celebrated its second birthday in parliament.

**Senator SHERRY**—We had a vote on it.

**Mr CASEY**—It is almost getting to child status. The market has moved on during this time and choice is emerging. It is a matter of how we want to control the implementation of that choice over a period of time. The timing of the introduction of any legislated choice, in conjunction with disclosure, is imperative.

**Senator HOGG**—Mr Casey, I am interested in who should bear the cost. If people are going to make the choice, should they be the people to bear the cost, or should that cost be distributed? I was not advocating that it be distributed right across the whole system.

**Mr CASEY**—I understand that, Senator. It might come as a surprise, but the industry is relatively innovative, and we will devise methodologies in terms of cost differentials. There is a base cost for managing a superannuation fund and the collection of contributions in respect of individuals. In the same way that you can cost out the options in a car, you pay for the base price and you option up. The market will develop a costing structure which will be on a user-pays basis.

**Mr WALKER**—The fees and charges are one measure of costs. Adequate disclosure and simplified disclosure get you a bit worried. It is a bit like Bankcard versus this, that and the other. There are so many ways to frame the costs that you get confused. In part, that takes your eye off the main game. We did some work recently which showed that plus or minus one per cent per annum in the return over a working lifetime absolutely dwarfs the likely variation in the fees and charges under a competitive environment or the likely variation in costs of insurance that might occur. In reality, provided you have competition and adequate disclosure, so that people cannot be hoodwinked into going into something they should not even touch with a barge pole, the key decision is not the fund decision. It is the investment decision. If you follow that through, if our objective is about maximising outcomes under a choice of fund or a non choice of fund environment, the key prerequisite is education so that people make the right decision. Unfortunately, that is easier said than done.

Some work our firm in the States has done, where with 401K plans you have about a 15- or 20-year track record of investor education, shows that it is a very slow, methodical process that you have to go through. People's attitudes only change slowly.

One last point: on account consolidation, I accept the point that Michael made about 2.7 accounts for every worker being a bit too many. But I would hasten to add that, as balances grow large, perhaps one account per member is too few—because, as well as consolidation achieving significant savings in costs with the fees and the switching, there is such a thing as diversification of risk and not putting all your eggs in one basket.

**Senator CHAPMAN**—For those who seem to be opposed to choice, what is special about this particular financial product that we should have no choice or only limited choice compared with other financial products—whether it is funds management, banking or whatever other financial service you are talking about—where we effectively allow untrammelled choice? The cost factors obviously come into play in those areas as well as in this area. In relation to advertising, won't advertising allow better performing funds to

highlight their performance and therefore attract funds from investors, which will, through that better return, offset the cost—if there are any additional costs—by better returns?

**Mr SILK**—I will respond to that in the first instance because I assume that I am one of the intended responders to that. I outlined at the outset, as I think most people had, that the Industry Funds Forum does not oppose choice. The Industry Funds Forum and the superannuation fund members of the Industry Funds Forum do not oppose choice. What we have said is that we oppose choice being introduced at this time, because the ground rules are not appropriate for its introduction.

**Senator CHAPMAN**—That is the old prayer: ‘Make me pure but not now.’

**Mr SILK**—I am not aware of that prayer. I understand the point: you can always say, ‘Yes, but not yet,’ but that is not what is being put. We have a number of quite responsible positions that we have been putting throughout the course of the day and we will continue to put and that, once satisfied, we would say, ‘Yes, it is now appropriate to move on choice.’ I rebut the premise of your question—that there is an opposition to choice—because that is simply not the case.

On the second point, you have put in rather starker terms something that has been put indirectly here today, and that is, that those who oppose the introduction of choice—in particular, industry funds—at this point do so out of self-interest. There are a number of parties in this industry who are motivated by self-interest and, I guess, to some extent we all are. But I would confidently state that industry funds are less driven by self-interest than most parties are, because we have the interests of our members at heart. We do not have shareholders and we do not have stakeholders to whom we remit profits. Our *raison d’être* is to optimise members’ interests. So, therefore, good, well-managed industry funds—and that is most of the funds that are in the Industry Funds Forum—I think will do quite well out of choice.

It is not a concern we are going to lose market share. In my own fund’s case, it is the view of our board that we will actually increase market share. So that is not a concern. The concern is whether all of the people in the superannuation industry are going to do well out of choice, and our concern is that, at the moment, there will be losers. We are trying to protect the interests of those potential losers and advocate the introduction of a number of steps to precede the introduction of choice.

**CHAIR**—Perhaps we should be looking also at the fees, charges and benefits characteristics, investment returns and entry and exit charges, because I think we have rolled into that issue at the present time.

**Mr DOWNES**—While you are mentioning fees and charges, I have in front of me a very good ASFA publication, *Superfunds* of November last. It actually has a KPMG public offer superannuation fund index based on cost of funds. There are now 33 funds that are responding to this. In terms of the cheapest ranking, there are only five industry funds in it, but surprisingly they came from one to fifth in that ranking. Not one of the other funds was cheaper than any one of those industry funds. So that is the comment I would like to make.

Getting back to what Senator Chapman raised on the aspect of performance, performance is also very important, and not just fees and costs. I have in front of me a Towers survey on the average volatility funds—balanced funds, in other words—and their average performance over the last three years was 12.6 per cent, and this is for a \$10 million mandate, so this is pretty spectacular stuff. It would be hard to compete with that, you would think. Of the 2.6 million industry superannuation accounts that we administer, the average return over that period, compared to the 12.6 in the Towers survey, was 13.6, a one per cent outperformance. So we wonder why these industry funds are being targeted in this way when we have demonstrated that they are cheaper and that they outperform.

**CHAIR**—I am not sure they are being taken as cheaper. The only thing we have to be careful of is that if we focus on one particular cost—and it might be quite relevant—we must not lose sight of what Mr Walker validly pointed out: at the end of the day perhaps one per cent extra return will more than cover the sorts of things that we are looking at.

**Mr DOWNES**—I absolutely agree: by a huge number multiple. That is why I brought out the survey that showed in fact that over the last three years the pool of industry superannuation funds that we administered outperformed the Towers index by one per cent.

**Ms RALPH**—Given that it is Christmas, it is very tempting to get into a debate about who is more virginal, but I will avoid doing that. All we want to talk about is competition. We have no doubt that there will be some new types of costs that arise out of a choice environment. We tend to believe that there are existing systemic costs which will only be extensively driven out of the system when we get a choice environment and we do believe that those will more than offset the new costs. At the end of the day, I am not familiar with any market that has been opened up to competition where you have not seen costs come down over time, and that is what we are trying to achieve here.

I take the points made by the actuaries and by Wayne Walker that disclosure is the key here. If you get the market opened up to competition and you get the disclosure rate, I believe the costs will come down over time. In relation to disclosure, it is fair to say that our members adopt performance standards, so we adopt standards about how to calculate performance and we would certainly invite anybody who wants to adopt those standards to do so.

We also have an expense ratio standard which we are in the process of developing to cover superannuation, and we are certainly encouraging people to adopt that, because we do think that comparability in performance and costs will allow consumers to actively choose funds that in the long term will deliver the outcomes in terms of retirement benefits for them that we want them to achieve. And that is the important thing—we look at total outcomes for people. That is a combination of not only cost but performance that they achieve. I am trapped in one of those Public Service funds that has very low costs. I get one letter from them a year and personally I am not satisfied with the service that I get. I would be prepared to pay a little bit more to get something else.

I think we will see that sort of competition operate in the marketplace to ensure that we get a wide variety of outcomes on offer to members of the public and allow them to choose appropriately. We think we can work cooperatively with government and the rest of the

industry to develop those disclosure standards that will enable that competition to work efficiently in the marketplace. Maybe not in the first year but certainly in the long term, it has been our experience that where you get that competition going there is a lot of pressure on costs for providers. We have never held out that our members will be the winners out of choice. We think the winners out of choice will be the members of the fund, because they will have the chance for the first time to get into well-performing, low cost funds, whoever that might be.

**Senator SHERRY**—I have a couple of new issues that have not been touched on with respect to costs and disclosure, from a couple of different perspectives. Firstly, I make the point that the reason I consider superannuation different is that, unlike any other financial product, superannuation is compulsory. You are not attracting people into a product, you have to be in it. We are arguing about the market share within the product that is compulsory—no other financial service is; even health insurance is not compulsory in this country.

I note a number of optimistic comments that costs will come down over time. Let us assume that is going to happen. I then assume that people who argue that would have no disagreement with capping a fee and charge—a maximum fee and charge, beyond which fees and charges cannot go; a la the UK which is looking at a one per cent cap. Obviously competition will drive the cost down below one per cent and that would certainly make me feel a bit more comfortable about the wonderful world of competition.

Secondly, I was concerned that APRA do not do surveys. It is not compulsorily required for a fund to report their fees and charges. We get an overall industry perspective of the fees and charges, and are able to track them over time, but it is anecdotal material from individuals and not an industry wide perspective. I think it would be useful to see what happens in the developing market.

One other point is that no-one has mentioned Chile. The proposed model of unfettered competition with compulsory contributions will be very similar to Chile, and we have some fairly compelling evidence that costs have gone up and not down. I am surprised that this has not been put on the table. We do have real world examples of the problems that have emerged.

**CHAIR**—The Australian Bankers Association might like to comment on the paper they have given us that looks at some of the experience in the United States with costs.

**Mr HEALEY**—That is a rough set of figures on the 401K experience. Although that is a voluntary choice regime, we thought it was useful to pass to the committee, particularly given the substantial reduction in management fees that occurs over there, the radical decline in the percentage of assets held in short-term investment and the significant degree of ownership that individuals in the US seem to have taken over there. Admittedly, it is a voluntary scheme so it is not entirely comparable but there is at least a bit of data around on that country and we thought it desirable to share it with the committee.

**Mrs MULLIGAN**—In relation to fees, they are essential to the disclosure regime which should cover choice products. There are two words that I would like to leave the committee

with concerning the disclosure regime and those two words are comparability and transparency. With respect to comparability—and I would like to endorse the comments made by Ms Smith, Mr Rankin, Ms Ralph and others—that issue is encapsulated within the CLERP 6 proposals, which are mooted for 1 January 2001 introduction. CLERP 6, which covers a wide range of investment products, including superannuation products, proposes that there be a uniform disclosure system.

Comparability is aiming at two different interest sets. The first is the issue of the consumer, and most importantly. By providing comparability in offer documents, consumers will be able to compare like with like products and truly see what the products are offering, and that is the most important principle. The other important principle, and, frankly, it is an issue of cost, is compliance. Currently, we have some three legislative regimes which cover disclosure in the industry which triples compliance costs and costs of producing documents et cetera. So, by having comparability, we should see a reduction in compliance costs with a flow-on to members.

In terms of the second point, transparency, and this goes to the heart of the fees issues, it should be noted that in the CLERP 6 consultation paper, fees, risks and performance are specific issues which are listed as requiring address in the disclosure documentation. Even if we were looking for a disclosure regime to introduce choice at this time, I note the existing system under SIS and the section 153 determination specifically addresses disclosure of fees.

**Ms SMITH**—I think those are obviously ideals that we all want to get to. We shouldn't though underestimate some of the difficulties in achieving that. ASFA, at this point, is trying, with ASIC, to do some comprehension testing of what people understand in terms of the short form arrangement and various ways of disclosure of fees and charges. Getting to that level of understandability and comparability is something that we have to tease out for some way. We have to go beyond those principles that are proposed in CLERP 6 to a far more detailed arrangement.

One of the reasons the retail funds said they did not participate in our industry wide benchmarking arrangement was the complexity of their fees and charges. They say they cannot get to a bottom line on that because of the layers of master trusts and other arrangements there. Whether it is that or whether it is an issue of confidentiality we are not there yet, nor is the MER industry standard there yet in terms of the usefulness for individuals.

The wholesale funds are using the MER as an indexing device for their costing, but it is not particularly useful from an individual's perspective in terms of the actual costs that will be confronting them. I am just saying that in this vision that we all have about disclosure, and moving to it, we have an awful lot of work to do in crunching down those figures so that we can compare like with like or even apples and pears together in a way that will have a meaningful take-out for the consumer.

**CHAIR**—I would like to cover this question of retirement incomes and perhaps Mr John McIlroy might like to comment at this stage before I call Mr Hamilton.

**Mr McILROY**—I am not sure exactly what the point of the agenda was there in regard to retirement incomes but, perhaps as a bit of background, the market that ARISA represents is a little different in that we have had unlimited choice for many years. In the area of disclosure, there is—I take Philippa's point—a fair bit of work to do, but there is a good basis to start from with CLERP 6 and also the current SIS regulations. I think those issues can be worked through on an industry wide basis.

