ACTU Submission:

To the Senate Economics Legislation Committee in respect of the Committee's Inquiry into the Superannuation Legislation Amendment (Trustee Governance) Bill 2015

14 OCTOBER 2015

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INTRODUCTION

The ACTU presents its submission to the Senate Economics Legislation Committee in respect of the Committee's Inquiry into the Superannuation Legislation Amendment (Trustee Governance) Bill 2015.

The ACTU has been an important and influential participant in the development of the occupational superannuation framework which is the cornerstone of Australia's current superannuation framework. The ACTU through the Accord processes 30 years ago developed and played a major role in bringing about a framework to provide for occupational superannuation. In support of the ACTU's public policy goals, the ACTU has maintained support for the superannuation system as it has evolved over the past 30 years.

The ACTU and its affiliates remain active participants in the system. The ACTU and its affiliates have shared carriage of the maintenance of the award system upon which occupational superannuation still substantially relies. The ACTU and its affiliates also jointly sponsor, on a not for profit basis, a significant number of industry superannuation funds including some of the largest all profits to members superannuation funds in the country. The ACTU and its affiliates nominate Trustee Directors to these funds.

The principal features of the ACTU's submission are as follows:-

Background features to the current superannuation system:-

- The current system has a unique history which, purposefully and appropriately, is part of the industrial relations environment; the system is practical, efficient and has delivered outstanding performance.

- The development and history of this system has been an important part of delivering strong public policy outcomes.

- In an overall sense, Australia has established an excellent retirement incomes system, the next stages of superannuation development means that this system will take a further step in making it amongst the best systems in the world.

- A distinct and identifiable part of the strength of this system are the all profits to members funds which are proven outperformers and are an essential part of maximising outcomes to working Australians and maintaining superannuation's role within public policy aims.

- The ACTU further submit that without the differential generated by industry fund outperformance, it is most likely that average Australian workers will not achieve the targeted measure of a comfortable income stream in retirement.

- The achievement of the overall strength of the superannuation system has come about through the development of a collaborative culture designed to maintain orderly and efficient operation of the superannuation system; this culture is supported by a well-balanced structure underpinned by equal representation and a consensus decision making framework.

- The all profits to members system has, at its heart, an approach which is designed to work in the best interests of members; other approaches which don't have this philosophy inevitably have conflict of interest issues which would mitigate against the continued delivery of the system as we know it and would open up the system to the potential of improper activity.

- The all profits to members' funds have adapted well to a changing environment. A feature of their evolution has been a trend to using Independent Directors on a selected basis to add expertise; this is a trend which should be fostered to allow it to develop within the existing culture. The funds see a danger in mandating for a large number of new Independent Directors which may change the culture, with the potential for overall detrimental impacts to the benefits the system is currently delivering

The ACTU believes the following issues are the critical issues which the Senate Committee should find that the ACTU's policy framework, as outlined below, is the appropriate approach to be taken in the construction of the Australian superannuation system's framework:-

- Supporting the current model is the surest way of continuing to provide the best public policy outcomes.

- The best policy approach to the provision of superannuation should be built around the principle that "the best interests of members" is the prime objective of the system.

- The current levels of outcome and approach depend significantly on the governance model; what is occurring is that an alternative model of governance, which has historically and structurally delivered lower outcomes, is being attempted to be imposed on the all profits to members sector without proper regard as to whether or not this will change the nature of the outcomes and approaches which are currently being delivered.

- The all profits to members system has developed a model of encouraging a sensible and selective use of Independents: one which adds to expertise, and diversity and enables the funds to hold themselves to continuing standards of performance and governance. We believe this is best done in an ordered approach, not one which simply mandates quotas.

Commonwealth Superannuation Legislation (The CSC)

Following the release of the Exposure Draft of this legislation, the Government proposed a second schedule to the legislation which would bring about changes to the composition of the Board of the scheme covering the Commonwealth public servants and the Australian Defence Force, essentially reducing the Board from 11 persons to 9.

The ACTU believes that the composition of this board has been determined on individual circumstances reflecting the historical development of these funds – it does not have the same governance model as industry funds, with the Minister for Finance appointing the Chair and a number of Directors, and the CSC reporting to the Minister for Finance. It is inappropriate to test the governance arrangements for this scheme to the same parameter that apply to other superannuation funds.

The ACTU believes this Schedule should be separated from this legislation and dealt with through separate consideration and consultation.

BACKGROUND TO OUR CURRENT SYSTEM

The Historical context

- Australia's system of workforce–wide or occupational superannuation emanates from the activities of the mid-1980s when superannuation became part of the Award system. In the 1990s Award based contributions were modified and expanded, becoming the Superannuation Guarantee Charge. However, the basic elements of the distribution of superannuation has remained, being substantially regulated through the use of default funds, with the determination of these funds remaining part of the Award system. The most significant modifications of recent years are that of the recognition that superannuation should be able to be portable and that the worker should have the right to choose an alternative fund if they believe it is in their interests to do so.

- Prior to the mid-1980s, Australia commenced a national consideration as to approaches to the retirement incomes needs of its citizens. This was most notably initially considered by the Hancock enquiry which in 1976, in the light of the first analysis of prospective demographic shifts (perhaps commonly referred to as the ageing of the population), recommended in favour of a national superannuation system. This recommendation was subsequently rejected and the existing framework of corporate and Government-dominated schemes continued for some years. However, increasing criticism of a number of the design, adequacy and governance features of the corporate schemes became a first order issue of concern for legislators and public commentators by the early 1980s.

- At the same time, early steps were being taken in the industrial development of occupational superannuation – most notably in areas such as the waterfront and distribution sectors. The election of a Labor Government in 1983 saw the advent of an Accord between the Government and the ACTU; one of the aims of which was to implement occupational superannuation as part of the development of a social wage compact. An impediment to this was that the existing High Court dogma was that superannuation was not an industrial issue.

- Superannuation coverage levels for the average workforce had not improved by the mid-1980s. Still less than 40% of the workforce had access to superannuation – most coverage was still heavily confined to white collar corporate schemes and the Government sector. Coverage in blue collar areas was notable low and almost non-existent for part-time and casual workers. Women's participation in superannuation was also substantially lower than that of men. Another feature of the time was the incidence of vesting scales – so that even though a large number of workers were members of corporate schemes, they still didn't have access to any or all of employer contributions until after a prescribed period of service had been completed.

- A Building Industry dispute in 1983 was the precursor to more widespread union activity in the campaign to achieve workforce-wide occupational superannuation. The result of the dispute was an industry-wide 3% payment (or $12.50 per week) into a newly formed industry fund BUSS. Other claims of this nature emerged across other manufacturing, transport and energy areas. In 1985 - 86, the ACTU applied to the Conciliation and Arbitration Commission to allow it to consider a case in which national productivity would be recognised through superannuation payments. The decision to recognise superannuation as an industrial issue was appealed by the Confederation of Australian Industry with the High Court upholding the Commission's decision (the Manufacturing Grocer's Case). This quickly led to the National Wage Cases of 1986 and 1987 in which the ACTU won the right for Unions to insert a provision into Awards to provide for a 3% superannuation payment to an appropriately determined fund.

- By the late 1980s occupational superannuation – fully vested, portable and preserved - was a universal right in all workplace awards.

- A detailed history of Chronology of superannuation and retirement income in Australia can be found in the Parliamentary Library Background Note, dated 1 June 2010, 2009-10.

Superannuation is an industrial issue – it is rightly so in that it is a payment which arises as a part of a worker's employment. Codifying it in basic employment conditions – either through an Award or an Enterprise Agreement has been the normal course of events for three decades.

Superannuation receives the same protections as other conditions of employment. Its payment is an enforceable right for employees. The circumstances around the payment of superannuation contributions, including which fund it should be paid into, are legitimate and legally enforceable provisions which workers collectively have the right to bargain about.

Industry Funds – Fit for Purpose vehicles

- The advent of superannuation as an industrial condition also saw the emergence of new superannuation vehicles – industry funds. Their names are not an historical accident – they are the vehicles into which the occupational or employment based superannuation of workers in a particular industry is paid. Indeed, the Conciliation and Arbitration Commission, in the late 1980s, consistently recognised the value of having such funds as the primary recipient of occupational superannuation – in that the employer and Union participants to the industry sector were the logical groups to establish and become guardians of the funds to which occupational superannuation contributions would be paid.

- The award system also provided a practical and efficient distribution system for occupational superannuation. Unlike the superannuation schemes which existed pre-1986 which relied on the concept of a superannuation provider "selling" a corporate scheme to an employer, industry funds, working as part of the industrial system, delivered a means of workforce-wide distribution, at essentially no cost. This feature became immediately a desirable feature of the industry fund/award system including the obvious outcome that, through having lower distribution and administration costs, workers received high levels of contributions into their accumulation accounts.

- As award distribution became commonplace, so did the model of Boards of superannuation schemes being equally composed of representatives of employers and Unions. This construction is inherently "not for profit" in that it becomes the role of these bodies to be guardians of the superannuation of their workers/members and not entrepreneurs seeking to establish schemes as a profit making venture. This ethos is an important structural feature in ensuring that superannuation funds continue to act in the best interests of members.

