



Colonial First State Investments Limited



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Committee Secretary
Senate Standing Committees on Economics
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Michael Venter
Acting Chief Operating Officer



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Dear Committee Secretary,

INQUIRY INTO TREASURY LAWS AMENDMENT (YOUR SUPERANNUATION, YOUR CHOICE) BILL 2019

Colonial First State (CFS) appreciates the opportunity to provide a submission to the Committee in response to its Inquiry into *Treasury Laws Amendment (Your Superannuation, Your Choice) Bill 2019*.

About Colonial First State

Established in 1988, Colonial First State provides investment, superannuation and retirement products to individuals and companies. Colonial First State is the largest account based pension provider in Australia, making more pension payments than any non-government entity. We are also the third largest administrator of retail funds with \$144 billion Funds Under Administration (FUA).¹

CFS offers both MySuper and Choice superannuation products, with the majority of our members in the choice sector. We have long supported choice of fund and we strongly support extending choice of fund to all employees under a workplace determination or enterprise agreement, given the efficiency and member engagement benefits likely to flow from this change.

In considering our response to this Inquiry CFS also engaged with the Financial Services Council (FSC) and we support the FSC's submission.

The introduction of 'Choice of Fund' and its proposed extension

Choice of Fund legislation was introduced in 2005 by the Howard Government. In 2001 when proposing the introduction of 'Choice' as part of its election campaign platform it stated:

"...workers should have the freedom to decide who manages their superannuation and the right to move their superannuation benefits from one fund to another...The Coalition remains committed to choice and portability in superannuation, which will benefit Australian workers by creating greater competition in the superannuation industry, resulting in reduced fees and charges and more responsive investment strategies by trustees."

At the time, however, Choice of Fund was not extended broadly enough and many employees whose enterprise agreement or workplace determination specifies a superannuation fund still do not have the right to choose their own super fund. Their compulsory employer contributions must be paid to the fund named in their industrial instrument. As the Explanatory Statement to the *Your Superannuation, Your Choice Bill* makes clear *"lack of choice of fund for all workers disadvantages some Australians and contributes to employees having multiple superannuation accounts and maying multiple sets of fees and insurance premiums which can reduce their retirement income. It also leads to member disengagement with their superannuation."*²

This proposed reform operates in concert with the Protecting Your Super Package of reforms, which have already begun to improve efficiency in the system by removing multiple and duplicate member accounts from the system. It follows that for the Protecting Your Super reforms to be able to operate with optimal effect other barriers, such as the denial of choice of fund to some workers, must also be removed.

1 As at September 2019

2 *Treasury Laws Amendment (Your Superannuation Your Choice) Bill 2019*, page 5



Alignment to the Productivity Commission's recommendations

The reform proposed by this Bill should be seen in the context of the changes to the default system put forward by the Productivity Commission in its final report *Superannuation: Assessing Efficiency and Competition*. In its findings and recommendations the Productivity Commission was concerned to ensure the interests of members were given primacy. In analysing the relevant recommendations and the aims of this Bill a natural alignment is evident.

Of the current arrangements, comprising workplace determination of default funds and a requirement for the funds that provide them to hold MySuper authorisation, the Productivity Commissions said:

"[they] have worked well for many funds and industrial parties (such as employer groups and unions). And many members have ended up in default funds that have demonstrated good investment performance. But current arrangements are clearly not putting members first. Tying defaults to the employer rather than the member has led to the absurdity of members accumulating unintended multiple accounts (and paying multiple sets of fees and insurance premiums). And policy settings have enabled restrictive clauses in workplace agreements that prevent an estimated 1 million members from exercising choice should they want to."

The Productivity Commission concluded by recommending:

- Default superannuation accounts should only be created for members who are new to the workforce or do not already have a superannuation account (Recommendation 1); and
- A single 'best in show' shortlist of up to 10 superannuation products should be presented to all members who are new to the workforce (or do not have a superannuation account), from which they can choose a product (Recommendation 2).

Colonial First State broadly supports these recommendations. We note the Government has committed to implementing recommendation 1 and is actively considering how best to reform default fund selection as contemplated in recommendation 2.

Recommendation 2 is predicated on the view that *"members should not be prevented from choosing any other fund (including an SMSF). Terms in enterprise and workplace agreements that restrict member choice should be invalidated."*³ Clearly, the PC took the view that a new system which placed members at the centre of the process, removing inefficiencies and the influence and interests of agents, would achieve better member retirement outcomes and a more efficient and competitive superannuation system.

CFS believes the passage of this Bill into legislation is critical to achieve the necessary member focused reforms initially envisaged by the Choice of Fund model and which are complementary to the improvements to the system proposed by the Productivity Commission in its recent assessment.

Thank you for the opportunity to comment on the matters raised in this inquiry. Should you require more information or would like to discuss our submission, please contact me.

Yours sincerely,



Michael Venter
Acting Chief Operating Officer

³ Productivity Commission Inquiry Report – Superannuation: Assessing Efficiency and Competitiveness, page 65