From the retirement income perspective, ARISA—and I am sure everyone else here today—would like to see the issue of choice dealt with in a way that maximises people's sums of money that they build up for retirement so that they can purchase an adequate retirement income stream. I guess from that aspect that is where we would see this is coming in. A lot of the issues that are raised about investment returns and costs are obviously critical to that issue.

**Mr HAMILTON**—There is, of course, one other aspect of cost which perhaps should be mentioned for the record and that is the cost to business in implementing choice. If you look at the three streams that have been mentioned—the offer of four or fewer funds, unlimited employee choice and determining fund arrangements through a workplace agreement—probably the most obligations on employers, and therefore the most costs, and the most steps required of an employer to take relate to the offer of five or fewer funds. It is very important, I think, in offering choice that we try to minimise the cost burden on business and the number of things they have to do. In relation to workplace agreements, they could be quite costless if they were simply dealt with as part of the ordinary certified agreement process or other agreement process. The unlimited employee choice option might be relatively costless as well since it is simply the employer paying as directed by the employee.

Just to clarify one aspect of the workplace agreement option, the full range of workplace agreements should be available—that is, individual agreements through Australian Workplace Agreements and collective agreements through the various types of federal certified agreements. Common law agreements is another option which should be available—that is, an unregistered common law agreement—as part of the employment contract. Perhaps even agreements under state industrial relations systems should be there.

**Ms RUBINSTEIN**—I would like to make one quick point about disclosure. I am pleased that ASFA and ASIC are doing some work on comprehension, because I do not think it would be underestimating things to say that the kinds of people we represent would have problems with complex financial information, particularly where they have language or literacy problems, or are not used to looking at that kind of stuff. The reality will be that in a marketing environment, slick TV ads and the Chilean thing of frequent flyer points, or 'We'll throw in a mobile phone,' will be more effective than prospectus-like documents, no matter how simple people try and make them.

**CHAIR**—We will adjourn for lunch for half an hour and be back just after one o'clock.

**Proceedings suspended from 12.31 p.m. to 1.09 p.m.**

**CHAIR**—During the lunch hour some people indicated that they wish to make some additional comments on disclosure. This, the timing of that disclosure and the up-front education seem to be the crux of a successful choice regime.

**Mrs MULLIGAN**—I want to address two very important points which were raised around the table concerning consumer research. I do not think we can underestimate the importance of consumer research as we formulate a disclosure regime. In 1998, the regulator, ASIC, Eureka and IFSA undertook some research concerning investment products. What came out of that research was that consumers understood more readily short-form documentation. They quite liked the look of long-form documents but when they were comprehension tested after reading them, they did not understand what they had read, whereas their level of comprehension was very good when tested after reading short-form documents. This is important for two reasons—it goes back to that driving force in CLERP 6—firstly, comparability, so that the consumer can understand as between products, and, secondly, the structure of CLERP 6, as it is currently being represented, promotes shorter-form documentation. I just want to emphasise that point.

**CHAIR**—The Institute of Actuaries have a point they want to make about disclosure.

**Mr O'KEEFE**—What we alluded to a bit earlier were the issues with regard to disclosure documentation—looking for the standardised requirements included in legislation. What we are also looking for with that is for broad industry agreement on the items to be included, particularly things like fees and charges. Philippa Smith from ASFA alluded a bit earlier on as well to the fact that there is a lot of work still to be done on that. I think we are really confirming that ourselves. We are in the process of putting together our own ideas about what that is, and we will be discussing it further as well with various interested parties.

There is a lot to be concerned with, not least of which is the reporting period to be included in any sort of investment returns—the method with which those investment returns are to be calculated. For example, the institute would be pushing very much for a time weighted rate of return to be used as opposed to money weighted. The reasoning for that is that basically we believe it shows in the best possible way the performance of managers in terms of various funds.

Continuing on with the disclosure documentation and with the legislation as well, we particularly believe that a minimum notice period is required of at least 12 months once the regulations have been put in place. During that time we would expect, and certainly hope, that a suitable and comprehensive education program was being run to ensure that employees were at least informed as to what they are now going to be looking at in terms of choice of fund, their rights and the obligations of employers.

Again, running through a few points, something else we are a bit concerned about is the proposal for a commencement date of 1 July. We consider that is probably very impractical in that the material that would be included in any disclosure documentation is likely to be approximately 12 months out of date. On the balance of various considerations, we are probably looking at suggesting that a 1 November start date is more appropriate. That would allow the most recent information to be provided on the basis, in particular, that much of the

information to be sent out to members in their member statements and in the annual reports would be available by that date. It would also probably keep to a minimum the mailing costs involved in that, for example, that sort of material could be issued at the same time to existing members.

One other issue which the institute, in particular, has been concerned about is the extension of choice to employees' accumulated account balances. With regard to defined benefit funds in particular, but not only to defined benefit funds, there is an issue as to what should be transferred and when it should be transferred. This is very difficult. We would consider again that there is probably a need for a deferral period to facilitate the proper handling of those moneys.

That also moves on to another issue, which is related to defined benefit funds. I don't think we have seen a great deal with regard to defined benefit funds in much of the discussion to date. Clearly the institute has a fairly keen interest in how those funds are to be handled, but at this stage we would believe that the disclosure regime which has been put forward is inappropriate and needs a good deal of modification and probably enhancement to ensure that it is properly accounting for defined benefit funds. Again, we were thinking that that may require some transitional period or deferral period to accommodate those funds.

I kept saying we believe there may be a need for transitional deferral periods, and I think this comes back to the institute's preference for the actual commencement date of choice. Whilst it may seem a long way into the future, what we are really doing is coming up with a date of something of the order of 1 November 2002.

Earlier I mentioned the fact that we believe there is a need for a 12-month period after the regulations are actually put into place, so that brings it back to legislation and regulations being sorted out by November 2001, which is roughly two years from now. For various reasons we believe that is probably a reasonable sort of time frame to use for choice of fund as such. It gives sufficient time to have various complications and problems addressed, and we would like to believe they could be addressed more than adequately. Some of those in particular would be related to the defined benefit funds.

One little problem with that time frame is that obviously it is a bit into the future. It could perhaps be overcome at least partly by taking account of what we see as a possibility of splitting choice of fund and disclosure. A lot of the problems we have here really relate to disclosure. If for some reason choice of fund is to be deferred and we actually started concentrating on the disclosure items, we feel that might be another way to get around some of the potential problems.

**CHAIR**—Are you suggesting disclosure and education come well before the commencement date for choice?

**Mr O'KEEFE**—That is correct.

**CHAIR**—Is that the consensus around the room?

**Mr WARD**—Yes.

**Mr HAJAJ**—From our perspective, we think that the current time should be utilised in order to embark on quite a thorough and extensive education and disclosure process by which the vast majority of the population can be accessed. We had an education program three or four years ago—the money tree thing with the Taxation Office—and that was successful to an extent, but seemingly not successful enough. We think that this time it should be done with far more consumer and industry consultation than before.

But getting back to the issue of disclosure, Senator Sherry said that fees could possibly be capped on how much is spent on managing people's accounts, and we agree to a certain extent about that. We think there are many positives to that. However, we also agree with Lynn Ralph, who said that members do not mind paying a bit more money to be better informed. Hence we think that disclosure should be as thorough as possible, and we in the consumer movement are actually counting on CLERP 6 as being one of the pillars by which efficient disclosure is provided. But we are waiting to see about that. Certainly we do not have any time frame, and we think it is a bit premature to be talking about times when we have not seen the legislation and we have not seen CLERP.

**Ms RALPH**—I think we assume that no work has ever been done on disclosure. A lot of work has been done on disclosure; Kate Mulligan mentioned some of it earlier. A lot of people in this room have spent a lot of time working on disclosure over the last number of years. So we are not exactly starting from ground zero. In fact, upfront disclosure in the public offer area is out there operating today as we speak, and we all know that probably about a third of the superannuation market is operating in a choice environment in public offer. So we have a good base to start working on effectively refining certain aspects of that disclosure. As I said, we are more than happy to work on that.

In terms of this notion of advertising and education well before the commencement, I think you have to be careful of going out there and basically saying, 'You might have choice, but it is two years from now.' I think you can spend a lot of time and money—wasted—on advertising and education if it is not actually relevant to the consumer within a reasonable time period. I think you will find that you will not really get people's attention and focus unless that advertising and education is relatively close to the actual commencement date when the choice might operate. Otherwise you risk people basically dismissing all of that because it is not relevant. People's lives are pretty busy and crowded these days, and I think you have to make that sort of investment relevant to people at the time.

We think there should be a six-month advertising and education campaign which is heavily focused on telling people—and there is a start date—'This is actually effective in your life, so pay attention now.' Otherwise you do run the risk of people basically ignoring the government's investment in education and advertising.

**Ms SMITH**—I think a clear distinction needs to be made between marketing and education. I think we would see it being very appropriate that disclosure and education around disclosure—and what that means for people in terms of features of superannuation—starts way in advance of any marketing campaign.

**CHAIR**—I think we have the basis there. Perhaps we should turn to third-line forcing, churning and commission selling, because these are some concerns that people have raised with the committee. Does anybody wish to lead off?

**Mr DOWNES**—I think one of the most important points that was drawn out before lunch was that what we are doing here is offering a compulsory product to people. They have no choice; it is compulsory. They must have it. We think that commission selling in a compulsory environment is a bad mix—a terrible mix—and we do not think it should be allowed. We have no problems with commissions in areas of voluntary savings, top-ups, private savings and the like, but what we have got here is a very explosive mix of a financially illiterate marketplace, a compulsory system and—hopefully, in the eyes of some of the people around this table—a competitive free-for-all. We think there should be a ban on commission selling of compulsory SG superannuation.

**CHAIR**—Can you easily separate the two in a choice type of environment? They might go hand in hand for some people.

**Mr DOWNES**—It could and often will, but for most people all the super they have at the moment is SG, minimum. Most people are in that situation, and those people need to be protected from the predatory sales campaigns that will be launched.

**CHAIR**—Are there any further comments on that line?

**Mr HEALEY**—Briefly on third line forcing, I think section 78 of the RSA Act had some provisions on this. If the committee felt it would be useful, we would be happy to build something up in terms of drafting that basically utilises that model for an unlimited choice environment and put it around to others to see what they think. There is a precedent out there with the RSA legislation. It is not something that we would ideally like, but we understand the concern that people have been raising on it.

**CHAIR**—What about this frequency of payment? I have some concerns about one payment a year, maybe after the year is finished. Somebody earlier today said that perhaps it should be monthly or at least quarterly.

**Senator SHERRY**—Before we go on to that, could I just make a very clear position from my personal perspective. If you allow commission selling and allow people to be ripped off, that is the quickest way to destroy the bipartisan compulsory SG system we have in this country. If we have an outbreak of what happened in Chile and the UK, the justification for compulsory superannuation is undermined dramatically—and people should bear that in mind.

Certainly, my personal commitment to seeing compulsory private sector superannuation was not delivered on the basis that we have a whole private sector bureaucracy living off people's retirement incomes. Commission selling is an absolute horror to us, given the experiences we have seen with it in other countries with a compulsory superannuation environment. Commission selling, churning and third-line forcing are not about choice; they are about exploiting people. I think people should bear that very much in mind.

**Ms RALPH**—Can I just make a brief comment. We talk a lot about commission as if it is money for nothing. The reason people are paid commission is that they are providing advice and service and, at the end of the day, we think they have a right to be paid for that. Some people are paid for that inside a fund. Many funds these days are setting up free financial planning advice for members of the fund, in which case everyone in the fund is actually paying for that advice. Someone is going to pay for that advice and that service. At the end of the day, a whole range of services are provided to funds and to fund members, and we think those people are entitled to be paid for that.

Chile and the UK were very different marketplaces. They were largely unregulated and were very different competitive environments from the ones that we have today in Australia. We have gone to a retirement incomes market which is currently operating with both commissioned advisers as well as fee based advisers, and we have not seen evidence of gross mis-selling in that marketplace. Those are very large sums of money and one would have thought that, if people were going to be attracted to mis-selling, that would be a place where we would start to see it. We have a different regulatory regime and a different competitive market. We do think that people who give advice and service to investors or members of super funds are entitled to be paid for that, whether by the member or by the fund. Lots of funds are getting advice from a lot of different people. They are all being paid for that, and we think that, at the end of the day, investors will pay for good advice as well. For people who do not want advice, there are lots of opportunities to also make a choice of fund without paying for that, and more and more we are seeing direct discount brokers who allow you to invest in various funds without the payment of any commission, and that is happening online as well so they are very low cost.

I think that if you look at the comparison of MERs in the Michael Rice paper, you will also see that the differences in MERs are actually pretty low, even in that environment. I did want to make those points. We would certainly agree that the last thing we would want to see is any sort of mis-selling or misconduct in the industry because that obviously harms us as well as the system and the integrity of the system.