- In the 1986 and 1987 National Wage Cases, the Conciliation and Arbitration Commission called for an orderly distribution model for occupational superannuation. The Commission recognised that workforce distribution was to be the dominant element of a new employment entitlement and saw orderly distribution – as opposed to a competitive distribution model – as being consistent with the objects of the industrial relations system in which this new entitlement was managed in such a way as to most protect it and give it most value

- In addition to joint sponsorship by employers and Unions, an important feature of the operation of industry fund Boards has been the operation of a 2/3rds majority decision making process. Rather than industry fund Boards becoming adversarial in nature in which a battle for control of the fund could have become a dominant feature, these Boards have generally developed a consensus decision making style which has further entrenched the ethos of acting in the best interests of members

- The then Federal Government also recognised the practicality and appropriateness of this outcome through the negotiation of further Accords aimed at building on to the original 3% payment. In many ways, it can be said that the Government saw the funds and their not for profit nature as a natural fit for the management of a system which should have the best interests of the participants at its heart.

The Further Evolution of the System

Since the establishment of the occupational based superannuation system, there have been a number of developments which have built upon the principles and structure established in the 1980s. Amongst those developments the following are noteworthy:-

- The ACTU sought to increase the 3% contribution through a productivity claim in the late 1980s which the Conciliation and Arbitration Commission rejected: this led ultimately to the development of the Superannuation Guarantee Charge by the Federal Government and the phased increases in superannuation contributions from 3% to 9% over the next decade.

- Industry funds established a series of collective investment vehicles – most notably in infrastructure and property, but also across other asset classes. These vehicles allowed for an "economy of scale approach" - through the pooling of their investable funds, emerging funds gained access to a broad portfolio of investments which would not have been able to achieve of their own accord and did so at fee levels much lower than the existing practice for unlisted investment vehicles.

- Industry funds began a process of appointing Independents to Boards to add to the expertise on those Boards. One high profile appointment was Bernie Fraser, former reserve Bank Governor and Head of Treasury who served on the Boards of three funds for many years.

- Default regimes evolved somewhat with the times, initially to recognise the desire of some workers to have a model which adapted to the manner in which their working lives evolved. The model has largely remained a default fund system with a recognition that workers, as they progress through their working lives, may want to choose to remain connected to one fund rather than needing to change funds each time they took a different direction in their working lives. In more recent times this has further adapted to workers being able to choose an alternative fund as it suits their own convenience, but if no choice is made, the default regime becomes the fund into which contributions are paid.

- This development of a "public offer" regime also benefitted many contractors who, in not having a direct employment relationship, were unable to join industry funds. Industry funds, in adopting public offer status, could now accept contributions from workers who were not engaged by employers in the particular industry in which they operated.

- In recent years a new name for the "generic" product called MySuper has been introduced (as a result of the findings of the Cooper Review of the industry). This has aimed to codify a system whereby all the products offered have common characteristics (and which are low fee). This aims to bring consistency and transparency for the SGC across all potential providers of products.

- A number of legislative enhancements have occurred in recent years in order to build upon the established system. These have included a co-contribution system for low income earners, a Low Income Supplementary contribution (essentially a rebate on tax paid by low income earners) and a proposed schedule to lift the SGC rate from 9% to 12%. It should be noted the Low Income Supplement has been removed by the current Federal Government which has also legislated to defer the timetable for introduction of the increase in SGC contributions.

Public Policy Outcomes and the Recognition of the System

- It has always been an aim of the superannuation system that it has a role in developing an adequate retirement incomes system. The Retirement Incomes system has had an objective of being a three pillar system – the Age Pension as a foundation with lesser levels of dependence on the pension coming through occupational superannuation and the encouragement of additional private savings. Whilst it should be noted that the superannuation system is far from mature (there have only been approximately 15 years of contributions at 9%), it already shows the prospect of fulfilling its purpose of relieving widespread dependence on the Age Pension system.

- The impact superannuation has on the adequacy of outcomes for workers when they retire from the workforce is significant. One commonly used measure of adequacy in retirement is the ASFA Comfortable Standard of Retirement Income which is, at the June quarter 2005 for a single person an amount of $42,861 per annum. ASFA further calculates that the amount of lump sum needed to fund such a payment, for the life expectancy of a 65 year old male is determined to be approximately $545,000 (approximately 7 times average weekly earnings). Even at contribution rates of 12% of earnings, it is a challenge to achieve this outcome, requiring consistently high investment returns. It is therefore critical to the achievement of good public policy outcomes that the superannuation system be as effective and efficient as it can be. That effectiveness, in the ACTU's submission, is best achieved in having a superannuation system where maximising the level of returns is a core aim.[1]

- The effectiveness of achieving these aims also has a natural corollary in what happens to public outlays on the pension system in years to come. Clearly if the superannuation system underachieves, there is a greater reliance by workers on the Age Pension; conversely if the superannuation system achieves the maximum outcomes it can, pressure on financing the Age Pension is relieved.

- Australia has a high recognition for its retirement savings system. The recently published Mercer Global Pension Index for 2014 rated Australia the second best system in the world, but rated it at a level which said it was "A system that has sound structure, with many good features, but has some areas for improvement that differentiates it from an A-grade system". A feature of Australia's recent improvement in its rating within this Index has been the legislated increases which will raise the SGC from 9% to 12%. Also underlying the health of our rating has been the strong performance of the superannuation component and, in the ACTU's submission, any threat to the performance of that system would have an impact on the strength of our overall rating.[2]

- The ACTU submits that a key feature of the success of our system and its ability to deliver an optimal public policy outcome has been the ability to maximise performance, and particularly investment performance. Our submission details some more information in relation to this situation under the section Industry Super - The Outperformance Story.

[1] ASFA Retirement Standard www.superguru.com.au
[2] Melbourne Mercer Global Pension Index www.globalpensionindex.com/overall-index-results/

INDUSTRY SUPER THE OUTPERFORMANCE STORY

Industry Superannuation funds have asserted for some time there is a performance differential between themselves and retail superannuation funds. The assertion traditionally relies on two basic features. These features can commonly be referred to as the owner dividend and the infrastructure imbalance.

The first issue (the owner dividend) says that all things being equal (that is industry funds and retail funds achieve the same gross return), retail funds have a structural disadvantage in that they need to return part of the gross return to the owners of the fund. Industry funds, as all profits to members funds, do not have this structural disadvantage.

The second issue (the infrastructure imbalance) says that industry funds have moved away from the traditional "defensive" components of asset allocation (being a large allocation to bonds) towards an allocation to infrastructure assets which it is claimed have the same defensive qualities but are linked to the performance of major operational activities.

This summary, relying on the Quarterly Superannuation Performance Statistics published by APRA (the latest version being June 2015) and published industry data, seeks to further analyse these assertions.

Performance Data

APRA performance data shows the following history of performance:-

Five Year average annualised rate of return:-

Year Ending	Industry Funds	Retail Funds
June 10	3.8	2.1
June 11	2.7	1.0
June 12	-0.2	-1.7
June 13	3.8	3.0
June 14	9.1	7.8
June 15	9.2	7.5

Source: APRA Statistics Quarterly Superannuation Performance, June 2015 (issued 20 Aug 2015)

The outperformance data supports a hypothesis that industry funds continually and consistently outperform their retail equivalents.

These findings are also supported by modelling undertaken by Industry Superannuation Australia, which has relied on published data from SuperRatings. That information is available on the ISA website at Industrysuper.com/assumptions. An example of how this modelling can be interpreted in a practical sense can be seen in Attachment 1, a document prepared by Australian Super based on the SuperRatings Fund Crediting Rate Survey – SR50 Balanced Index – June 2015.

Whilst there is no available data on the dividend retail funds deliver to their owners, the ACTU submits that the fact that such a dividend exists empirically supports a conclusion which can be drawn from the historical data – that retail funds consistently underperform industry fund.

Asset Allocation

The APRA performance data from June 2015 shows the following data in respect of average asset allocation for industry funds and retail funds:-

Asset Allocation as at June 2015

	Industry Funds	Retail Funds
Cash	11%	15%
Fixed Income	15%	20%
Equity	53%	56%
Property	10%	5%
Infrastructure	7%	1%
Other	4%	3%

The Asset Allocation data also support the hypothesis that there is a structural difference in the approach to investing between industry funds and retail funds. Industry information says that the typical returns of assets classes for the year ended 2015 were as follows:-

	One Year Return	Three Year Return (Annualised)
Cash	2.6%	2.9%
Global Bonds	5.6%	6.0%
Australian Bonds	5.6%	4.8%
Property	10.0%	9.0%
Infrastructure	6.9%	9.3%

(See attachment 2 - Asset Class Index Returns)

Whilst investment performance fluctuates from year to year, the returns of asset classes are broadly in line with current long term expectations. In a simple analysis of these asset allocations and returns, it is the case that if you have 10% more of your allocation in asset classes which are producing investment returns which are some 5% higher, then you establish a case for sustained outperformance. Given there is a lengthy history of outperformance, the ACTU says it is reasonable to look at these long term asset allocation and performance differentials as a key contributor to the outperformance story.

Clearly there needs to be some case taken of the risk associated with investing in different asset classes. In practice, the outperformance story is now one which has been in place for such a length of time, that it is reasonable to say that the volatility in returns which would normally occur if there was a significant risk issue, simply has not occurred.

The question might be asked as to whether these imbalances might be easily corrected by retail funds amending their asset allocations. However, the issue is not as straightforward as this.

Retail funds currently have a similar cost base as compared to industry funds. The ACTU believes this arises from the desire to be able to promote the MySuper products of retail funds as cost competitive to that of industry funds.

However, to be able to do this, the ACTU submits that it is necessary for retail funds to focus on "low cost" asset classes. The outworking of using these "low cost" asset classes has been a performance differential in comparison to the performance of industry funds.

For retail funds to change asset allocation to have higher exposures to infrastructure and property, the ACTU estimates this would add over 30% to the cost basis for retail funds (see attachment 3).

The ACTU submits that retail funds area caught in a difficulty of their own making. In an effort to maintain competitive costs, they are constrained in asset allocation to constructing portfolios which inherently underperform. Conversely, if they sought to change these portfolios to match industry fund performance outcomes, they would face substantial increases in their cost base.

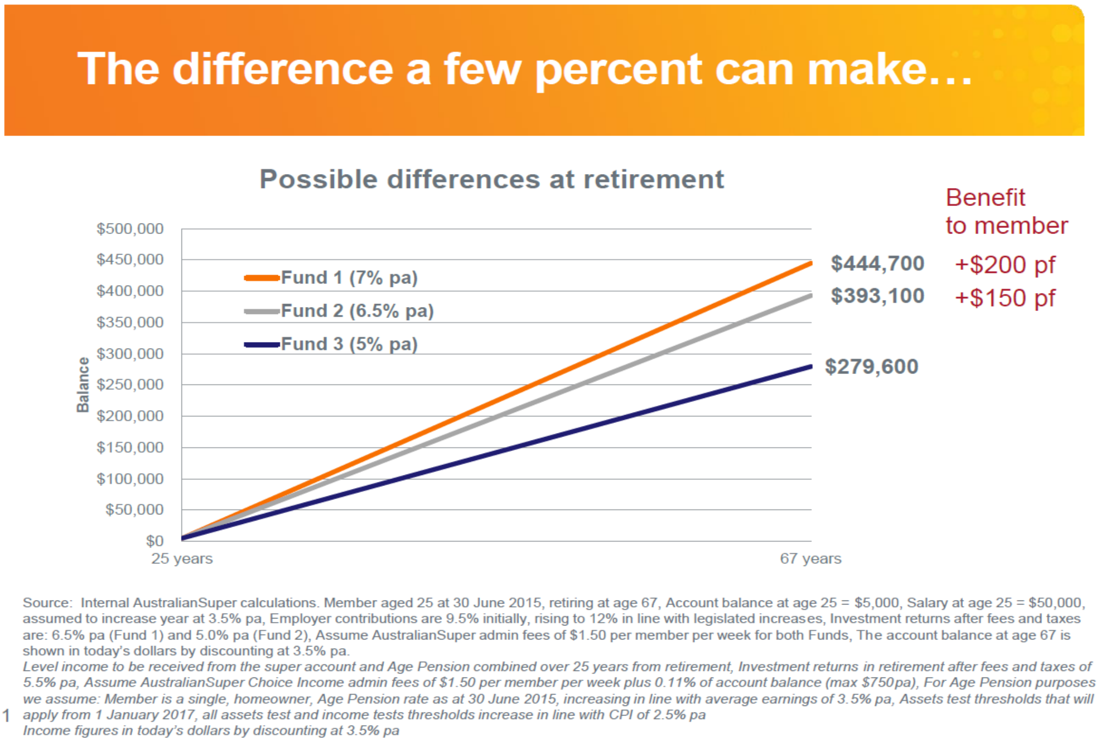
The Impact of Outperformance

The ACTU relies on a number of references to detail the impact of the differences which occurred if Outperformance is sustained over a longer period:

1. Australian Super and "The difference a few percent can make…"

   Australian Super has modelled the impact of outperformance in the difference between investment returns of approximately 7% pa and 5% pa over the working life of average workers.

This modelling is shown below:



Most notable from this modelling are the following features:

- Australian Super shows the projected outcome over a 42 year investment period with a 7% pa return as being $444,700. Over time this figure would be higher if 12% contributions were payable over an entire working life; notwithstanding this, the current projection is still some $100,000 less than the ASFA Comfortable Standard of $545,000.

- Given returns of some 2% less pa for retail funds, the projected benefit of $279,600 is significantly less than the ASFA Comfortable Standard – being just over 50% of this Standard.

- The impact on retirement income streams between the projection of a 7% pa return versus a 5% pa return equates to a difference of $200 per fortnight in retirement income.

2. Industry Super Australia has modelled differences in potential lump sum benefits based on 10 year averages in the return achieved by the average industry fund and the average retail fund. A summary of a different outcomes is as follows:-

	Age at commencement	Starting Account Balance	Net Income	Average Retail Master Trust at age 65*	Average Industry Super Fund at age 65*
Electrical workers	40	50,000	58,000	281,372	328,789
Professionals	45	110,000	130,000	486,461	552,012
Inspectors	30	46,333	47,000	384,125	468,195
Hospitality workers	25	4,400	23,000	169,033	204,076

* These comparisons assume that historical levels of the difference in performance between Industry Funds and Retail Funds is maintained.

(See attachment 4 – Compare the pair leaflets as prepared by Industry Super Australia)

The ACTU submits that this evidence tells a story of a strong system, but still somewhat short of the adequacy levels the ACTU would aspire to. The ACTU's conclusion on this evidence is that the only prospect of approaching these levels adequacy is through the level of performance being achieved by industry funds. If we were forced to rely on the levels of investment performance generated by retail funds, Australia has no real prospect of achieving the adequacy levels described in this section.

Investing in the National Interest

Another feature of the investment industry funds investment profile is its investment in infrastructure – being seen as investing in the national interest. The APRA statistics show a total industry fund infrastructure investment of approximately $30.24billion (being 7% of a total asset base of $433billion). Retail funds invest approximately $5.35billion in infrastructure (being 1% of a total asset base of $535 billion), albeit it is acknowledged that some of the infrastructure spending for both retail and industry funds is in offshore assets.

The projected growth of industry funds will see both a greater proportion and a greater absolute amount of the nation's superannuation savings invested in areas like infrastructure.

DIFFERENTIATING INDUSTRY FUNDS FROM INSTITUTIONAL OR RETAIL FUNDS

Industry funds, throughout their history, have differentiated themselves from Institutional or Retail funds in a number of different aspects. In this submission, the ACTU highlights some of these key differences and why this differentiation has been to the benefit of Australian workers.

- The key differentiation is the difference between for profit funds (being the retail funds) and all profits to members funds (being the industry funds).

- At its base level this difference is as simple as saying that for profit funds require the retention a certain amount of earnings of the fund to pay a dividend to the owners of the funds. Hence the level of return to the participating worker in such a fund is reduced by the amount of the dividend which is paid to the owners of the fund.

- The reasons why any financial system might be operated by for profit organisations rather than by all profits to members organisations would be that there is an inability in structure or resources within the all profits to members organisations, that the for profits organisations can offer a higher level of service or can operate more cost efficiently than all profits to members organisations.

- Fundamental to the issue of what should be the delivery approach (that is through for profits, all profits to members or a hybrid) is the fact that the superannuation system is essentially a mandated piece of public policy. The question which emerges from such a situation is whether the Government should endorse a system in which part of the potential superannuation savings is used to pay the operations of retail organisations (whether this be through a sales commission or through a dividend to the owners of those organisations). The ACTU submits this should only be countenanced in situations where there was an inability to provide the service or where there was a demonstrable case that better outcomes would be achieved through such an approach. The ACTU further submits there is no credible evidence which supports the assertion that a better outcome would be achieved.

- The development of the MySuper regime has consolidated the position that the superannuation product offered to workers is essentially homogeneous across the range of providers. Whilst there can be differences in elements of the product in areas such as the charges made, the level and charge of insurance and the investment return – the MySuper products of all providers are now all relatively close in their features. The public transparency which attaches to MySuper products means there is very little scope for difference in key features. The general evidence in the sector is that cost structures are generally quite low and the increased presence of retail funds in the provision of occupational superannuation in the past decade or so has not led to any evidence that these funds can be more efficient in their operations than industry funds.

- Notwithstanding this, it is important to note that industry funds, throughout the period in which APRA has maintained records, have outperformed retail funds.