**CHAIR**—We will hear from Mr Ian Silk and then from Mr John McIlroy.

**Mr SILK**—I think that, with respect, the comments that Lynn made have missed the key point. Nobody is proposing that financial advice should be provided by volunteers; of course they need to be remunerated. The issue is the motivation that lies behind the particular advice provided. The fee for service model is obviously a better model than commission based selling because, whichever way you cut it, it is very hard to demonstrate that the advice provided is independent of the gain to be made by the individual. Lynn says that there is no evidence of that behaviour at the moment. I can give her evidence of that material, of instances that are occurring currently in the fund that I represent, as well as other members of the Industry Funds Forum. But the point is that, in this sort of market, it should not be occurring at all. Throw it open to an entire superannuation system based on choice and you would expect it to occur. If it is occurring in this regime, you would expect it to proliferate under an entirely free choice of fund regime.

Can I come to the particular point that you raised, Senator—that is, the frequency of payments. It is the very strong view of industry funds that payment should be remitted by

employers on a monthly basis. We have a number of reasons for that and they are enunciated in our submission. But I would raise one that does not get much of a run in discussion on this issue—that is, employers who do not make contributions. There are some funds—and industry funds are, I think, foremost among these—where the trustees of funds take their responsibility to their members on this issue very seriously. A number of industry funds have engaged, essentially, credit agencies that chase up employers who do not make contributions. That is not a typical feature of superannuation funds in the industry generally.

So, if I am an errant employer—either I am having genuine cashflow problems or, as is often the case, I just do not like the idea of paying compulsory super—and I am in a fund that takes seriously their responsibilities to chase up outstanding contributions, I will quickly get out of that fund and go to a superannuation fund that does not regard that as part of their business. The diligence with which trustees pursue this is important, but if you maintain annual contributions—even going to quarterly contributions, which I would concede is a significant improvement—it does make it difficult for those trustees who are trying to do the right thing by their members. Moving to monthly payments would be a very significant advance.

**Mr McILROY**—I guess if we come back to the issue of fees and commissions and the point that Peter raised, I think we probably should start with the principle that people will seek some advice in relation to their superannuation, as they do with any other investment. Whether it be the compulsory component or the voluntary component, people are still entitled to, and will probably seek some form of, advice given, as we all agree, it is a fairly complicated system. If you work on that premise, it is really a case of how the person gets paid for it. They either have a fee based system, as Ian has mentioned, or a commission based system. Whilst any industry would have some practices that would be undesirable, the mixture of fee based systems and commission based systems has worked in the retirement income stream industry for about the last 12 years and, by and large, I do not think we have had too many mistakes in that industry. But that is not to say that we should not be looking at even more controls over the practices that happen.

**Mr HAMILTON**—We have also looked at this issue of frequency of payment and would not be opposed to changes to introduce quarterly payments or whatever as part of a package of introducing a choice regime. As part of an appropriate package, we would not be opposed to that as one of the measures.

**CHAIR**—You do not think too many of your employers would be opposing it for cashflow reasons?

**Mr HAMILTON**—There are advantages for employers and employees in frequency of payment. You can get to the end of year and the funds are simply not available if you are not covered by an award frequency provision. So there are advantages for both employers and employees in more frequent contributions being provided for in the legislation.

**Mr BERRILL**—I have just a quick comment to make on the churning and twisting. Similar to Ian Silk, I have likewise seen, both in private practice and through work on one of the industry complaints schemes—the financial industry complaints service—examples of

churning or twisting. The practice is out there and it needs to be kept under control and kept in line in any choice environment.

On the frequency of payments issue, this is tied up with one of the other committee topics which we will be dealing with next year, which is the super guarantee collection. From our point of view, I think there are two good reasons why there should be more regular payments—and I agree with the monthly exercise. The first is the identification of recalcitrant employers who do not pay more regularly. I think there are problems with that at the moment in the collection mechanism through the Australian Taxation Office—the identification of employers who are not paying and then chasing them up and collecting the money.

Also, if an employer goes belly up halfway through a year and, if instead of six months worth of contributions, there is one month's worth of outstanding contributions because they have been paying up until that point, the loss is less for the employees. That is a major problem. I have seen many examples of workers who have been left out of pocket by thousands of dollars in unpaid superannuation contributions because employers have either never paid or paid only on an annual basis and the employer has gone belly up in the meantime.

The other issue—which has, to some extent, been addressed previously—is insurance. Insurance is usually provided by way of premiums paid on a monthly basis. The cover for disability usually extends for 30 days or one month from the date of the last contribution. For death cover you can continue for up to six months. So if you have an employer who has not paid the contributions from which the premium is deducted to maintain the insurance cover and they have not paid it for a six-, nine- or 11-month period, there is a risk that the person will be uncovered. Again, I have seen many examples in private practice of employers who have not paid up to date and they have gone belly up or the employee has stopped work because of a disability and the insurer has said that they are not covered. Some of the larger funds and industry funds have arrangements with their insurers whereby they will maintain the cover if the contribution and the premium is paid within a certain period of time, but that is not across the board and it is an issue that needs to be looked at.

**Mr DOWNES**—We also think that monthly payment is the way to go. To just expand on what Ian Silk was saying before, recently I was in the tax office listening to them explain to a group of Chinese government people, to whom we were trying to export our retirement income system, about how the SG system worked very well and the compliance was very high. The reason the compliance is very high is not because of what the tax office does; it is because of what the funds do in chasing recalcitrant employers on a monthly basis. It is very obvious to a fund where there is an award stream of contributions coming in that contributions are missing. When they are missing, the funds will write to the employer and then send the debt collectors around. But in a choice environment, that tends to break down.

**Mr WARD**—We too would support a move to monthly contributions; however, I think it should come in conjunction with a review of the penalties under the SG legislation. The current penalties can be fairly extreme. That might be okay where you have a recalcitrant employer but when, as in many cases, an employer, for whatever administrative hiccup, misses the due date by a day or two—perhaps it is for a new employee which has been

missed—the penalties in those circumstances are just too extreme. Some greater flexibility in the penalty structure would be necessary if we moved to monthly contributions.

**Mr PRAGNELL**—While the Australian Society of Certified Practising Accountants has yet to come up with a formal view on the SG frequency, I think if there were a move to more frequent payments we would be likely to support quarterly over monthly. I think monthly does raise concerns in respect of the administration, especially for very small employers. We are moving increasingly to quarterly instalments on the pay-as-you-go and on GST instalments, so it would seem only natural that SG should fall in line with those payments.

Regarding the SG, I would direct anyone who is interested to read the Australian National Audit Office audit of SG enforcement by the Australian Taxation Office. That is a very interesting document. It raises issues regarding enforcement policy in the voucher system and it makes some recommendations. It would probably be worth while in any implementation of choice to look at overhauling the SG to improve it as well.

**CHAIR**—So we now come back to the question of prudential protection, including complaints mechanisms, enforcement powers, protection of entitlements, consistency with state arrangements, and also I think we have comments on superannuation awards and the role of the AIRC dispute resolution. We keep returning to a lot of the issues, but that is inevitable as we move towards the end of the day.

**Ms RUBINSTEIN**—This is an issue that has been before this committee a number of times, in particular in relation to the bill to amend the Workplace Relations Act to remove superannuation as an allowable matter. So I think the ACTU position is fairly well known. We support very strongly the retention of award superannuation provisions because, firstly, they in fact deal with a number of issues besides specification of fund—things like monthly payments, some entitlements that are in excess of the minimum conditions of the SGs, coverage during periods of workers compensation, coverage for juniors and so on.

Secondly, we support it because the commission provides a mechanism for dealing with disputes about superannuation, whether it is about the quantum or the fund. I think the various other bodies which have been established from time to time with jurisdiction over workplace matters have never been able to meet the standards of the commission in terms of access, speed and general effectiveness in dealing with those issues. Certainly, it would appear that there is going to be a process of review of award superannuation provisions by the commission itself. That is likely to go some way towards providing a facilitative provision for funds other than those specified to be used if there is agreement while maintaining the award specified funds as the default. That is the position which in fact has been agreed by most—or at least a significant number—of the people around the table.

So it is not correct to say that the maintenance of award superannuation provisions is inconsistent with a choice regime. What you have at the moment are award provisions that apply to people covered by those awards unless they have agreements that say something different. Those awards are likely to—if they do not already—have a provision that allows for other funds to be used by consent.

Then in the non-award sector you have effectively the employer choice of fund. There is no reason why that could not be brought largely into line with what are the award provisions. That is a process for default which could be the award that would apply. There is a process under the Workplace Relations Act so that, if no award applies, for various purposes an award can be designated. That is one way to establish a default and there are the other ways that have been discussed with the opt-out provision that is there, which is similar to that which applies in New South Wales and Queensland. So it is not difficult to achieve over a time frame which would ensure that the disclosure and education arrangements and so on will be in place well ahead of time.

**Mr HAMILTON**—If you want to introduce a choice regime federally, then you have to do something about the award system. Some awards provide for choice—probably most do not—and where choice is provided it is often limited in various ways. So the first point is that, if you want to introduce a choice regime federally, you have to either remove choice provisions from awards or do something about them.

Secondly, if you have a provision in the act about frequency of payments quarterly—and we do support quarterly—then that does remove a lot of the remaining purpose of awards in the superannuation area apart from notional earnings base, which is an extraordinarily important issue for cost reasons. We do support the retention of notional earnings base award provisions. Apart from those provisions, we do not see a lot of purpose remaining for award superannuation provisions.

**CHAIR**—Can't you have it both ways—retaining a notional earnings basis for outlining award superannuation yet not have award superannuation?

**Mr HAMILTON**—The government bill did in fact do just that for a very good reason, which is that if you remove those notional earnings base definitions you are changing the cost structure of a lot of industry sectors—such as mining—in a very substantial way. So it is a serious practical issue for industry and that led the government to retain just that one aspect in their bill. Quite frankly, if that aspect were not retained, there would be a very substantial cost impact on a lot of sectors of the economy, so it is a real issue. All we are really asking is that you retain the existing cost structure through retaining that part.

**CHAIR**—Should it be phased out though after a while? Effectively, you are discriminating against a certain class of people working in a particular industry, namely mining.

**Mr HAMILTON**—It is not just mining. There is a whole range of sectors of the economy and those provisions were introduced mainly by consent, by agreement. There were historical reasons for them and there are not a lot of reasons to disturb them in terms of practical considerations. Practical considerations should guide this sort of legislation, not making the whole system overwhelmingly neat. The issue is what impact it will have on the economy and on sectors of industry.

**CHAIR**—But should it be phased out over, say, five years?

**Mr HAMILTON**—Again that would be changing the cost structure but over five years.

**CHAIR**—In terms of equity though, surely that would be a desirable outcome?

**Mr HAMILTON**—In terms of equity these agreements were negotiated having regard to a whole range of factors including equity and there is not a lot of reason to disturb them.

Just to reiterate briefly, the frequency issue can be dealt with through legislation through quarterly provisions. Secondly, if you do want to introduce a choice regime, you have to look very closely at changing the nature of award choice clauses, otherwise the introduction of choice will be impeded or prevented in a lot of industry sectors.

**CHAIR**—Can we sum up now. Would anyone like to make some concluding comments before we move on to investment choice?

**Ms SMITH**—Taking dispute resolution separately from the award issue, which is the SCT and its parameters, I would think it is probably necessary for the terms of reference of that to be broadened to allow for misleading and deceptive selling. I am not really sure that the terms of reference for the SCT are broad enough to deal with those types of issues. If they are not, they should be broadened.

The other is in terms of the role of the ATO. I certainly support the comment that was made earlier about the increase in frequency of payments. We would prefer monthly rather than quarterly but quarterly would be a step forward. Quarterly though does not deal with the insurance issues which were raised before, which are significant ones.

As for the role of the ATO in terms of enforcement strategies—which I think was alluded to by Brad—at this point in time I think those enforcement strategies as they relate to individuals really need to be thought through. At the moment the tax office looks at compliance, and there is a 90 per cent compliance. That means there is 10 per cent non-compliance. The tax office sees its role as more one of education of the employer.

The difficulty is that the ATO are the only ones with the statutory powers of enforcement in so far as the individual is concerned, so they really do have to take responsibility for those individual remedies. As a matter of practicality, they prefer to see the infringements amount to 40,000-plus, which might mean the numbers of individuals mounting before it becomes cost-effective for them to take it through the courts. But that is not really dealing with the individuals' concerns about their enforcement nor with the confidence of the system overall. So it really does need to be addressed.

### **Session 3—Investment choice**

**CHAIR**—We will now move across to investment choice. Isn't it true that superannuation providers can offer investment choice today?

**Mr GREGOR**—Yes, I think that is true. Certainly our firm which has been involved with superannuation for a long time has clients who have had investment choice for a long time. Historically, earlier funds that had investment choice had a link to voluntary contributions when the opportunities for voluntary contributions were more encouraged by the tax structure than they are today.