- A concern the ACTU has in the greater opening up of the superannuation system is that cross-selling or up-selling will become a feature of the way in which retail organisations attempt to gain market share. Most of the organisations which back retail superannuation funds are multi-faceted organisations which in addition to superannuation, offer banking, insurance and other financial products. The concern the ACTU has in this area is that the retail organisations will seek to convince employers to move the default fund status applying to that employer to a fund operated by the retail organisation and this will occur through the provision of discounts or advantageous access to other products the retail organisation offers. The ACTU is concerned about this potential development in that these inducements will lead to workers being defaulted into superannuation funds which are inferior to the respective industry fund – workers will receive lower returns and have lower net balances whilst retail financial organisations essentially use the differential in returns to pay dividends to their owners.

- Notwithstanding reported proposed attempts by the Government to regulate these approaches, in almost all cases there will be individual dealings between an intermediary and an employer with the intermediary having a range of pricing points to offer the employer – a situation which is essentially impossible to regulate.

- It is also noted that the nature of super is that there are low levels of engagement in respect of issues like fund choice. This level of engagement often means that workers are unaware of the detail involved in areas like asset allocation and performance reporting. The impact of long term underperformance is one many workers will only find out many years later when they realise that being defaulted into an underperforming fund was against their interests.

- A feature of the retail sector, in recent years, has also been the propensity of those organisations to be involved in "financial scandals". A number of those scandals are referred to below, but suffice to say a common feature of the scandals has been the linkage of conflicted remuneration arrangements between the "sellers" of the products in that, in almost all cases, inferior or substandard products or investments have been offered to investors mainly because the intermediaries of the for profit organisations had been incentivised to sell those products. And in many case, it can also be said that the products being sold were not in the best interests of the investor, but appear to have been in the interests of the intermediary or the institution.

- The three most significant scandals of recent times have been the operations of three groups – Westpoint[3], Storm[4] and Trio[5]. All have involved either some form of channelling of investors' funds through financial advisers or the mis-investment of significant amounts of self-managed superannuation accounts. The major retail institutions have been variously involved in the scandals and have essentially had either their clients referred to the

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[3] http://asic.gov.au/about-asic/media-centre/key-matters/westpoint/
[4] www.storm.asic.gov.au
[5] http://www.google.com.au/url?sa=t&rct=j&q=&esrc=s&frm=1&source=web&cd=2&ved=0CCMQFjABahUKEwiW79eJyb7IAhXh2qYKHYjlAKw&url=http%3A%2F%2Fwww.aph.gov.au%2F~%2Fmedia%2Fwopapub%2Fsenate%2Fcommittee%2Fcorporations_ctte%2Fcompleted_inquiries%2F2010_13%2Ftrio%2Freport%2Fb02_pdf.ashx&usg=AFQjCNH0zsfPILenjdN2_x1_GwjcIHUzlw

advisers/investors or were involved in lending schemes and margin calls which precipitated the collapse of the investment houses. Regulation of the Companies did not assist in protecting the interests of many of the investors involved in the collapses. What is most relevant to the cases is that they are examples of what occurs when there is a mis-alignment of the interests of the investors and those selling superannuation/investment schemes. That mis-alignment does not occur in the framework for occupational superannuation. Within industry funds where there is an orderly approach to distribution and there are no sales agents as such and hence, no incentivisation to grow business for growths sake.

- In all of the financial scandals referred to above, Independent Directors sat on the Boards of all the institutions which had involvement in the scandals. This is not to say the Independents were corrupt or inept, but it is to say that having Independents within a system is not a guarantee to avoid scandals and significant loss of workers' money. Mandating Independents, as proposed to do in this Bill, will not automatically provide a governance regime which is better than what exists – in the ACTU's submission, it is how the governance regime is managed within the culture of superannuation organisations which is the best test in determining the security of workers superannuation savings.

- Whilst a change to the default system would be the principal factor which would cause a substantial shift in the provision of superannuation away from industry funds to retail funds, the ACTU also submits there are issues within the proposed Governance changes which would have the same impact. These issues include the following:

    - That the explicit aims of the legislation is to make industry fund Boards change their structure;

    - That further aims of the legislation are to remove requirements for equal representation and the two-thirds majority requirements for the decision making;

    - These changes, both implicitly and explicitly, could have consequential changes to the nature of industry funds. They could lead to industry funds beginning to resemble the operational platform of retail funds either by these changes in the structure or by the control of decisions being dominated by a class of Independent Directors with a set of allegiances which are not necessarily solely determined as being in the best interests of members.

SUMMARY OF THE KEY FEATURES OF THE SUCCESS OF THE OCCUPATIONAL SUPERANNUATION SYSTEM

- A low cost to members system delivered through the Award system (and not through a traditional sales/marketing approach).
- High standards of governance, behaviour and performance given the important role the system has played in formulating the nation's retirement incomes policy and structure.
- A best interests to members approach which continues to define the approach through collaborative structures rather than competitive ones.
- A collective approach to investments which has reduced investment expenses and delivered sustained investment outperformance.
- An all profit to members network of funds all aligned to similar goals for the system, enhanced through structures involving equal representation Boards with 2/3rds majority voting requirement.
- A selective use of Independents to add to expertise but not detract from governance structures.
- Avoidance of the institutional approach which have distribution and investment regimes associated with the remuneration structures of sales agents which potentially lead to conflict of interest: sometimes those conflicts are managed, sometimes they are not.

SIGNIFICANT ISSUES TO WHICH THE ACTU WISHES TO BRING TO THE COMMITTEE'S ATTENTION

1. The current model is a proven success and a key part of the nation's retirement income system. Supporting the structures which have made this system successful is endorsement of the success of the current model and its key features – low cost and high outcome.

    - The success of the system comes in part from the manner in which it evolved and the high levels of performance it has generated. That performance is a critical part of the aim of building a world class retirement incomes system. And within the development of this system, industry funds have differentiated themselves from retail funds by producing a level of outperformance which is equally as structurally important to the delivery of the best possible outcomes.

    - These features are not by accident – they are built from a culture which has built and maintained these structures.

    - Maintaining that culture is a key ingredient to continued success.

2. A motivation which should drive the outcome of this Inquiry is "What is in the best interests of the users of the system – the nation's superannuation and pension fund members?". The ACTU's submission is that the best interest of member's is aligned to a fund structure which is best placed to serve those interests.

    - Alternative models do not guarantee the best interest of members as the sole aim of the scheme; in fact by definition, retail models inherently have other interests to serve – in particular the need to pay a dividend to the owners of the retail organisations.

    - In addition, changing the model to a retail focus also introduces the need for a sales/marketing structure (which is one of the most cost intensive parts of a distribution system). The recent history of sales structures in financial services is that it adds a conflict of interest issue – the interests of the agent become a factor, the interests of the selling organisation become a factor. This also heightens the risk of financial scandal.

3. There are essentially two approaches to building organisations and funds to be core infrastructure of the superannuation system. One is through the all profits to members approach – collaboratively oriented Boards which have delivered high levels of performance. The other is through a for profit system - competitively oriented Boards which have lower levels of performance. The aim of the legislation can be summarised as trying to make the Boards of the all profits to members Boards act and operate more like the Boards of the for profit organisations: the conclusion from this is if the Boards start to operate this way, then the performance of the funds will also start to resemble the performance of the funds operated by the for profit Boards.

- The linkage between performance and Board/organisational culture is not an accident. Organisational culture in industry funds has driven efficiencies through a collaborative distribution model; it has also delivered high performing collective investment vehicles which have facilitated collaborative bidding on a substantial number of Australian assets and have delivered the benefit of the ownership of those assets across many funds and fund members.

- Changing Board structures ultimately leads to a change in Board focus – in industry funds, this is the delivery of the best superannuation outcome for that member, with that outcome ultimately delivered by working collaboratively with other parts of the entire superannuation system. Changing superannuation culture would mean inevitable all Boards would have a sole focus of maximising the success of the individual fund, which will inevitably promote the development of a competitive culture, aimed at out-marketing and outperforming other funds and not working in collaboration with them.

- The ACTU believes this will also impact on the commitment to the collective investment process which partly owes its success for the reasons explicitly stated in their name – the funds, collectively support them. The more diverse Trustee Boards are and the more their motivation changes, the less support there will be for collective investment and in turn the opportunity to participate in the collective ownership of large scale assets, like infrastructure. This also weakens the pre-conditions which have underpinned the outperformance achieved by these vehicles.

- Almost the worst outcome which could be imagined would be the loss of a vibrant all profits to members sector: its culture is not a guaranteed outcome, in many cases, the not for profit structure is not enshrined in Company constitutions or those constitutions could be varied to change to the all profits to members principle - the only reason the culture exists is because it is structurally held together through issues like equal representation and 2/3rds majority principles. Mandating a traditional for profits Board structure on to the industry funds may well cause a change in the existing culture and an evolution away from the all profits to member culture and eventually all funds operating on a retail-style platform.

4. Adding Independents to a Board should be a carefully managed process to ensure the fit and culture of the Board is maintained. It should be supported by not weakening the fundamental structural features which have made Boards successful – namely equal representation and 2/3rds majority voting rules. Mandating Board structures to having 1/3rd of its Directors as Independents or 50% of its Directors as Independents on an "if not, why not" introduces new cultures which, in a traditional for profit sense, will concentrate on issues such as market share, fund growth and ultimately profit share.

   - Industry funds have been successful in introducing Independent Directors to their operations in a judicious, diverse and rational manner – adding expertise for specific reasons when needed and maintaining the balance and structure within funds.

- The danger with 1/3rd, 1/3rd, 1/3rd structures, when combined with changes to equal representation and removal of majority voting rules, is that this creates a climate where a group of Independents can vote en-bloc with a group of Directors ultimately resulting in a recipe for the break-down of Board harmony.

- Adding a large number of Independent Directors simply for the sake of appearance is a process which becomes difficult in itself to manage and is more likely to destabilise the culture of funds than a process of gradual introduction of Independents, on a needs basis.

- A much sounder process is to encourage greater expertise as an aim of the system and allow funds to work to established timeframes to achieve this aim and maintain their culture.

For these reasons, the ACTU urges the Inquiry to come to the conclusion that the proposed legislation does not have merit and should not be proceeded with.

Commonwealth Superannuation Legislation

The ACTU is not necessarily adverse to decreasing the size of the CSC Board and we note the separate submission of the Community and Public Sector Union on this issue which sees the reduction of this Board as a separate issue to the other issues raised in legislation.

APPENDIX

The ACTU's Response to Other issues

The ACTU has struggled to find a clear reasoning as to why the proposed changes might be proceeded with.

Our understanding of the principal reasoning the Government has advanced is the following:-

1. **It will bring a better level of expertise and governance to funds.**

On Investment, the ACTU says the following:-

1. We agree that there will be Independent Directors with a skill set which would be useful in assisting in overviewing the Investment function within funds. This function is already both a complex and professional function of fund operation.

2. Most large funds already operate with the support of both Investment Advisors and internal investment staff. The larger the Funds, the more substantial the internal investment staff numbers and influence will be. For example, the largest industry fund, Australian Super, has in excess of 100 internal investment professionals and is expanding this number as it undertakes more investment functions internally. Staffing of this nature includes experienced heads of assets classes, specialist asset allocation staff, macro-economic staff and the like.

3. In all of these cases, investment recommendation are initially prepared by internal staff and/or Investment Advisers. The additional of specialist members of Investment Committees and Board has been used to enable credible analysis of recommendations. The question is whether mandating a set number of Independents will change or improve this process.

4. At one level it can be argued that the current outperformance of industry funds reflects that the current model is working highly efficiently.

   Further, a concern raised by commentators is that changing the model to a model dominated by Independents is actually likely to harm performance (in that Independent-dominated models tend to more slavishly follow institutional advice – and this is the model which has historically and consistently underperformed the industry fund model) – see the Alan Kohler Opinion Piece of 25 July 2015. (See attachment 5)

On Governance, the ACTU says the following:-

1. The industry fund sector is highly regulated by APRA. Apart from Fund level assessments, APRA undertakes biennial Board assessments whereby it meets with the full Board of each Fund and expects the Fund Directors to take APRA through the rationale and impact of major decision, policies and approaches. This is a process which has occurred for several years now and gives APRA a close insight into the competence of Boards and an ability to comment, positively or critically, on any aspect of a Board's operations.

2. We are unaware of any cases in which APRA has been critical of governance arrangements. On the converse, we have been advised of many reports by APRA in which they have been completely satisfied of the competence and functioning of Boards.

3. APRA has extensive powers in this area. It can require Boards to meet high standards; it can revoke licences in the case of underperforming or dysfunctional Boards. This is a process that has been used from time to time and has proved to be an appropriate and adequate remedy to governance issues.

4. On this basis, the ACTU submits there is no need for a radical approach to fix a problem which we say, simply, does not exist.

2. Changes in fund structure and operation will bring a level of competition in which the consumer will benefit

The ACTU believes there is no credible case to support this assertion for the following reasons.

1. Retail funds have operated as alternatives to industry funds for a number of years now and in recent years retail funds have heavily marketed themselves as alternative choices for the occupational superannuation contributions for workers. In addition, MySuper has led to transparent disclosure of the cost structures underpinning fund administration.

2. There is no evidence, nor claim by the industry, that there will be a reduction in administration costs through a widening of competition in the industry. In fact, the situation is that more competition will add to costs in the sector in that it will bring about the following changes:-

   - It will fundamentally change the manner of superannuation distribution from a structured Award system in which a default fund system operates to one characterised by the selling of superannuation with a greater emphasis on a retail selling system. The selling of superannuation to employers in itself creates a conflict in that a sales relationship is not the natural relationship for managing an entitlement which from time to time requires an enforcement regime to support it. Seeking to enforce an entitlement in an atmosphere where the employer/provider relationship is built on a different foundation is inappropriate and unworkable.

- It will add the costs of selling to the cost of administration. Currently superannuation basically exists in a no cost distribution environment; changing this nature to a competitive sales environment in which all funds will need to employ specialist sales staff or other specialist staff to overview other distribution methods – online, direct marketing, social media or the like. In any case, marketing costs across the industry would also rise significantly. In the end, the person who pays for these additional costs is the fund member.

- Selling structures also introduce conflict of interest issues in that the sales person's approach will be to deliver an outcome which is primarily in their own best interest as opposed to what might be the best interest of the worker. For instance, this might be particularly relevant to when a superannuation fund member wishes to make a change to their investment choices, and that choice might be an asset class which has lower investment expense fee associated with it – will a sales person advise the member as to what is the member's or the sales person's interests?

In respect of investment performance, again there is no evidence that changing a governance or an operational model will produce better outcomes. The most striking rebuttal of this claim is that retail funds have historically and consistently underperformed industry funds. The outcome of such underperformance, if maintained over the long term, are significant shortfalls in end benefits and an increased likelihood that the broad social aims of achieving a comfortable standard in retirement will not be met.

Whilst these responses are more appropriately reflective of a substitution of a retail fund for an industry fund, they also appropriately apply to this situation in that an aim of the legislation is essentially to make industry funds look more like and act more like retail funds.

3. **The defence is about Unions protecting a privileged position.**

   The union movement has a proud track record in its participation in the Occupational Superannuation system. In addition to contributing to acknowledged enhancement to public policy. The guardianship of funds has operated in a not for profit environment which has outperformed comparable retail funds.

   During its 30 year history, the ACTU has supported fund mergers where these mergers have been supported by sponsoring organisations and are in the interests of fund members.

   This public position is one the ACTU continues to maintain and advocate in favour. The ACTU is unaware of specific instances where these principles have not been followed in both spirit and in actual outcome.

4. The Governments Explanatory Memorandum essentially says "the proposed changes will enhance governance, consistent with the views of the Financial Systems Inquiry (FSI) the Murray Review and the Cooper Review, in that, inter alia, they will lead to:

- A potential benefit through increased performance;

- Bringing good features of governance into the system through "independence of mind" and a "diversity of world view" and an ability to ask the right question;

- Less conflict (in that Independents will be free of conflicted issues);

- Consistency with international outcomes.

The ACTU's submission is that the findings of both the Cooper and Murray reviews is that were both inadequate in understanding industry issues proposing a mandated response.

For instance, the claims that outperformance could be achieved are, effectively, unsubstantiated. And the performance of the sector against both peers and in international terms was noticeably unreported.

Indeed the historical outperformances of the industry fund sector, had it been appropriately analysed, would show high levels of competence and expertise.

This issue is a critical issue in examining the other aspects of Cooper and Murray. If it is accepted that they misidentify this outcome, then it is basically redundant to say that simplistic fixes will help improve (a misidentified) problem.

Indeed the ACTU's submission is that the proper finding for both Cooper and Murray is that performance is not a problem and that significant structural changes are not needed (and may even be detrimental) to continue outperformance.

In respect of governance issues, the ACTU's reiterates its views, essentially, as follows:

- There are no identifiable governance issues which are causing problems (to a highly credentialed, well performing sector);

- This is confirmed through the real absence of intervention by APRA in its regular review and appraisal of the sector;

- The real danger to our system is to mandate changes which may affect a successful culture which has performed to high standards in both the interests of Australian workers and Australian public policy.