Currently we have seen the shift back to how important the investment return is on the end benefits of money that is already in the system rather than on the voluntary contribution side as being the emphasis for investment choice. There is an increasing number of funds that now have investment choice. I suspect that any published statistics are probably a little way behind current practice and implementation. This gets to the interaction already of member investment choice and the expectation of legislated fund choice which is being discussed today.

A lot of industry funds and employer based funds have moved to introduce investment choice where they did not already have it in advance, in expectation that this would be the significant focus that members saw in the fund choice regime even though it is not a specific component of it. There are simple illustrations that an extra one per cent return over a working life of a member can increase benefits by the order of 30, 40, 50 per cent depending on the time horizon you pick. We would think that any disclosure and lead time should both not disrupt the expensive programs that have already been launched for introducing member investment choice for those funds that already have it and that also anticipate the lead time that is involved in investor education.

Investor education we found is the best guarantee of getting good results out of investment choice offers to members. In most of the funds they have had a good lead time of preparing the way for investment choice and by and large the outcomes from surveying what has happened with members who have taken up the offer are quite rational outcomes that you see in longer term, high growth strategies being chosen by younger members. The majority of members may be happy to remain with the default choice of a fairly significant growth proportion of assets.

**Senator ALLISON**—I would like to toss a question into the ring about the degree to which members actually understand what choice is being offered and to ask what has been done to test the language which is used in the offer which is made in investment choice with actual users—ordinary folk who do not necessarily have a great deal of understanding of the industry.

**Mr CASEY**—Investment choice has been introduced into a range of funds. Concurrent with that has been an education program. Certainly speaking from my own organisation, we have a very substantial education program which we provide free to the employer sponsor for their members and this is purely on an educational, information basis. There is no selling in this. This is purely on the basis of an education in assisting people to understand what investment choice is about: the risk component of investment, where they sit as an investor and where they are comfortable. It extends beyond just the investment choice and understanding of investment markets. It also helps them to understand how much they need to save for retirement in terms of adequacy. It covers issues on health. So it is a broad range of education programs which we have put into place.

This is being done as the basis for providing people with the information so that they can make an informed choice particularly in respect of investment choice because that is the form of choice which has emerged in the marketplace more than anything else. Alongside of that there are issues in terms of choice of the form and type of insurance arrangements that they want in their superannuation plan but primarily it is about investment choice.

**Senator ALLISON**—Firstly, what percentage of members that you offer the advice to through the fund providers take it up? Secondly, my real question is: how understandable is what you provide? If that advice is going to a small percentage of people, what about the rest?

**Mr CASEY**—These forms of education are very much based on being face to face, so that you do require a significant work force to educate a large population of people. We have to do it based on the resources that we have available. But in those funds where employer sponsors have taken up the opportunity for this service, about 70 per cent of members of those funds attend the seminars. We provide a sheet at the end for them to give an evaluation of whether they have understood the seminar. There are further help lines available to them through call centres, et cetera, all free of charge. That helps them to get a greater level of understanding.

**Senator ALLISON**—Having taken up that advice, what percentage of people alter their current investment?

**Mr CASEY**—It is an increasing percentage. We have heard anecdotal evidence today of only very small percentages—one per cent, three per cent, five per cent. We are finding that we are getting increasing percentages of up to 20 to 25 per cent of people making a choice. It is difficult unless you get to the members and say, ‘If you have chosen a default investment choice, are you making a choice, or are you just allowing the trustee to make that choice?’ We are pursuing those things. I do not have figures available to me today. I can get those to the committee.

We are finding that a larger percentage of the members of superannuation funds are now starting to take the opportunity of investment choice. It is important that they do so to ensure that they get the best value out of their super. We heard earlier today that an increase of one per cent in the investment return can have a marked effect. Over a 30-year period, a two per cent increase in the rate of return is the equivalent of roughly a five per cent additional contribution. Those people in their 30s raising families who cannot afford to contribute additional amounts are able to significantly make up that gap by adopting a more appropriate investment strategy than if they went into the default strategy.

**CHAIR**—Do you think superannuation funds are covering their costs without cross-subsidisation in offering investment choice? A number of funds offer, say, one choice free and then \$10 or \$20? In that sort of environment, a few people who exercise the choice might be getting the benefit, but is it being subsidised by the bulk of the members who make no choice?

**Mr CASEY**—I would say that, with a relatively flat fee structure you have as a standard, there is an element of cross-subsidisation that all members are part of.

**CHAIR**—There is an element?

**Mr CASEY**—There is an element of cross-subsidisation because all members are paying for the provision of choice. But we are moving towards more of a user-pays type arrangement so you have a standard fee and will pay a fee for taking up the options.

**CHAIR**—What sort of fees would we be looking at?

**Mr CASEY**—I cannot quantify those here. For instance, if somebody wants to take advantage of switching from one investment to another, there are fees associated with that, so that they are not spread across the rest of the membership base. If you are going to offer choice, albeit that a range of members will fall into the default, there is a base cost in having choice available. To a certain extent, as a community we have to pay for some of those issues. Mara Bun said earlier today that one of the problems associated with default funds becoming all things to all people is that the base level of costs of those funds can increase because you are trying to provide all the bells and whistles within a default fund.

**CHAIR**—Can anybody quantify those costs?

**Mr DOWNES**—I often do tenders for this sort of business in the industry fund area. What we have found from our own internal costings to do these tenders is that, typically, for those members that utilise member investment choice, it is about 50 per cent in addition to the fee charged for people who do not. In addition, we would charge costs of, typically, about \$50 every time they switched. That would be the fee. But many of the trustees decide in accepting a tender that they just want one price for the whole membership, so we build in the experience of the fund in member investment choice into that cost. To that extent, the rest of the membership—which is typically 99 per cent—subsidise those that use it.

**CHAIR**—When you say ‘switching’, if a person decides to move their future contributions that is not the same as moving the whole of their contributions from a balanced to a growth, is it?

**Mr DOWNES**—No, that is right.

**CHAIR**—So when do you charge the fee—when you move the whole of the money or when you transfer the new money going in from, say, a balanced to a growth?

**Mr DOWNES**—We would charge the fee if you physically moved some existing money from one option to another.

**CHAIR**—But if you do not physically move any money from one to another there is no fee?

**Mr DOWNES**—Not in our environment.

**CHAIR**—Is that common to most?

**Mr McILROY**—In the retirement income area, and we would be talking usually about larger sums of money there, most publicly offered funds would offer a certain number of free switches per year and then, after that, the member would start to pay a fee for the switch. That fee can range considerably—

**CHAIR**—That is moving the investment money as well?

**Mr McILROY**—Yes, to move an accumulation. When a fee is charged it can be \$25, or something like that, through to perhaps \$50 at the upper end.

**CHAIR**—Would \$25 cover the cost of moving investments?

**Mr McILROY**—No.

**CHAIR**—So there is cross-subsidisation?

**Mr McILROY**—Yes.

**Mr GREGOR**—Just on switching activities, our experience from the US, where investment choice has been running longer, is that switching activity is a lot lower than people anticipate; that, over time, the cost implications of that and any cross-subsidy are not as significant as might be otherwise felt; and that where there are good education programs and where there are flexible arrangements, so that people can make a switch in time with their life stage need to switch, the activity is extremely low.

**Mr CASEY**—From our experience, where investment choice is provided, people on average switch less than once a year. It is definitely less than once a year; it is probably between one and two years in terms of switching time.

**Ms RUBINSTEIN**—There seem to be a couple of contradictions in this whole notion of investment choice. We are saying, on the one hand, ‘It is people’s money, they should be able to choose what to do with it,’ and, on the other hand, ‘They can do anything they like, so long as they have it for their retirement.’ There seems to be a contradiction between having mandatory savings for retirement that are underwritten by the tax and pension systems and then, on the other hand, saying to people, ‘It’s your money and you can do what you like with it. If it is the wrong investment strategy or the wrong fund, then that will get picked up through the pension system in terms of whatever the deficiency is.’

The other contradiction, which actually just struck me, is this notion of advising people about the best option that is in their interests based on their age. Really, what is being said is that if someone is not individually advised that at 30 they are better off in the growth option, then the trustee is investing their money in a way which is not in their best interests. If we are simply looking at what is the best investment strategy for people based on different phases of their life, then maybe there is a case for different investment strategies or different defaults based on age.

But there is another kind of investment choice that is something that some funds are cautiously looking at, and it is one that HESTA has actually put a foot into, which is people investing on the basis of their personal preferences. I know that Senator Allison has an interest in ethical investing and the issues that go with that, and that is different again. People are doing that because they want to support something that they believe in. Again, is there a contradiction between that and the retirement income goals? Should people be able to invest it all in small companies that do solar power or something like that, even though we know that that is very worthy but very risky?

**Mr GUNNING**—I think we have to be a little careful about deciding what types of model portfolios are appropriate for different clients during the accumulation phase of superannuation and also of being too paternalistic there. The fact of the matter is that, as John McIlroy has pointed out, essentially the retirement income stream investing that they do in that part of their life is essentially deregulated and, as financial planners, our clients will come to us with the decision they have to make as to where the money is to be invested. If they had no ownership or no education during the accumulation phase as to what investments have been made and why they have made those investments, it becomes more difficult for them to make rational and good decisions in retirement—which is something we cannot lose sight of.

**CHAIR**—Any further comments on investment choice?

**Senator HOGG**—Yes. I want to follow up on the issue of the actual number of people who are making the investment choice. Whilst I heard what Mr Casey had to say, can anyone around the table give us actual figures? The only actual figures that I heard today were from Mr Rosario.

**Mr GREGOR**—I can support some of the figures Kevin Casey was mentioning. The outcomes that we have seen are that from 15 per cent to 20 per cent of people actually make an active choice, and that can include an active choice to select a default strategy, even though that does not amount to a change. Whilst you might say that those numbers are not very high and do not show that investment choice is worth while, that does not acknowledge that in Australia we have had fairly far-sighted investment strategies by funds. They have been growth oriented strategies; they have not been the cash or bond types of strategies that you see in other countries. There has not been a significant need for a lot of people to shift from what the default strategy is, if the trustees have made a prudent decision of choosing a default strategy that is a high growth strategy in the best interests of members. So I do not think the response to choice is necessarily a big factor.

**Senator HOGG**—All right. If people could take it on notice to supply me with some sort of analysis of the growth and how it is changing over a period of time, I would be very interested in that. Having heard Mr Rosario's figures earlier this morning, I became aware that 600 took an active choice out of 14,000 that you actively canvassed out of the 90,000. The reason for the 14,000 was that there was a trigger, and that trigger was their level of savings, as I understand it: is that correct?

**Mr ROSARIO**—I will just put that in context. We have 90,000 members and 600 of them currently have exercised choice. When we introduced choice in October 1997, we wrote to 4,000 members who had balances of over \$10,000 and specifically invited them to take up the choice. Obviously, many of them did not.

**Senator HOGG**—All right. That can be incorporated, because it does raise the other issue of what actually triggers people making an investment choice. Is the trigger age, accumulation, income, or amount of years to retirement? Do you have anything by way of analysis that lays that out before us? Is it a combination of all factors, or is one more dominant than the others? Mr Rosario said that it was a \$10,000 limit in the first instance that triggered them to write to people to see if they wanted to make a choice. I would

assume that people with higher accumulations in their accounts are more likely to want to make a choice than are those people who have low levels of accumulation. Again, if you could take it on notice and supply that to the committee, I would be only too pleased to receive that information.

**Mr CASEY**—Senator, I would say that all the factors that you have expressed have an influence, but that education is the greatest influence.

**Senator HOGG**—If you could make that analysis, or if someone has done a survey which supports that across different types of funds—it might be for a different socioeconomic grouping, or whatever—I would be interested in seeing the information.

**Mr CASEY**—We have found since we have embarked on this educational campaign that the uptake on investment choice has been significantly higher.

**Senator HOGG**—But does that, by virtue of what you have found, limit the people you would now target, so that you now say, ‘It is no use targeting that group to sell choice to them. This group are the people most susceptible to accept a choice of investment strategy’?

**Mr CASEY**—There are other factors which come into it. Account balance is clearly one; age is another. One of the things which Linda mentioned earlier in terms of age based types of investments is an investment product which we use or recommend as a default and which is an age based investment. So the investment strategy varies with the age of the individual. We have found that, by using that as the default, a large number of individuals are very happy with that as their investment strategy.

**Senator HOGG**—Chairman, with your indulgence I wish to go back to Mr Gregor for one moment. You said there were a number of people—in the order of 15 to 20 per cent—some of whom have gone down the path of choice of investment but have chosen the default. Are you able to give me some idea of how many of that 15 per cent would have chosen the default?

**Mr GREGOR**—A small percentage: I would say less than five per cent, probably. The majority of responders tend to choose the higher return, higher growth options. Typically you will have 10 to 15 per cent choosing the high return growth option and only a very small percentage choosing the cash conservative option. That is where there have been effective education programs run. There is certainly an account balance effect: people with higher account balances are more likely to respond, but I think that is just a natural expectation of engaging people in an education program: they will respond where they see it having a more significant impact on what investment they have in superannuation.

**Senator ALLISON**—This is a comment as much as anything, Mr Casey. It does not surprise me at all that the people that you sit down with on a one-to-one basis are going to be better informed and are more likely to make a choice than those who just get a letter. I do not know whether that is what happened with your members, Mr Rosario. My question earlier was about the level of understanding of the investment choice that is in fact being offered. As a consumer myself, I must tell you that most of it seems to be totally unintelligible to me. This is a point I keep making at every opportunity.

There is another question I wanted to direct to the industry funds, and that is a question which arose a week or so ago with the AWU, about investment choice in areas which might be of interest to those members specifically. One of those issues raised was occupational health and safety. The question I would ask is this: what opportunities do you see in the future for investment strategies being developed which include the members of the fund? They might be in areas of the environment or occupational health and safety or equal opportunity or a whole range of issues where members themselves in the work force might be interested in having input into an investment regime.

**Mr SILK**—Before I answer that question, I will quickly respond to one of the points that Senator Hogg made. Typically, if you ask an industry fund how many people are participating in member investment choice, you will get a response of somewhere between one and five per cent. The point was made earlier that that very significantly understates the percentage of people who have made a conscious choice—because, in the industry funds, the standard default fund is a balanced type of arrangement and nobody knows the percentage of people who have consciously elected to retain their money in a balanced option versus those who are there through apathy or whatever else. Clearly, a significant proportion of those who are in the balanced default options will be those people who have consciously decided that that is the appropriate investment for them.

Turning to your question, Senator Allison, I think, over time, the range of investment options offered by industry funds will expand. The standard model which most industry funds had when they introduced member investment choice, contained three options: a capital guaranteed or capital stable option, a balanced option and a growth option—a pretty standard configuration. That model is in fact developing already. HESTA have introduced an eco pool in the last six months or so. The Australian Retirement Fund have introduced the Coles Myer plan and another plan. JUST REST and a number of other plans have expanded beyond that simple configuration, and I know that a number of trustee boards are looking at strengthening the relationship between members and their funds by seeking to develop a closer link between their personal interests and preferences and how that might manifest itself in an investment sense. I think C+BUS, whilst they do not have an identifiable building industry investment option, have clearly promoted themselves to their members, amongst other things, as an organisation that invests in building and development projects rather than just being a property investor, so they promote themselves to their members as being an industry fund that invests in the industry and provides employment opportunities as well as appropriate investment returns for their members to benefit from.

I am aware of the issue that was raised at the AWU conference, and I think that sort of thing is going to be the sort of investment option that funds add to their standard core investment options. But I do not see the day when funds will have, if you like, a range of boutique investment options and jettison the standard core investment options, because I think most trustees see members rightly concentrating on maximising their retirement benefits. What will occur is a marrying of that core objective with some ancillary benefits such as the one identified.

**Mr GIBBS**—We have moved on a little but, again in answer to Senator Hogg's question and to add to the anecdotal evidence, I know of a fund that actually got a 60 per cent take-up rate for member investment choice, and it was a corporate fund. I can provide the name,

perhaps outside the meeting, if you want to follow it up. I know they had a very extensive campaign, including videos and face-to-face, on-site meetings to explain the whole thing. That just tends to add to the anecdotal evidence that education is a pretty significant factor in the whole thing.

**CHAIR**—That probably leads into our next issue.

#### **Session 4—Education of employers and members**

**CHAIR**—You might like to answer this, Mr Rosario. Are you aware of any problems with education in Western Australia where there is already choice of fund?

**Mr ROSARIO**—I do not know that we have run into problems with education. I think it is more the frustration that people do not really have time for all this. It is not—at least in the sort of membership that we look after—of major importance in their lives. They want the assurance that it is being looked after properly.

With the employers, we have had to undertake—certainly at Westscheme—a very deliberate process of telling them what the benefits of Westscheme are and what the liabilities are that we are protecting them from, so the employer representatives get told by us quite clearly why we have structured the scheme in the way we have.

With members, it is a little more difficult. We have spent a fair bit of money on improving our communications at the entry point. We now have welcome letters with have tear-off slips telling them all about the information they can get from us. We do not get a huge number of those coming back.

In terms of numbers, we have about 24,000 people entering the fund every year. Each of them would get a welcome letter with their member handbook telling them what was available in Westscheme and telling them about the availability of member investment choice, additional insurance, super members' home loans, the whole range of benefits that are available. A very small minority of that mail-out comes back in a demand for the additional information.

We have done market research on our membership and found that the majority of them like to know that they are getting information from our fund, that that is important to them. A lot of it then goes in the bottom drawer for some other time when they will read it and, of course, other things become important along the way. We are trying to work through the employers to make sure that issues are covered. We attend workplace meetings where we get a chance to talk about things. It is true that you just have to keep putting in the hard work. Over time, we hope we will get the accumulation of information that pays off.

**Mr HAJAJ**—One of the axioms that seems to have emerged from the last debate is that the more money that people have in their accounts the more likely they are to want to seek further education and, indeed, the more likely that they want to reinvest. In the same way that this applies to investment choice, I cannot see why it would not apply to choice of fund. I would like to quote Wallis, where he says:

Member choice will be successful in promoting competition only if consumers have appropriate information. It is the joint responsibility of the industry and regulators to ensure that consumers are educated and well informed. Education should cover issues such as the rights of members, different life cycle needs and their implications for risk and return, and the benefits and costs of exercising choice.

The Financial Services Consumer Policy Centre fully endorses the sentiments expressed there, but would like to take it further by having consumers and their education included in this education program. For an education program to work effectively you need to have industry, the regulators or government, and consumers on board and perhaps forming some kind of organisation which dispenses educational materials.

Be that as it may, we still believe that education and disclosure go hand in hand; there is almost a symbiotic relationship between the two. A lot of funds put out heaps of material which is highly educative but is also a form of disguised marketing. We should be wary of that, but, by the same token, there is no reason it should not exist. We do call for as much education as possible and we think the time between now and the introduction of choice of funds should be utilised to educate consumers as much as possible.

**CHAIR**—What about the six-month period that Ralph mentioned? If I summarise it correctly, on anything before six months you are probably wasting your money as far as most people are concerned. Is that right?

**Ms RALPH**—With education material, whether it is delivered face to face or in a newsprint advertisement or in booklets like our members produce for free, I think that in a crowded environment, where people's lives are busy, unless they know there is a reason to pay attention you are likely to risk the possibility of people not actually taking in that message because it does not seem relevant to them either now or within some foreseeable time frame. Certainly, our members who do a lot of this stuff do find that better attention is paid by people if they actually know it is coming, that it is coming at a certain date and that therefore now is the time to stop paying attention to the footy scores and maybe spend five minutes on your financial future, which we hope people might start doing in this environment.

In relation to education, I know that last year ACCI and IFSA spent a lot of time and money in the development of a brochure for employers explaining to them how choice would work. We put that in abeyance until we saw the final form of choice. But we would certainly be happy to resurrect that as soon as we knew the exact nature of the content that we would be required to explain to employers.

It is fair to say that, without a choice of fund and legislation in place federally, there is a lot of information. Certainly in our follow-up submission to you after today's hearing we will start to include that stuff. Some might say that this is disguised marketing but, with respect to these sorts of books, the only time GIO mentions itself is on the last page where there is a contact number. Most of it is very basic information about investing, et cetera, and there is actually very little. In fact, you cannot, because if there were some sort of marketing or a call to invest this would be a prospectus and it would have to be regulated by law. So there is a lot of really good and simple information that is starting to get out into the marketplace for people. It is expressed in very simple terms that we hope is being effective.

A lot of energy is going into trying to make that work out there in the marketplace today as we speak.

**Senator SHERRY**—Could I check a couple of points? We know that because it is a compulsory system 50 to 60 per cent of people are conscripted in, and that is a pretty critical difference from most other countries around the world. Fifteen per cent of people are functionally illiterate in this country. For many of those the communication difficulties are in excess of that because we have got people who do not read English because English is their second language. We also have a significant number of people who do not really have time for all of this.

The difference between education and propaganda should be noted. Much of the industry's information will be propaganda and marketing for obvious reasons: you are in it to make a buck. What do we do about all of these people and is it fair and reasonable to open up a system to full competitive choice when we know that a very significant group of people in our society, through the conscription we employ, are simply not well equipped and probably will never be well equipped to handle an informed choice?

**Mr HEALEY**—I would like to ask those members of the committee that have been debriefed on what the government is in detail proposing on the education strategy whether they have a view on it. I know this is not publicly available material but, certainly, when I got the debrief from the people in the tax office doing this work I was blown away by the depth of what was proposed. I still think—a bit like the disclosure issue—that there is a lot of work that has been done that is relevant. So I would be interested to know how the members of the committee that do have this knowledge have felt about that. Also, just how do we dovetail that with what is now going on in the industry?

**CHAIR**—Mr Healey, I think you are one, two, three or four steps ahead of me and all other members of the committee.

**Senator HOGG**—Yes, we are very interested.

**Mr HEALEY**—The material I am talking about—and Lyn and, indeed, the ALP know, as well, because they also got the debrief by Robert Ball in the tax office—is the education campaign that was actually proposed for this, the details of which have actually been developed quite extensively over the last two years. They included the communications working group that had representatives from industry on it.

**CHAIR**—We will certainly be making some inquiries following your comments. Thank you very much.

**Ms SMITH**—In terms of staging and timing, I have seen, I think, some initial briefings on that. But I think, again, it goes to what you mean by education. What I was seeing being talked about was probably at a much higher level in terms of notification about key features. I think what we have got to get down to here is education which relates to segments, the sort of detailed information that enables people to make choices that are relevant to them rather than just the idea that higher level superannuation is a good money growing tree—those sorts of things.

The timing and the staging that needs to be thought through is this: we have CLERP 6, again at a fairly generalised principle level, then further work on how we get to the bottom line in terms of crunching down fees, so that probably gets it to the regulation stage. Then, for a decent education program—and I use the word ‘education’ in that meaning—the timing really is 12 months. We have already had a bit of experience with the investment choice and the amount of time, energy, research, cost, et cetera of making that digestible, even to a small grouping of people. Being realistic here, I would say CLERP 6 regulation plus 12 months is really what you would need. That is still a gradual process, so the safeguards have to be there for the more vulnerable people that we have to realise we are going to miss, no matter how good the education programs—we should still be attempting, but safeguards have to be there because of the special nature of superannuation and the compulsory nature of the payments.

**Mr CASEY**—We have to be careful to not underestimate the problem we face. I take on board Senator Sherry’s comment that there is going to be a percentage of the population who will never understand the concepts involved. However, we have to accept that and we have to look at the good for the greater population. But we are not going to complete this exercise in 12 months, or two years, or whatever. This is an ongoing situation. The figures that were put forward for the 401K system in the US show that it takes something in the order of 10 to 15 years to get your population to a stage of financial literacy so that they can understand, but you have to have a starting point, and this is our starting point. We are not going to resolve this from an educational point of view in one or two years. We need to start as soon as possible, whether there is choice or whatever. Choice is an irrelevancy in terms of getting people to understand what they adequately need in retirement, and that is the basis of what we are trying to communicate to people.

**Mr McILROY**—The discussion about whether it is six or 12 months is really directed at purely an awareness of choice coming in. I agree with Kevin’s point there: we should not underestimate how long it is going to take to educate people. If we use the retirement income market as an example, 12 years ago we had not much of a market, it was certainly not informed, and today we have about 400,000 to 500,000 people with retirement income streams. I am not sure how you judge whether they are very informed or not but, certainly, there have been vigorous attempts made to provide education. Some of it does get mixed up with marketing materials, as people mentioned, but, being involved with providers of retirement income streams, I found that, where the material has mainly been directed through financial advisers or the point of contact that people have for advice, it will not be used by financial advisers if it has a lot of propaganda in it, and I think most providers of income streams would certainly agree with that.

The lessons from the retirement income stream area, where you have had choice for 12 or 13 years, is that it is certainly not going to be quick. It has to be a very sustained education program over a long period of time, and I personally think that it has to be directed through financial advisers or whoever else is providing that particular point of contact for advice with the investor. Certainly, in the retirement income industry it has been completely industry funded up until last week, when the booklet I gave you on retirement income streams, a joint government project, came out. Whilst there is a lot of industry information about, a lot of it has been education, and this industry has proved that that happens.