ATTACHMENTS

1. Investment performance (to June 2015)
2. Asset Class Index Returns
3. ACTU Calculations on the cost of moving 10% of assets from Bonds to Infrastructure/Property (bases upon information extracted from APRA Quarterly Statistics)
4. Compare the pair
5. Alan Kohler Opinion piece, 25 July 2015

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D No: 143/2015

Australian Unions
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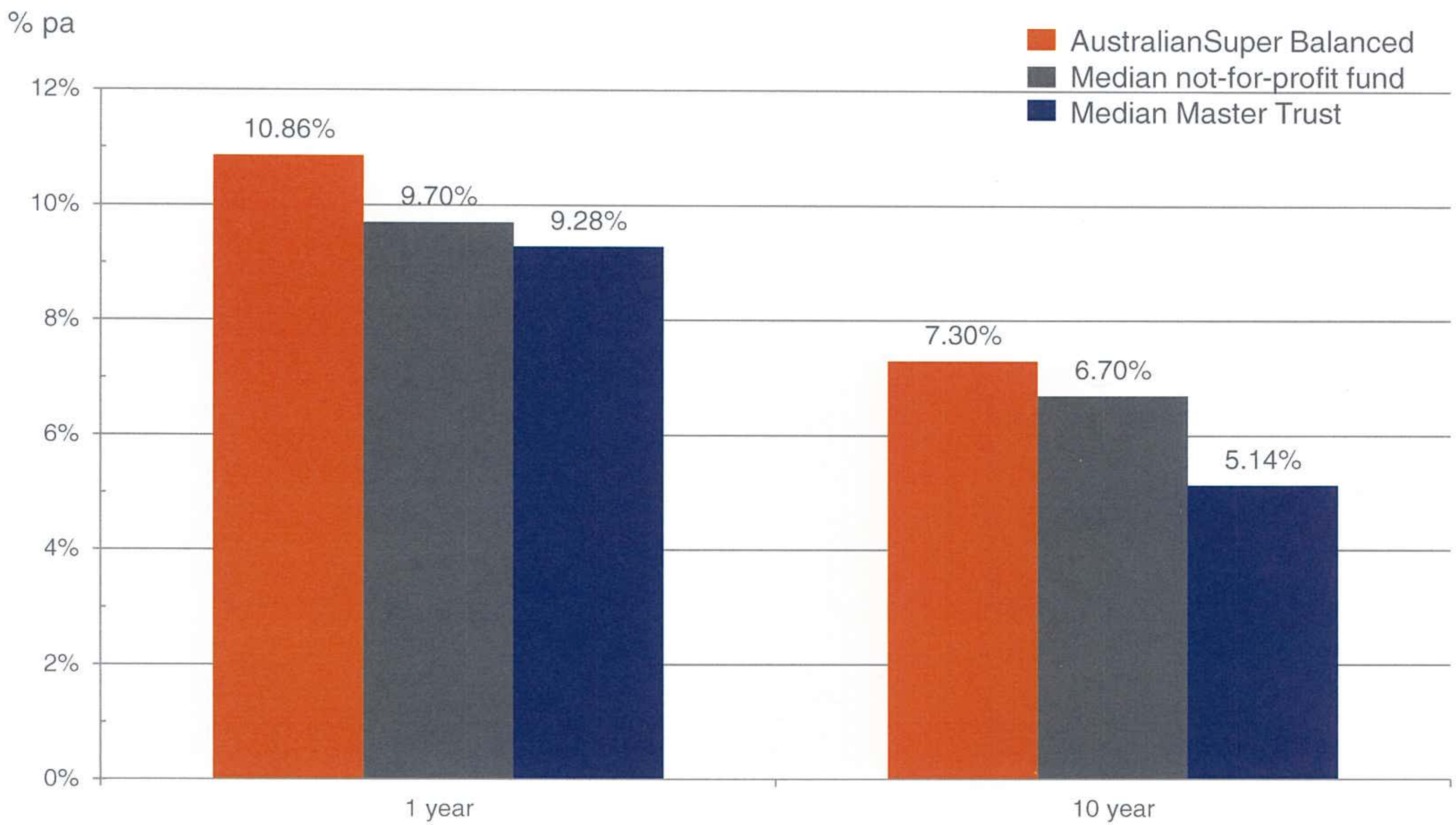
#1

Investment performance (to June 2015)



Source: SuperRatings Fund Crediting Rate Survey - SR50 Balanced Index - June 2015
10 year returns are average annual returns
Past performance is not a reliable indicator of future returns.

AustralianSuper

SUPER RATINGS

1 October 2015

Mr Bernie Dean
Director of Marketing
Industry Super Australia
Level 39, Casselden
2 Lonsdale Street
Melbourne VIC 3000

Dear Bernie,

SUPERrater tool and Net Benefit Modelling

This letter provides Industry Super Australia ("ISA") and its collective of 15 superannuation funds ("the ISA funds") with confirmation of the ability to rely on the Net Benefit Modelling and SUPERrater tool developed by SuperRatings Pty Limited ("SuperRatings").

SuperRatings developed the Net Benefit Modelling tool with the assistance of ISA to compare the outcomes of the ISA funds against that of Retail Master Trusts over periods ranging from 1 to 10 years, utilising a range of salary and account balance assumptions. Returns for this model have been updated for the period ended 30 June 2015. SuperRatings sample set of Retail Master Trusts consists of 85 Retail Master Trusts that are tracked by SuperRatings and have a 10 year performance history as at 30 June 2015.

In addition, the SUPERrater tool was also developed by SuperRatings in conjunction with ISA to graphically model the net benefit outcomes of the median of the ISA funds against that of the median Retail Master Trust over a 10 year period. These tools were thoroughly reviewed both internally by SuperRatings and ISA to ensure the methodology and calculations were correct.

Subsequently, the SUPERrater tool was offered to each of the ISA funds to model their individual fund outcomes against the Retail Master Trust median, based upon their own salary and account balance assumptions.

Whilst the Net Benefit Model was originally developed to allow the comparison of the median of the ISA funds against the Retail Master Trust median utilising a range of assumptions, we can confirm that both ISA and the individual ISA funds can rely on the methodology and outcomes that have been produced by the model. We also confirm that the outcomes have been correctly reflected within the SUPERrater tool and that these can also be relied upon as accurate by both ISA and the individual ISA funds that have subscribed to the tool.

We trust that this information is sufficient for the purposes required and would be happy to discuss this further.

Should you have any questions regarding the above, please do not hesitate to contact Wendy Tse or me on (02) 9247 4711 or via e-mail at wendy.tse@superratings.com.au or adam.gee@superratings.com.au.

Yours sincerely

Adam Gee
Chief Executive Officer

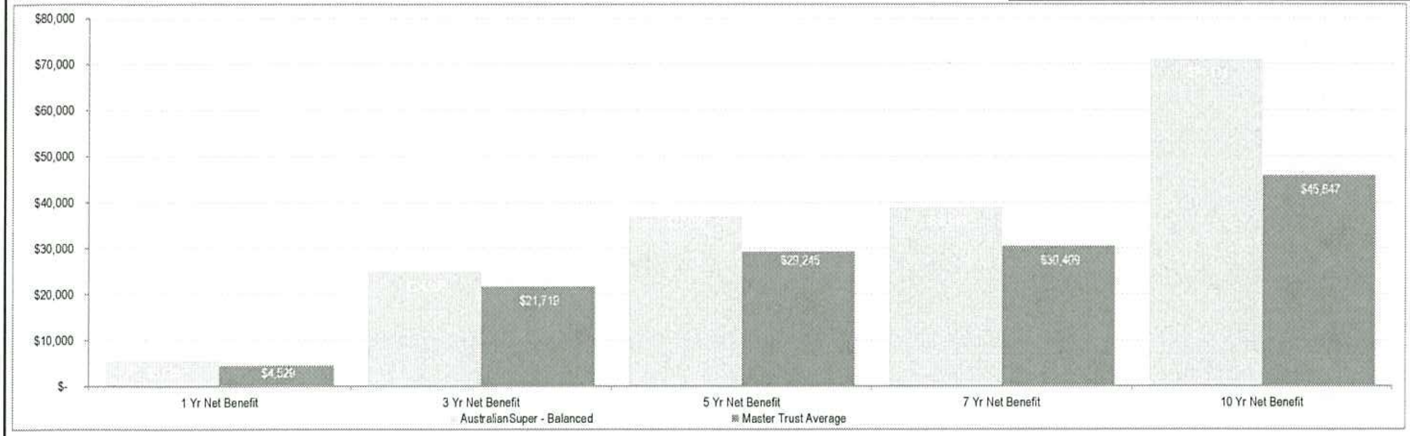
Net Benefit Modelling Outcomes

Starting Salary	$ 50,000	As at	30/06/2015
Starting Balance	$ 50,000	Prepared	28/09/2015

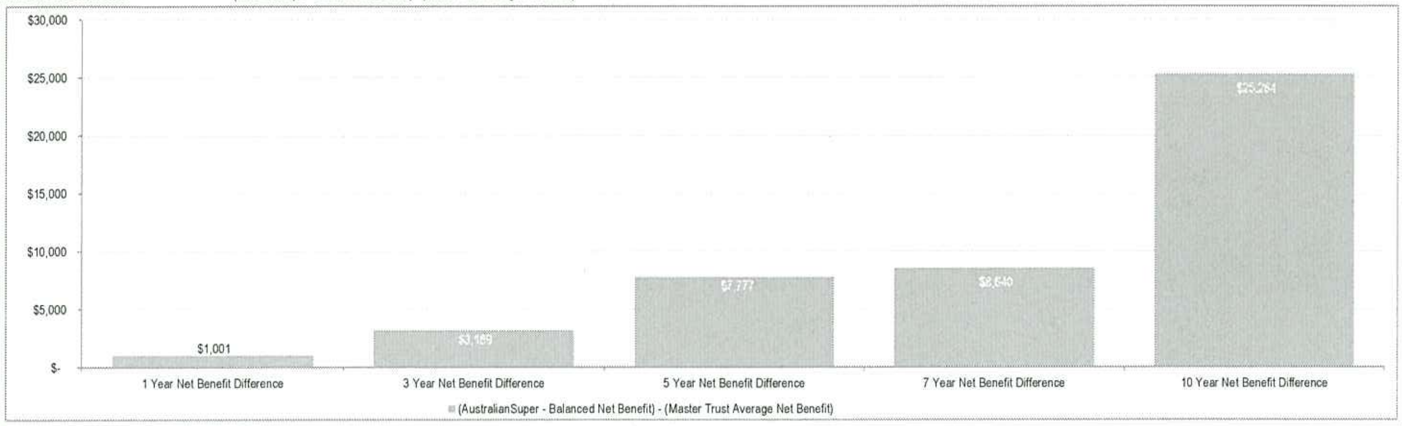
Rated Option	Earnings	Fees	1 Yr Net Benefit	Earnings	Fees	3 Yr Net Benefit	Earnings	Fees	5 Yr Net Benefit	Earnings	Fees	7 Yr Net Benefit	Earnings	Fees	10 Yr Net Benefit
AustralianSuper - Balanced	$ 5,890	$ 360	$ 5,530	$ 26,285	$ 1,377	$ 24,908	$ 39,549	$ 2,527	$ 37,022	$ 42,555	$ 3,605	$ 38,949	$ 77,474	$ 6,344	$ 71,131
Master Trust Average	$ 5,421	$ 892	$ 4,529	$ 25,280	$ 3,381	$ 21,719	$ 35,851	$ 6,606	$ 29,245	$ 40,027	$ 9,617	$ 30,409	$ 62,947	$ 17,100	$ 45,847

Net Benefit Outcomes

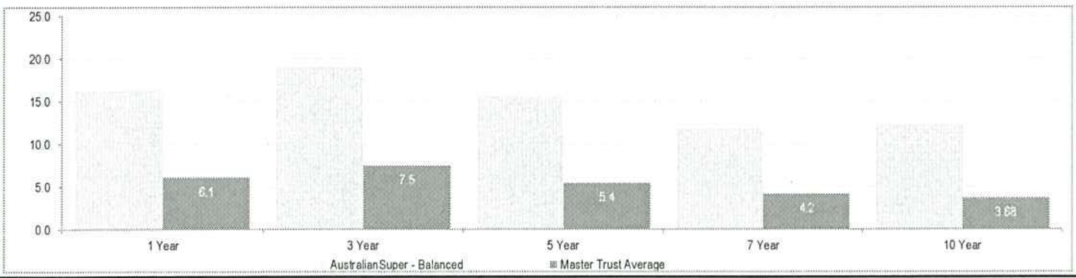
10 Year Difference against Master Trust Average $ 25,284



Net Benefit Difference (AustralianSuper - Balanced Net Benefit) - (Master Trust Average Net Benefit)



Earning to Fee Ratio (Earnings/Fees) (Dollars of earnings per dollar of fees)

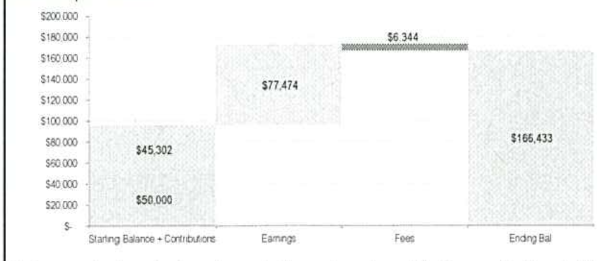


Assumptions

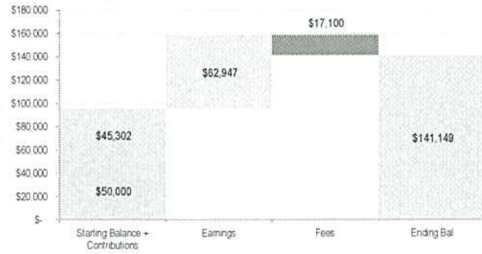
Annual Inflation Rate	2.50%
Wage Increase Rate	3.50%
Wage Deflation Rate	0.00%
Acc Bal Deflation Rate	0.00%
Super Guarantee Rate*	9.50%
Contribution Tax	15.00%
Wage Increase Rate	3.50%
Salary	$ 50,000
Annual Contributions	$ 4,500
Starting Balance	$ 50,000

10 Year Net Benefit Attribution

AustralianSuper - Balanced



Master Trust Average



SUPER RATINGS

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www.superratings.com.au

*The Superannuation Guarantee rate used in our calculations are in accordance with the Superannuation Guarantee (Administration) Act.

#Attachment 2

Memorandum

AustralianSuper

Date: 9 October 2015

To: Brian Daley

From: Daniel Craine, Head of Performance, Risk and Options

Level 33, 50 Lonsdale St
MELBOURNE VIC 3000
Ph: 03 8646 3822
Fax: 03 8948 3999

SUBJECT: ASSET CLASS INDEX RETURNS

Brian,

As per your request, attached please find benchmark returns for major asset class indices.

The table shows the asset class, the index, the data source and the one and three year returns.

Regards

Daniel Craine
Head of Performance, Risk and Options

Attachment 1: Benchmark Returns

Benchmark returns
As at 30/6/2015
Accumulation returns (including dividends)

Asset Class	Sub Asset Class	Benchmark	Source	1 year	3 year (annualised)
International Equities	Developed	MSCI World ex-Australia Index (in local currency)	Factset	8.5%	17.1%
	Emerging	MSCI Emerging Markets Index (local currency)	Factset	6.2%	8.6%
	All	MSCI All Country World ex-Australia (local currency)	Factset	8.3%	16.0%
Australian Equities		S&P ASX 200 Accumulation Index	Factset	5.7%	15.1%
Property		Mercer/IPD Unlisted Property Index (NAV post fee)	Mercer IPD	10.0%	9.0%
Infrastructure		AustralianSuper Internal	AustralianSuper	6.9%	10.3%
Global Bonds		Barclays Global Aggregate Index hedged in AUD	Factset	5.6%	6.0%
Australian Bonds		Bloomberg AusBond Composite Index	Factset	5.6%	4.8%
Cash		Bloomberg AusBond Bank Bill Index	Factset	2.6%	2.9%
Currency		AUD vs USD	Factset	-18.6%	-9.2%

Attachment 3

1. Lost Bases of Retail and Industry Funds (from APRA Quarterly Statistics, June 2015)

	Retail Funds ($m)	Industry Funds ($m)
Administration and Operating Expenses	1,051	381
Investment Expenses	141	385
Total Expenses	1,192	766

2. Indicative costs of asset classes:

Bonds and Cash	20bps
Property and Infrastructure	100bps (plus performance fees)

3. Total assets under management – Retail Funds as at June 2015 - $536 billion.

4. Indicative Investment of transferring 10% of assets from Bonds/Cash to Property Infrastructure:

10% x $536 billion x (100bps – 20bps)	= $429 million

#4


Compare the pair
ELO
Average Industry Super Fund
$328,789
Average Retail Master Trust
$281,372
The comparisons show projected outcomes, applying today's average fees for a sample of Industry Super Funds and a sample of Retail Master Trusts, over 25 years. * Differences in fees may change in the future and this would alter the outcome.
Industry Super Funds currently have lower fees than the average fees charged by the average Retail Master Trust, do not pay sales commissions and are run only to profit members. To find out more call 1300 881 371 or visit www.industrysuper.com
*The amounts are not predictions or estimates of actual outcomes. Outcomes will vary between individual funds.
Above example is a comparison of two employees age 40, each with a starting account balance of $50,000 and initial income of $58,000. Comparisons modelled by SuperRatings, commissioned by Industry Fund Services P/L ABN 54007016195 AFSL 232514. The modelling is based on various assumptions not all of which are shown here. Please refer to http://www.industrysuper.com/assumptions where these assumptions are shown and explained. The figures shown are current at 30 September 2007 and may be revised if further information becomes available.
Consider your own objectives, financial situation and needs before making a decision about superannuation because they are not taken into account in this information. You should consider the Product Disclosure Statement available from individual funds before making an investment decision.
Industry SuperFunds
A lifetime of difference
Your Industry Super Fund for building and construction
cbus


Compare the pair
Average Industry Super Fund
$552,012
Average Retail Master Trust
$486,461
The comparisons show projected outcomes, applying today's average fees for a sample of Industry Super Funds and a sample of Retail Master Trusts, over 20 years. *Differences in fees may change in the future and this would alter the outcome.
Industry Super Funds currently have lower fees than the average fees charged by the average Retail Master Trust, do not pay sales commissions and are run only to profit members. To find out more call 1300 881 371 or visit www.industrysuper.com
*The amounts are not predictions or estimates of actual outcomes. Outcomes will vary between individual funds.
Above example is a comparison of two employees age 45, each with a starting account balance of $110,000 and initial income of $130,000. Comparisons modelled by SuperRatings, commissioned by Industry Fund Services P/L ABN 54007016195 AFSL 232514. The modelling is based on various assumptions not all of which are shown here. Please refer to http://www.industrysuper.com/assumptions where these assumptions are shown and explained. The figures shown are current at 30 September 2007 and may be revised if further information becomes available.
Consider your own objectives, financial situation and needs before making a decision about superannuation because they are not taken into account in this information. You should consider the Product Disclosure Statement available from individual funds before making an investment decision.
Industry SuperFunds
A lifetime of difference
An Industry Super Fund that anyone can join
AustralianSuper