**Senator HOGG**—I am just a little unsure precisely what people mean when they talk about education. It seems to me that there are a number of levels of education. There is education of employers and education of people who are going to be the recipients of choice. When we say there should be a six- or 12-month program, what are we exactly talking about, and by whom? Should there be a general awareness education program to start off with to create the environment, followed by another program targeted at the employers? Should that then be followed by another targeted group, say the funds themselves, and maybe another group, say those people who will benefit from choice? Am I on the wrong track there? Can people clarify for me what the levels are and how they see them being phased? I would be interested to hear that.

**Mr GIBBS**—I was going to make a comment in a minute but perhaps I will take the opportunity of responding to that question. As the Institute of Superannuation Trustees sees it, there will have to be a number of campaigns. We are not just talking about one campaign.

**Senator HOGG**—I accept that.

**Mr GIBBS**—It has to be largely government funded, but there should be some joint cooperation between government and industry. My own view is that the major part of the campaign has to be raising awareness of people, if choice is going to happen, about what the key issues involved in making choices are. That is what the overall campaign should be about: raising the awareness of people about how they make choices that will affect their future retirement incomes, and what issues are important to look at if they are going to be choosing between alternative superannuation funds.

Can I just take the opportunity for two minutes, with your indulgence, Senator, to speak briefly about a matter. We have been focusing on an education campaign about choice. You have often, I am sure, heard me talk about this. I think we have to go right back to basics and do something about getting education about superannuation and the concepts of superannuation into our education systems in schools. We have produced some materials which are now available free of charge to schools in Victoria and are now being used by teachers in secondary schools in Victoria to teach about the history and rationale of super. They go through in admittedly a basic way the different asset classes and predominantly try to teach the concepts and value of compounding.

Then, by using some software developed by a fund manager, we design exercises based on a number of assumptions about inflation, fees and returns whereby students can see what happens—for example, if they were to put away \$20 a week for the rest of their life, how much they would end up with, based on those assumptions. Then, by getting them to change each of those assumptions, they can actually see the impact of different levels of returns, of inflation, of fees. In particular, in one exercise we do, we get them to start in five years time and then we get them to start today so that they see the enormous difference that starting early in life in planning for retirement can make to the amount of money that people get.

That is a fairly simple education campaign. It is in Victorian schools now. I have spoken to the Queensland education people and I am confident that they will pick it up. But really a lead that I believe that the federal government should take would be to somehow facilitate

some discussion amongst education authorities and ministers in all the state systems to get some basic understanding of these concepts into our secondary school systems.

**CHAIR**—Congratulations. We will certainly note that in our report, Mr Gibbs. Mr Hajaj first, and then Mr Silk and then Mr Hamilton may comment.

**Mr HAJAJ**—In answer to Senator Hogg's question, we also support a maximalist education campaign which seeks to educate consumers about the whole superannuation system. But in terms of the micro of what we as consumer advocates expect from an education campaign, we expect the following. We expect an education campaign would include the idea of wide choice being important for people's retirement income; whether they have choice and, if so, what sort of choice; what happens if they do not choose and whether a default is appropriate.

We also believe that an education campaign should include what they should do if they move away from where they currently are. We believe that an education campaign should also educate about the serious implications of shifting out of defined benefits funds—which is a big problem that happened in the UK. We also think that people should be educated about where to go for further advice and what they should do if complications arise. They are simple things that we demand and which are certainly not happening right now.

**Mr SILK**—The industry funds would share the view of other participants that there does need to be an education campaign. It should be primarily funded by the government. It would have two principal audiences. Firstly, for members, it should focus on the issues that members should take into account when making a choice. What happens after the introduction of choice, if in fact it occurs, has not been an issue for a lot of members. It should also have a secondary audience, and that is employers, because there will be a whole new range of obligations for employers. We would say that the education campaign should precede the introduction of choice by a considerable period. Now, should it be 10 or 20 years, as the US experience would indicate it should—

**Senator HOGG**—I like your short time frame.

**Mr SILK**—said he, rhetorically!

**CHAIR**—We are not in China!

**Mr SILK**—The reality is that, if the legislation is passed, it almost certainly will not have a 10- or 20-year lead time. Everybody is saying that firstly there is a need for an education campaign. That is predicated on the fact that people will be disadvantaged if their level of knowledge and awareness is not increased. Senator Sherry mentioned that 10 or 15 per cent of the Australian population are functionally illiterate. The Australian Bureau of Statistics' last survey on this was released in 1997. They surveyed 9,000 adult Australians, aged between 15 and 74. Forty six per cent of the Australian population within that age range ranked at level 1 or level 2 on a five-level scale of numeracy and literacy. Level 5 is very good, level 4 is pretty good, level 3 is satisfactory. Levels 1 and 2 are unsatisfactory. Forty six per cent of adult Australians ranked at level 1 or 2. The percentage of people in the work force would be less than that, but it is still very great indeed.

If we all do accept, and I think it is broadly accepted, that there should be an education campaign, and that is predicated on the fact that people have insufficient knowledge, let us be clear that if we introduce choice before there is a sufficient education campaign, we are saying—and this has been implied by a few people here today—that we are prepared to accept that some people will be disadvantaged by this. It is the corollary of everything we have spoken about. Nearly half the population do not have sufficient numeracy and literacy skills to move into this choice of fund regime.

If we introduce an education campaign that does not have sufficient lead times or sufficient resources to bring if not all then a substantial proportion of those people up, then we are saying at least subconsciously that we are prepared to sacrifice the interests of those people. We can gloss around the edges, but that must be the outcome of what we are talking about.

**CHAIR**—A last comment from Mr Hamilton, before we sum up.

**Mr HAMILTON**—When I last looked there was a free market in house mortgages and it was able to operate quite effectively, and so I do not think it is correct to take too much of a doomsday approach to this issue.

**Mr SILK**—Well, they are the facts.

**Mr HAMILTON**—On the issue of the education campaign, obviously we are going to be asking employers to introduce a choice regime, and it is very important that they be fully equipped through an education campaign. We certainly will be working with IFSA and others to acquaint them with their obligations. It will have to be scrupulously accurate, otherwise it will not achieve its objective, which is to help business deal with its new regime. So, an education regime for employers, who are going to be asked to introduce this, is of absolutely critical importance. We do see that government funding would be appropriate for it. We will certainly be doing what we can to equip them as best we can to deal with that regime.

## Conclusions

**CHAIR**—I would now like to move on to conclusions and invite participants to give their views over the range of issues that we have looked at today, highlighting the salient points. Again I ask for brevity, please. Are there any volunteers to be No. 1? Mr Ward, would you like to have a go?

**Mr WARD**—One of the issues which cuts across many of the areas we have discussed today is choice of investment, whether that be choice of investment in one fund or choice of investment across a choice of fund environment. We have heard comments that an extra one per cent investment return can result in an extra 30 or 40 per cent in any end benefit—far more critical than any minor differences that there might be in fees. I think that hits on the education program. It is not a matter of educating people that ‘these fees add up to this and are greater than that and so you choose the lower fee product’. It is a much more complex investment education program to educate people about the risks of their investments, the likely longer-term returns and the effects that they can have. It is going to take a long period

and a very concerted education campaign to get that message across to a large proportion of the population.

If we go back to looking at the cost of superannuation choice, we have heard that costs will go up and there is some potential for cost savings if people consolidate their accounts. We have looked at problems with insurance. One of the solutions which we have not really mentioned today on insurance is for employers—and many employers would be happy to do this—to take out a bulk insurance contract on all of their employees, perhaps outside the superannuation environment. What many employers do not want is to find that one of their employees is not covered for insurance because they chose the wrong fund or deliberately chose not to be covered. The employer is going to feel some sort of moral obligation to that employee. He will consider making *ex gratia* payments to the widow and so on. To avoid that, some form of bulk employer sponsored insurance could be very useful.

However, one of the problems we have there is the current tax system and the complexities of tax on that sort of insurance arrangement outside superannuation, where we have potential for FBT, CGT and a whole range of taxes applicable on that sort of product. If the government could simplify those arrangements, we could have a feasible alternative.

**Mr GUNNING**—I will start summarising by reiterating that the Financial Planning Association's view on choice is that we are pro choice. We believe there is a great deal of benefit to be derived from encouraging ownership of superannuation moneys during the accumulation phase, given that decisions will have to be made about those moneys in retirement—which is currently being left up to the individuals. We have a preference for unlimited choice, to the extent that we think that enables the portability of superannuation and allows consistent asset allocation decisions to be made over a working life. We also encourage full disclosure of fees. We endorse CLERP 6, the consumer protection bill, and any other measures to be introduced to ensure that those types of recommendations are made properly.

A lot has been said about the education programs. It is probably worth noting that, at the moment, obviously there is not a huge amount of information around or that has been provided by government on superannuation. The Financial Planning Association is currently advising about 3.7 million Australians on their financial affairs. The majority of those people are also getting advice on superannuation, so individuals out there are seeking advice in relation to superannuation.

**CHAIR**—For the Institute of Chartered Accountants, do you have any remarks, Mrs Orchard?

**Mrs ORCHARD**—No, thank you.

**Mr PRAGNELL**—There are obviously many issues. I just want to touch on one very quickly. I think we always have to remain cognisant of the impact of the compliance burden on employers, particularly smaller employers. Sometimes we can get a bit caught up on industry-specific issues regarding asset allocation, insurance cover and so forth. They are all important, but we have to keep in mind that it is going to be several hundred thousand employers out there who are going to have to implement choice of fund. For many of them,

there would actually be little benefit, particularly for small employers. There is generally going to be a compliance issue for them.

If there are benefits and if the benefits of choice are to be followed through, then they would likely go to employees as members of super funds, to the government in terms of a better system and to certain sectors of the industry. So, if we do see the benefits flower that are anticipated or that some people predict, they would go to those other sectors of the economy and not necessarily back to employers. We have to keep in mind that, from the employers' point of view, for many of them it is going to be a compliance issue. We have to make sure that we are always very cognisant of that fact in terms of how we structure the legislation and also in terms of how we direct some of the initial start-up resources.

**Mr HAMILTON**—It is very possible to debate superannuation at length while overlooking that important issue, which is that it is business which will be introducing and attempting to comply with this regime. So, in every decision, if you like, on the structure of the scheme, the type of choice regime that is introduced and the way each choice regime operates, it is of critical importance that you look at how businesses can implement it, what the costs will be and what the dangers are for businesses and the like. If those issues are not looked at but are overlooked or ignored, or other issues take priority, the scheme may well fail and may well fail seriously. It is of critical importance that the compliance burden on industry be looked at.

That being said, a free market does operate in areas such as house mortgages and the like. There is no reason why it cannot operate effectively in this area. We are certainly supportive of a choice regime and believe one can be introduced but, if it is not introduced, looking at all those issues I mentioned—protecting employers against liability, providing a role for employers where they should not have a role; it should be the employee who chooses—then the scheme will not be successful.

**Mr HAJAJ**—The Financial Services Consumer Policy Centre also supports choice. However, again, our support is not unconditional. Our support is actually conditional on the following taking place: one of the first things that must be resolved is education, as we believe that education is the key component in ensuring that the introduction of choice is efficient, fair and accessible. We believe that a thorough and ongoing education campaign is needed to ensure that the public is fully aware of the implications of the choice of fund proposed. The centre recommends that an independent agency be set up to deal with the provision of education. This agency would be jointly funded by the superannuation industry and government.

Special consideration must particularly be given to people of non-English-speaking backgrounds and young school leavers. Our support is also conditional on a comprehensive and standardised disclosure regime being provided for. We believe that the key to this is a thorough key feature statement which would be simple to use; comply with disclosure laws; be presented to any prospective member; be available to all members on request; discloses all costs, charges and benefits to the members; has a level of uniformity for easy comparison with other funds; and be either prepared or monitored by a central regulating agent set up under the auspices of ASIC.

The centre believes that an appropriate level of disclosure can be achieved within the proposed framework as set up in CLERP 6. Conditional, I suppose, on certain conduct and consumer protection issues being resolved, we think that this is integral to the future wellbeing of the community and that there is a strong need for appropriate mechanisms to ensure consumer protection.

We believe that the following consumer protection measures should be undertaken. One, we think there should be legislative measures, either for the corporate law economic reform program or through specific legislation, to ensure that consumers receive appropriate advice which takes into account their financial needs. Two, we believe that there should be legislative measures to ensure that consumers are not subject to twisting, churning, cold-calling, pressure selling or misleading and deceptive conduct. Three, we believe that protection should be legislated for against employees and sellers making deals with the purpose of persuading their employees to take up a certain offer. Fourthly, there should be new measures to address the issue of lost and multiple accounts and, lastly, there should be the expansion of member benefit protection. Further, we believe that the development of effective alternative dispute resolution in superannuation would be vital if choice is to succeed. We support the development of an effective industry alternative dispute resolution scheme. Also, we further recommend the establishment of a superannuation consumer advice and legal service.