Compare the pair
Average Industry Super Fund
$468,195
Average Retail Master Trust
$384,125
The comparisons show projected outcomes, applying today's average fees for a sample of Industry Super Funds and a sample of Retail Master Trusts, over 35 years. * Differences in fees may change in the future and this would alter the outcome.
Industry Super Funds currently have lower fees than the average fees charged by the average Retail Master Trust, do not pay sales commissions and are run only to profit members. To find out more call 1300 881 371 or visit www.industrysuper.com
*The amounts are not predictions or estimates of actual outcomes. Outcomes will vary between individual funds.
Above example is a comparison of two employees age 30, each with a starting account balance of $46,333 and initial income of 47,000.
Comparisons modelled by SuperRatings, commissioned by Industry Fund Services P/L ABN 54007016195 AFSL 232514. The modelling is based on various assumptions not all of which are shown here. Please refer to http://www.industrysuper.com/assumptions where these assumptions are shown and explained. The figures shown are current at 30 September 2007 and may be revised if further information becomes available.
Consider your own objectives, financial situation and needs before making a decision about superannuation because they are not taken into account in this information. You should consider the Product Disclosure Statement available from individual funds before making an investment decision.
Industry SuperFunds
A lifetime of difference
Your Industry Super Fund for Motor Trades
MTAA SUPER FUND


Compare the pair
Average Industry Super Fund
$204,076
Average Retail Master Trust
$169,033
The comparisons show projected outcomes, applying today's average fees for a sample of Industry Super Funds and a sample of Retail Master Trusts, over 40 years. * Differences in fees may change in the future and this would alter the outcome.
Industry Super Funds currently have lower fees than the average fees charged by the average Retail Master Trust, do not pay sales commissions and are run only to profit members. To find out more call 1300 881 371 or visit www.industrysuper.com
*The amounts are not predictions or estimates of actual outcomes. Outcomes will vary between individual funds.
Above example is a comparison of two employees age 25, each with a starting account balance of $4,400 and initial income of $23,000. Comparisons modelled by SuperRatings, commissioned by Industry Fund Services P/L ABN 54007016195 AFSL 232514. The modelling is based on various assumptions not all of which are shown here. Please refer to http://www.industrysuper.com/assumptions where these assumptions are shown and explained. The figures shown are current at 30 September 2007 and may be revised if further information becomes available.
Consider your own objectives, financial situation and needs before making a decision about superannuation because they are not taken into account in this information. You should consider the Product Disclosure Statement available from individual funds before making an investment decision.
Industry SuperFunds
A lifetime of difference
Your Industry Super Fund for hospitality, tourism and sport
HOSTPLUS
expect more

25 Jul 2015
Weekend Australian, Australia

Author: Alan Kohler • Section: Business News • Article type : News Item
Audience : 227,486 • Page: 25 • Printed Size: 536.00cm² • Market: National
Country: Australia • ASR: AUD 17,504 • Words: 1222 • Item ID: 439830072

#5

Planned superannuation changes could leave members worse off

ALAN KOHLER
BUSINESS EDITOR-AT-LARGE

The government's proposed shake-up of the governance of Australia's superannuation seems perfectly uncontroversial: who can complain about requiring a third of the board of trustees of a super fund to be independent?

In fact the draft legislation released last week by the Assistant Treasurer Josh Frydenburg goes much further than that, and many industry funds think it could eliminate the distinction between them and retail funds as well as their superior performance.

The legislation not only requires a third of the directors to be independent from unions and employers, it will also remove the existing requirement for equal representation.

That also seems uncontroversial. If a third of the directors are to be independent, why should there be a statutory requirement that the other two-thirds be equally split between unions and employer groups?

That's certainly the government's view. And, anyway, isn't it a good idea to end the industrial relations club's control over part of the national savings pool and retirement system?

Well, yes, except the members of industry funds have consistently enjoyed more comfortable lifestyles in retirement than the members of commercial retail funds, and that has a lot to do with the way those funds are governed.

That is, they are not run by independent company directors who have a statutory responsibility to members and are concerned mainly with compliance, but by people who are actually employed as representatives of members and their employers.

In other words, their lives are engaged in representation; it's not a theoretical concept but an everyday fact.

And there's nothing theoretical about the better performance of industry funds.

According to research house ChantWest, eight of the top 10 performing super funds in the 2014-15 financial year were industry funds.

The average performance of

Continued on Page 35

25 Jul 2015
Weekend Australian, Australia

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Government's planned superannuation changes could leave members worse off

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industry funds for the year was 10.2 per cent versus 9.6 per cent for retail funds; over 15 years the returns have been 6.9 and 5.8 per cent respectively. Over a 35-working life for someone on a salary of $70,000, that difference turns into $200,000 at retirement — $880,000 versus $680,000.

Of the top 50 performing super funds over 10 years, 19 are industry funds and two are retail funds. Of the bottom 50, seven are industry funds and 40 are retail funds. None of the top 10 funds over 10 years is a retail fund.

So arguably the government should be legislating to require retail funds to be governed in the same way as industry funds, with equal representation, not the other way around.

None of the studies into superannuation, and certainly none of the announcements from the government on governance, has successfully answered the question of why industry funds almost always perform better than retail funds. Obviously part of the reason is that they are not-for-profit, which means a profit margin does not have to be subtracted from the returns to service the equity capital provided by shareholders.

But that's not the whole answer. Retail funds are actually cheaper to run, not more expensive. According to APRA statistics, the average operating expenses of industry funds in the year ended March 2015 was $32 million, whereas for retail funds it was $26.5m.

In fact the main reason industry funds perform better than retail funds is that they change asset allocations more often and they put more money into unlisted investments, mainly infrastructure.

Retail funds tend to have "set and forget" percentages applied to each asset class because independent directors are less inclined to take what they regard as bets.

That conservatism also leads them to invest more in liquid investments, mainly listed equities.

According to APRA statistics, at March this year industry funds, in aggregate, had 6 per cent of their funds in unlisted equities, 7 per cent in infrastructure and 7 per cent in unlisted property for a total of 20 per cent in unlisted assets.

Retail funds had 3 per cent in unlisted equities, 1 per cent in infrastructure and 2 per cent in unlisted property — a total of 6 per cent.

That is the key difference in the performance, along with the fact that the trustee boards of industry funds are prepared to make bigger changes to overall asset allocations in response to market conditions.

It's impossible to prove, but in my view this is primarily due to the fact that the trustees are direct representatives of employees and employers.

But whatever the reason, the fact is that the representative trustee boards have performed better than the others.

Now the legislative requirement for equal representation — any representation — is to be removed.

The people most pleased with this, apart from Coalition politicians keen to remove the influence of unions from superannuation, will be the bankers who run the retail super funds and who have been shown up by the industry funds for 20 years.

They have been lobbying hard to level the playing field, and have now finally succeeded.

The government's response to questions about why equal representation is being removed from the law is: they can still appoint employer and union representatives, and they can make them equal if they want — why does that need to be mandated?

Because the make-up of industry fund trustee boards will gradually drift. Unions or employer bodies will sometimes lose interest and more independents will be appointed; over time, independent directors will probably dominate the boards. (David Murray's Financial System Inquiry recommended more than half should be independent, but then he's a banker.)

There's no requirement for these funds to be not-for-profit, so it's even possible that once professional company directors control them some might decide to demutualise and become commercial funds.

Equal representation is one of the fundamental attributes of industry funds; changing it is likely to have unintended consequences — or rather intended by competitors and political enemies, but unintended by members.

There is another new provision in the draft legislation that is, in some ways, even more extraordinary.

The new law, if passed, would require any new super fund director to be approved by APRA before they are appointed.

What's more, if APRA doesn't respond to the request for approval, that is to be taken as a refusal. The draft contains this remarkable paragraph: "If APRA has not decided the application by the end of the period by which APRA is required to decide it, APRA is taken to have decided, at the end of the last day of that period, to refuse the application."

And while the draft sets out the required attributes of an independent director of a super fund, the legislation specifically states that APRA can ignore that list and make its own judgment about whether someone is independent, and refuse the application even if

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the person complies with all the requirements.

So not only can APRA block the appointment of a director even if the person fits the requirements for independence, and not give any reasons for the refusal, it doesn't have to say anything at all —just ignore the application.

Did APRA ask for this power? Or has it been thrust upon it? No one knows, or will comment.

One thing is for sure: the changes to the governance of super funds are neither small nor uncontroversial.

SIMONE SMITH

Bankers' buddy: Assistant Treasurer Josh Frydenburg