On life insurance, we believe that superannuation choice, as it currently stands, does have the potential to actually undermine life insurance. To safeguard against the likelihood of employees losing coverage, we recommend measures to ensure that, when an employer hires a new employee, they must arrange payment of insurance contributions into that employee's existing fund. So the employee's continuity of insurance is not broken and that employee is not denied total and permanent disablement insurance as a result of pre-existing conditions, and the level of cover is not reduced. The centre also recommends that the government should establish an insurance pool to provide interim cover for people who change jobs or who are new entrants to the work force and who experience extended uninsured periods.

On timing, we propose that before the legislation is introduced the development of a national program be instituted. We believe in the development of a regulatory framework for KFS and disclosure. We support the provision of appropriate consumer protection measures before they are introduced. We also support the commitment to industry ADR. Further, we called for a resolution of the default fund issue. As we have seen, this is probably the most contentious issue to have arisen so far. Again, we just reiterate that we support the current award system and its provision for default funds, keeping in mind that a default fund should be a long-term capital growth. It should have a basic level of death and disability insurance, maximum limits on fees and particular exit fees. Finally, we support everybody else in here in calling for a monthly remittance of superannuation to be paid.

**Ms RUBINSTEIN**—In some ways it has been quite a depressing day, because we are talking about a change for which there is no credible evidence that it will either reduce costs or increase rates of return on funds. There is evidence that some commercial organisations believe that there are benefits for them through introduction of choice, although even that may turn out not to be the case.

So what we have essentially done today is look at all of the problems that we all believe will occur with choice, unless we do a whole lot of things. Essentially, we have got something which cannot be credibly said to benefit the members of funds, so what we have to do is try to deal with those problems.

Having said that, it is generally agreed that we need to have a disclosure system that is accessible, understood by everybody and that allows for funds to be compared. Otherwise there is a risk that people will be seduced by false advertising, in effect, to take up options that are not in their interests. We will need a massive education campaign, because I think it is conceded by everybody here that there is not currently the knowledge and understanding of superannuation, let alone of the issues involved in choice out there in the community. If that education campaign does not happen, then we all accept again that people are likely to be seduced or, for other reasons, will take up options that are not in their interests.

We need to do something to make sure that people do not find themselves uninsured, as a result of introducing this thing that we do not quite know why we are doing. We need to protect people who do not exercise a positive choice—and that is likely to be very high. If we are talking about figures, I might remind people that I think Peter reported some figures from JMI—15,000 members out of two million members had exercised choice. In a large fund that I have something to do with, I think over 1,000 people have exercised choice out of 350,000 members, or 150,000 to 200,000 active members. That was not through lack of promotion, although, with those numbers, we were not sitting down with them face to face.

We all seem to have assumed that people making choices is a good thing, and something to be striven for, without really looking at whether those choices are in people's interests. We have also discussed the likely or possible increases of cost that can come through greater incentives for commission based selling and the greater needs of advertising. Mr Silk talked about the possibilities of churning, switching, twisting and turning that will be encouraged the more we promote these options. Nevertheless, if choice is going to occur, it would seem to me that there is a broad consensus about the need for very careful preparation.

There is not quite such a consensus on the time frame, but certainly the ASFA type time frame, which is the end of 2002 or 2003, would seem to be a minimum in order to ensure that the community would be ready for this. Whatever we do in terms of education, we need to test the level of awareness before and after continuously to see whether it is having the effect and there is the degree of readiness required.

**Ms SMITH**—I think what is being echoed around here—and I would certainly agree—is that there are two different issues that we need to look at. They are the legislative frame—the structure of what is going to work—and the implementation staging. The legislative frame goes to the safeguards that are necessary. Advantages have been articulated for choice in terms of connection. They are certainly advantages on investment choice if we can get people to maximise their returns. But there are also considerable costs and risks which we have heard about and which have to be thought through very carefully in terms of that implementation.

There is one issue that I think has not really been thought about properly today. It goes to the implementation and staging. To my mind, it is part of what is a coherent package of

dealing with choice and moving the population on. It goes back to that independent research that we indicated before and which we commissioned. We investigated what people's attitudes were to superannuation and government policies.

We are very lucky in Australia that there is such a high level of support for compulsory savings. We were quite astonished to find that there was 97 per cent support for compulsory savings and 60 per cent of people were willing to contemplate higher compulsory savings. That is quite extraordinary. I think it is something that we should all be pleased about as we try to get to an adequate and sustainable retirement income strategy. That is why superannuation is special. If we do not get it right, the government has to underwrite it in some way. Both individuals and government are paying.

What also came through very clearly in this research was that the issue of increased choice was not high on people's priority. It was there for some people but not high on their priority. The issue that was highest was removing the complexity for superannuation generally, and particularly the taxation arrangements. What I would add as an extra thing for consideration is the need for a coherent strategy when it comes to superannuation. People do not want tinkering and chopping and changing.

If we are going to move forward, the higher priority is simplification of those tax arrangements. If choice is going to come, it should be part of that coherent package. The government should be clear about where it is going. The research we found was that, if all the government does is move forward on choice, it is totally mismatching where people's priorities are in terms of what will retain their confidence and support for the superannuation and retirement income strategy that is in place. It is not choice of funds; it is giving safety and reducing the complexity.

So, No. 1, I would say that choice needs to be part of that coherent reform package. As I said, No. 2, we need to get those legislative safeguards right to ensure the safety part. There is a long check list, but for me the critical ones are having a default scheme there for the percentage of people, whether it is 70 or 50 per cent but that is the range we are looking at, who will rely on the default scheme. That should include, from my perspective, insurance and perhaps having some age linked growth arrangement. At least there should be a balanced portfolio and perhaps we want some age linked sort of portfolio. On disclosure, as I said, the CLERP 6 regulations have to be the key focus. Let us get that right and move on from that. The frequency of payments I put up there with the other high priorities.

We have all agreed, I think, that there need to be sufficient time and resources for education. My thinking now turns out to be a conservative estimate. I thought once we get CLERP 6 in place another year might at least get us the framework. I think people are indicating I am conservative. The e-commerce arrangements are critical if you want to minimise the cost that would be there in an unlimited choice environment. That is an 18-month to two-year time frame. So I am assuming that, if we can get the legislative framework and the safeguards right, and I think it does have to be a precondition so that we do not undermine the retirement income strategy we have got there, that means that maybe it is better to flag the intent but realistically it is the end of 2002 at a minimum to get those stages operational.

**Mr BERRILL**—Like most here, we ultimately support choice. Questions of timing, member sophistication and safeguards are the real issues. Member sophistication I think is the real worry. There have been lots of close to horror stories here about lack of member knowledge and financial literacy, which are going to be problems and barriers to members understanding their rights and entitlements in a choice environment. Given that choice is about to be with us, the important issue is safeguards and to protect members as much as possible. On disclosure and education, I think that is a given.

The key thing is the default funds. There has been much discussion about it and I think there has been general support for the need for a default fund with proper minimum standards and limits on it and safeguards on it. We support the suggestions that existing funds and award funds should be the basis for default funds, but we strongly believe that the default funds require special attention because of the likely profile of the members of default funds. We think they require minimum standards, and those minimum standards include long-term capital growth requirements, basic levels of death and disability coverage and caps on entry and exit fees to encourage portability. In particular, continuing adequate insurance to protect against poverty traps of early exiting from the work force is an important element, though we acknowledge there is lots of work to be done to work out the terms of this; rates, et cetera.

One other issue that has not really been addressed is that there also needs to be a workable dispute resolution forum. Most people here are aware of the problems the Superannuation Complaints Tribunal has had and the problems it is having at the moment with lack of resources and staffing levels. There have certainly been some stories around about the increase in disputation that is likely to arise from choice, and in that environment the SCT, which is there to provide a quicker and cheaper access to justice and dispute resolution, must be adequately funded. Overall, I think caution is the key, but there are problems ahead.

**Mr DOWNES**—Listening to all of this over the years now, I am still wondering why we are talking about choice. I have never heard a compelling argument for it. I am aware of no consumer driven campaign to have it. The only people who are agitating for it are those who want to sell retail products, and the reason is pretty obvious. What I would suggest from my experience is, yes, you would get a few people in industry funds who want to get out into other things—that can happen. We get a lot more people coming along to industry funds and saying that they are trapped in a retail product because of prohibitive, punitive and deliberately designed exit fees to trap them. There is nothing we can do about it, and we have to advise them to stay there.

**CHAIR**—Are they still around?

**Mr DOWNES**—They are still there. In fact, I have cases here from last week where master trusts and retail products tried to charge employers \$50,000 to move 100 employees out of the master trust into an industry fund. Eventually, we worked our way through that because, in this particular vehicle, if you were invested in cash, you could move out for free. So we were about to get all these forms filled out so people would move into cash, and the master trust was actually going to make us do it just to be pig-headed, but eventually we got

hold of the people towards the top of the life office and they saw more sense. That is the sort of thing that goes on. That is the only thrust that I am aware of in choice.

If we must have it for reasons unspecified, then let us have proper disclosure so that anyone who reports an interest rate is properly adjusted for all fees and charges—that is, over a three- or five-year period—and assumes you entered the fund and left the fund and paid all the fees that are involved in both of those processes, as well as ongoing management fees during that period, and all of that comes off the interest rate that is declared. What we need then to back that up is an education campaign so that the government can explain to people how to read those sorts of figures and understand what they mean. That is very important.

We also think that every outcome of the industrial relations process should override this choice legislation, should it ever eventuate, so that people can get together collectively—employers and employees—and decide their own outcomes away from the sales driven area. Again, we think that commissions should be banned on compulsory superannuation contributions because the only way of funding those commissions is from the compulsory superannuation itself, which reduces retirement incomes. Be very clear on this: I am not talking about commissions for providing advice to people; I am not talking about commissions for selling products, which is entirely different from providing advice, which can and should be paid for. Selling products in your interest because that pays the best commission, rather than the best retirement income for the member, should be banned on compulsory superannuation. Lastly, monthly contributions are very important for insurance and for SG compliance.

**CHAIR**—Do you want to give your perspective, Mr Healey?

**Mr HEALEY**—Obviously, we support choice, and we remain committed to trying to make it happen. We believe that none of the issues talked about today is insurmountable, and disclosure and education are clearly important issues, but I emphasise again that there has been a lot of work done on that. What I think is necessary is to decide whether that covers everything people want. Sitting here today, this to me is a bit like listening to the debate that went on in Australia pre deregulation of home loan interest rates. It is like the debate that Australia had pre removing tariffs, and I have greater faith in market forces than a lot of people in this room. We believe that consumers will benefit substantially.

**Mr McILROY**—ARISA is primarily concerned with the post-retirement side of things, but supports choice on the basis that we have ownership and we have choice in retirement. We see that, although there are some hurdles to it, there is no great reason why you cannot carry the same philosophy through to the pre-retirement stage of life. We lean to the unlimited choice model, mixed with back-up default measures and, obviously, workplace arrangements. The issue of liability of employers needs to be removed, as has been brought up.

The committee and industry need to be a little forward looking to make judgments about what people want now and what they may want into the future, particularly against a background of e-commerce developments which are going to change our lives quite a lot. We should be forward looking to see what people might want further into the future over the

next couple of years. As an example, when allocated pensions were first designed in the post-retirement area, I do not think anybody had any idea that we would have \$24 billion in them 10 years later.

We think that there must be full disclosure and we agree with the comments about being comparable and transparent. There are obviously a lot of other issues that have been discussed today, but probably the other main one that we would see is that, whenever it happens, there would have to be a substantial awareness campaign, followed by a sustained education campaign over a long period of time.

The other point to add is that trying to have an education campaign with a topic that is complex is going to be difficult. If the choice model, whatever it may be, is not coming in for another couple of years, there is a perfect opportunity to do a lot of work on simplification in the meantime so that, when you go to educate people, you are trying to educate about a much simplified system.

**Mr GIBBS**—The Australian Institute of Superannuation Trustees does not believe that legislation to introduce choice is necessary. Choice is increasing through developments, such as in the Australian Industrial Relations Commission and through market forces. However, if choice is to be legislated for, then the following are the key points. The system must introduce member or employee choice; must encourage and facilitate portability; there must be a default fund—I have already spoken about that before so I will not go over it; there must be adequate mechanisms to settle disputes, both with the retention of the power of the Australian Industrial Relations Commission and the SCT, including expanded resources for the SCT; there should be increased frequency of payments, preferably monthly; there should be specific disclosure requirements; and the introduction should not happen for some time in the future—somewhere between 2002 and 2015 have been the estimates made, but there must be enough time for disclosure following CLERP 6 and for a realistic education campaign. I thank the committee and the chair for the opportunity to put forward our point of view.

**Mr CASEY**—AMP remains supportive of informed choice. Our preference is for employees to make that choice, whether it be individually or collectively. But we believe that choice must be preceded by an effective disclosure regime and CLERP 6 will provide that disclosure regime and will also address a number of the issues in terms of licensing of intermediaries to ensure that we have a common and proper environment.

We also believe that an effective education program must be implemented and that has a relatively longish lead time. Clearly, there are issues of costs, insurance, et cetera, which need to be resolved and should be resolved. I support the comments made by Philippa and others in terms of the fact that it would be wise to have a simpler regime to implement this choice. If we have got a lead time emerging out of this, then it would be appropriate to try to simplify the system. Lastly, certainly AMP supports the monthly frequency of payments.

**Mr SILK**—I would reiterate the point I made at the outset and that is that the Industry Funds Forum do not support the introduction of choice of fund at this time. We are fortified in our beliefs to that effect by the discussion today, because we have not heard any

compelling arguments in favour of choice. We believe there is an inadequate foundation for the introduction of choice at this time.

Members do not support it and nor do employers. The most ardent advocates of choice are, in fact, service providers to the industry. That is perhaps an indication of who the greatest beneficiaries will be out of the system. That said, if those powerful arguments are not heard in the parliament, there are some points we would make that we would assert would be essential ingredients of a choice package. I will not go over all of them; they are contained in our written submission and in our verbal comments that have been made today.

In summary, the choice should be made by employees either individually or collectively. There should be an appropriate disclosure regime which facilitates comparability between superannuation funds. I think it is the unanimous view of everybody around the table that there should be appropriate comparability, but the devil will be in the detail. As Steve Gibbs indicated at the outset, there will not be agreement on the detail and the appropriate regulatory authorities will have to exhibit some courage in essentially arbitrating on that issue.

We have discussed the default fund and, again, we would support the position that was advocated about that. We would again state that the default fund should have certain minimum standards, in particular in relation to insurance and the form of asset allocation mix that would reside within the default fund. We would strongly assert that a key component of moving to a choice regime should be monthly payments. The logic of the notion that quarterly payments are appropriate because that is when taxation payments are made escapes me. There appears to be no relationship, to my way of thinking, between payments that are made to government and employee entitlements. These are employee entitlements and monthly payments are appropriate, although I would acknowledge, as I did earlier, that quarterly payments are an advance on the status quo.

We think superannuation should be retained in awards, although we would acknowledge ACCI's point that there would be some need to make consequential changes to superannuation clauses that are in awards, and they should be dealt with on an award by award basis. The AIRC's role should be retained as well, in particular in relation to disputes pertaining to superannuation. An issue that I do not recall getting much of an airing through the course of the day but that was touched on briefly by Peter Downes a moment ago is that if we are to introduce choice and the key hallmark of this choice regime is to be portability between funds, then we should strip down the barriers that exist.

There is a lot of talk about award provisions being barriers, but in fact high, oppressive exit penalties are, in our experience, the major impediment to portability. We would proffer the suggestion that a maximum fee of, for example, \$50 be included in the legislation or in a regulation and that no superannuation fund be able to impose a financial penalty or exit fee on departing members that is in excess of that amount.

The key issue is timing, if choice is to come in. The direct feedback we get from employers is that it is not just a question of not wanting choice at the moment; they say they could not cope with unlimited choice at the moment. If e-commerce is to be the saviour here, that will please a lot of our employers. But, at the moment, the figure that was put into

discussion earlier in the day certainly applies in relation to my fund—that is, 20 per cent of members have their contributions paid electronically to the fund, 80 per cent do not. It is going to be quite some time before those figures are reversed, much less the figure of 100 per cent being paid that way. If we were to introduce choice today, you would get a lot of representations from employers saying they are particularly upset about that.

As for the timing in relation to members, we have said that the earlier this is introduced the greater the number of employees that will be disadvantaged, and that flows from the logic of having an education campaign. Finally, that leads to a position on when the introduction should be. We would say that choice should be introduced no earlier than two years from the passage of the legislation and all of the regulations. Thank you very much.

**Mr HAMILTON**—There has been a very good agenda for today's meeting. Perhaps one issue which has not been addressed is that of safeguards to protect employers from any litigation which might arise out of a transition to a choice regime. Employers are going to be asked to introduce this regime and we feel that sort of protection is a very important part of making the regime work. Thank you.

**Mr O'KEEFE**—As I mentioned before, the institute basically supports the principles of choice of fund. The main issues, as far as we are concerned, relate to the provision of standardised disclosure documentation particularly identifying the details of the fees and charges to be included. It is quite easy to say that we have had a lot of work done on this already. I agree we have, but I do not think we have got to the point of identifying each and every one of the fees and charges that we actually want to take into account. I think that is what the work is really going to be focusing on in the future.

The other part of that is really trying to quantify those fees and charges into something that can be readily conveyed to individuals so that they can compare one fund with another. We have been talking a little bit about MERs. The MERs are not going to be appropriate; they are just not relevant in going forward in a choice of fund environment. So that is going to be another key focus in the future.

One of our other points is basically similar to that put by Ian Silk. We believe there needs to be a minimum period after the passing of regulations and legislation. We would probably say 12 months two years or maybe a little bit longer, depending on how long it takes before the legislation actually gets into place. If we have a longer lead time before the legislation is in place, maybe we need only a shorter period.

Our other key point, being actuaries and working a lot with defined benefit funds, is that we have a real concern about how they are going to be included in the environment and how they are going to be compared one fund to another. Not only just between themselves but comparing them also to accumulation funds. By their nature they are very different from accumulation funds and even between themselves the range of benefits being provided is quite extensive. So we have a real concern about sufficient work being done to ensure that when choice starts they are put into a reasonable sort of position so that they can be compared reasonably. They are the main points that I would like to bring out. There are other points but those are the key points at this stage. Thank you.

**Ms RALPH**—We currently have about a third of the market operating under free choice. We have massive retirement incomes markets operating under free choice. Those markets are working today as we speak and they are working because we have a good industry and we have a strong regulatory regime. That regulatory regime is about to face even further improvements under CLERP 6. We think that good disclosure will lead to strong competition and that funds will have to respond. We believe that 10 years from now, when we are all sitting around this table again, we will see the sort of quantum of benefits to the consumer that we did see, as was mentioned earlier, through the deregulation and competition in the home loans market and in the savings interest rates markets.

Funds will have to respond. We are already starting to see them respond to market forces by offering extended ranges of investment choice, lower fees and additional benefits and by even possibly—dare I say it—rationalising the vast number of funds that we actually have operating out there in the marketplace to try to get costs down.

We are prepared, as we are always prepared, to participate in the development of the education and awareness campaign which clearly needs to be undertaken. But people do not just learn by reading an ad in the newspaper, by seeing an ad on TV or even by receiving a free brochure; they learn by doing. Right now we let our people retire at age 55, 60 or 65 and we expect them to have acquired the financial skills to deal with their retirement incomes without having any practice during their lifetime. It is just not good enough. You have to start to learn when you are young, and that is a really important benefit of choice.

I do not think we should try to lumber choice with all of superannuation's problems. Let us live to fight that fight another day and, in fact, if we can get more people out there in the community involved in superannuation through choice, I believe more people will get involved in driving those changes to superannuation which a lot of the people around this table think need to be made.

We support unlimited choice. You have our model that we gave to you in our submission, and I will not go into the detail of all of that because I am cognisant of the time. I think there is a compelling reason for choice: it is the member's money and it is the member's right and it is only fair. Thank you.

**CHAIR**—To sum up, I think we might ask Mr Rosario, who has come across from Western Australia, how he sees the developments today and how we can benefit from what has been suggested.

**Mr Rosario**—Thank you, Senator. I am overwhelmed by the opportunity to come talk at this forum today and sit at this table. I am impressed by the duty of care that everybody around this table is willing to exercise in the public interest. In Western Australia, when choice was introduced there, we certainly did not have this sort of process. I think there were consultations with the trade union movement and with employer associations, but certainly not the wide ranging sort of discussion that we have had here today.

You have dealt with every single issue that we have come across in Western Australia. You have looked at the default fund and, certainly, over there we found the solution to the default fund in the awards being very appropriate. We raised with you the issue of

portability which you all recognised and which we pointed out to you was a problem in Western Australia. You talked about the cost of choice to employers and members. You have focused on the ongoing process.

One of the things that we noticed in WA was that there was an implementation cost, too. Employers needed to see lawyers about what implementation of choice meant to them. They needed to get industrial relations advice. Members, to the extent that they wanted to take advantage of their rights under choice, went to see financial planners and that was a cost that they had not, in some cases, incurred previously. So that cost also needs to be recognised.

The Western Australian legislation paid no attention to the issue of disclosure. It does in its gazetted notification list the things that people should be aware of. But I think that over here you have all recognised that it takes much more than just giving people a list—you have to educate them. I think Senator Allison is quite right in saying that you need almost a level of personal contact to sensitise people to the sorts of things that they need to be aware of. How that happens over the sort of population that we are talking about, I do not know.

In the fund at Westscheme, we have got three coordinators on the road. They are out there every week of the year, at workplace meetings and seeing employers. But even that is not adequate to meet the sort of education role that you are all talking about. I do not know how you blend the two.

On the issue of life insurance, again, you have recognised an issue. We certainly were thrust into the problem and we took steps in our fund—and I am sure other participants in the superannuation industry in Western Australia have done the same thing. They have reorganised their affairs to fit into the new circumstances that we found ourselves in. There is no competent dispute resolution mechanism in WA for the moment. The Department of Productivity and Labour Relations is the department that looks after any disputes that might arise. But I am not aware that they have been working very hard or that there have been many disputes referred to them. I am sure though that as time goes on and there are genuine claims relating to insurance cover and underperformance and all the issues that arise when people are dissatisfied with their fund, we are going to strike a problem because we do not actually have a way of resolving problems for the moment. So I think you have done very well over here to think carefully about that process. It is essential.

Around this table, we have heard that third-line forcing and churning was not a problem. That is not the case we found in Western Australia. Certainly there are people who are told that financial accommodation will be more constructively looked at if they are prepared to put all their financial requirements with a particular provider. It is quite clear, because it is a business opportunity, that when individuals go to their banks and financial institutions and talk about their financial arrangements an automatic invitation is extended to them—it is quite understandable—regarding what they are doing about their superannuation. All those competitive pressures are beginning to emerge. As you have correctly recognised in this forum, you need to have in place mechanisms to make sure that they are responsible and fair.

Apart from that, we are not left with taking a position regarding choice of fund. We have already been pushed through that portal. I just hope that we are not in the situation of

actually having been thrown out of an aeroplane without a parachute and that we are not saying to each other in Western Australia ‘What problem?’ until we hit the ground with a crashing thud.

**CHAIR**—Thank you. I think Senator Sherry wants to make some concluding remarks.

**Senator SHERRY**—Most of you know that I have been involved in this industry from the ground up for about 15 years. What I find fascinating about this debate today—we have been having it for the last four years, if you look back—is that, given the comments today and all the safeguards and checks and balances and the regulatory framework that everyone wants in place, I seriously question whether at the end of the day the member is going to be better off. Certainly some members might be better off. I question whether lower and middle income earners will be better off. I do not think employers will be better off.

We have an almost unique system in the world of compulsion and conscription. Sixty per cent of people would not be in the private sector unless they were conscripted into it through a nine per cent tax, which is what it is. That gives the government of the day the right to set the parameters about how that nine per cent tax, which is handed over to the private sector, should be spent. It is in their best interests. It is good public policy. It is to prepare this country for the year 2025 and the problems we will have with retirement savings and incomes.

For all that, over the last four years, what has happened to issues about the simplification of superannuation and the taxation of superannuation? Has the taxation of superannuation become any easier? What has happened to the co-contribution? One irony we face is that when we have lower income tax levels next year, the effective incentive for putting voluntary contributions into superannuation will be non-existent. In large part, it will be funded by the co-contribution that has somehow disappeared in the last four years in the form of tax cuts.

I really question the big picture. What is it? Where are we heading? Why are we wasting all this time on a concept that is not proven? It has been an absolute disaster for the only place in the world where it has been put into operation. Nevertheless, I do not get depressed. I will go back to the corner pub on Friday and have a drink with the local farmers and contractors. I will tell them that they are about to be liberated. They are going to get a set of documents that they will have to read and about which they will have to make this informed choice. They will all be better off. Nevertheless, I will try to do it.

As you can understand from my tone, I am a wee bit sceptical about all this and all the energy and time that has gone into it and whether at the end of the day we will have a better retirement income system. As one who has been a very strong supporter of compulsory superannuation, my bottom line is whether lower and middle income earners will be better off in the long term and whether we will end up with a more sustainable, lower cost retirement income system. I am a sceptic, but I deal with the real world.

**CHAIR**—I take this opportunity to thank you all for coming along here today. It has been a very constructive session. I thank you individually and collectively for the input. At

the end of the day, whatever happens, we will be much better informed. Thank you very much for your participation and support for the committee.

**Committee adjourned at 3.40 p.m.**

