

Chapter Two

Summary of Views

Introduction

2.1 The majority of evidence received during the inquiry supported either the proposed Choice Bill or the principle of choice. However most witnesses drew attention to a number of issues which would need to be addressed prior to the successful implementation of choice in Australia.

2.2 This chapter provides:

- an overview of the current options available when investing SG contributions; and
- a summary of the views of the parties giving evidence to the inquiry.

Current choice in Australia

2.3 It is important to note from the outset that while there is currently no legislated choice of superannuation fund or RSA at the federal level in Australia, up to 80 per cent of employees do have choice as to how employer SG payments are invested within their fund. Such investment options may include investing in overseas equity, Australian property, Australian shares and so forth.¹

2.4 In addition, many industrial awards already offer limited choice of fund, while some also allow an employer and employee to agree upon a fund.² For example, the Repair, Services and Retail (RS&R) Award currently prescribes the Motor Trades Association of Australia (MTAA) Superannuation Fund, the Superannuation Trust of Australia and the Australian Retirement Fund as complying superannuation funds.³ Commenting on employees' exercise of choice under the RS&R Award, Mr Watson from the MTAA Superannuation Fund indicated:

It is an amalgam. We see every situation. There are situations where employers will initiate the discussion and make the choice but at the moment, in the workplaces we are involved in, those are far more often community decisions within the workplace.⁴

1 *Committee Hansard*, 11 September 2002, p. 204.

2 *Committee Hansard*, 3 September 2002, p. 124.

3 *Committee Hansard*, 3 September 2002, p. 139.

4 *Committee Hansard*, 3 September 2002, p. 140.

2.5 Similarly, Ms Harris from the National Farmers' Federation (NFF) presented the Committee with evidence that employees in primary industries also often have choice of funds under awards. However, Ms Harris indicated that a vast majority of employees in primary industries do not request any fund other than the default fund, the Australian Primary Superannuation Fund, simply because they are not interested in superannuation.⁵

2.6 Finally, Western Australia, NSW and Queensland have all implemented choice of fund at the state level, under varying regimes and to varying degrees. The relevant legislation is the *Industrial Relations Act 1979 (Western Australia)*, the *Industrial Relations Act 1999 (Queensland)* and the *Industrial Relations Act 1996 (New South Wales)*.

2.7 In the hearing on 2 September 2002, the Committee took evidence from Mr Rosario from Westscheme in WA, where choice of fund has been operating since 1 July 1998 under section 49C of the *Industrial Relations Act 1979 (Western Australia)*. Mr Rosario indicated that the incidence of choice is growing rapidly in WA, citing evidence that more than 50 per cent of new employees wanted their SG contributions to be directed to their pre-existing fund:⁶

... when we first started we did not see a very high incidence of the exercise of [choice]. We are now beginning to see that, as people are moving between jobs, they are saying that they want to keep the fund that they are with. The new employer has to provide them with that entitlement. It is an increasing requirement.⁷

2.8 The Committee also notes evidence from Construction and Building Unions Superannuation (Cbus) that in WA, the introduction of choice has led to a large and rapid expansion of members of the fund from outside the construction and building industry. Currently, 80 per cent of new employees who register with the fund are from areas outside Cbus's core constituency.⁸

Organisational commentary

2.9 As noted above, the majority of evidence to the inquiry supported either the proposed Choice Bill or the principle of choice. The supporters of choice of fund and the current Bill argued that the implementation of choice would give individuals greater ownership and control over their superannuation funds, in turn fostering greater competition and efficiency in the industry.

2.10 The principal advocates of this position were organisations representing specialist financial product providers such as the Australian Bankers' Association

5 *Committee Hansard*, 11 September 2002, p. 199.

6 *Committee Hansard*, 2 September 2002, p. 58.

7 *Committee Hansard*, 2 September 2002, p. 61.

8 *Submission 40*, Cbus, p. 3.

(ABA), the Investment and Financial Services Association (IFSA), and the Financial Planning Association (FPA) of Australia.

2.11 However, the support expressed by these groups was somewhat qualified, with additional comments and suggestions for improvements being made. For example:

- the ABA submitted that the effectiveness of the proposed Bill could be strengthened through simplifying the default fund provisions, and the introduction of the Government's proposed portability arrangements;⁹
- IFSA opposed the default fund provisions of the Bill as anti-competitive, and argued that the employer penalties in the Bill were excessive;¹⁰
- While the FPA also expressed concern about the default fund provisions of the Bill, on the basis that they were overly prescriptive and inflexible.¹¹

2.12 Employer groups also broadly supported the Bill but with some qualifications. For example, the Australian Chamber of Commerce and Industry (ACCI) broadly supported the Bill, although it expressed concern about the default fund provisions, the status of defined benefit schemes, and the maintenance of superannuation provisions in awards.¹² In the hearing on 3 September 2002, Mr Anderson from ACCI indicated that ACCI would be looking for amendments to the Bill in respect of these issues, but declined to speculate on ACCI's position if those amendments were not made. ACCI also raised concerns about the compliance burden for businesses.¹³

2.13 Similarly, the NFF, representing primary producers, broadly supported the Bill, provided it did not place significant additional costs on employers.¹⁴ However, in the hearing on 11 September 2002, Ms Harris from the NFF also indicated that the NFF would need to reconsider its support for the Bill if the Government did not revisit the employer penalty regime.¹⁵

2.14 Consumer groups also broadly supported the provisions of the Bill. For example, the Australian Consumers' Association (ACA), in concert with the Financial Services Consumer Policy Centre at the University of NSW (UNSW), supported the Bill, although they again expressed concerns about the default fund, entry and exit

9 *Submission 34*, ABA. See also *Committee Hansard*, 11 September 2002, pp. 247 – 265.

10 *Submission 36*, IFSA. See also *Committee Hansard*, 11 September 2002, pp. 231-246.

11 *Submission 37*, FPA. See also *Committee Hansard*, 11 September 2002, pp. 213-230.

12 *Submission 25*, ACCI.

13 *Committee Hansard*, 3 September 2002, pp. 191-193.

14 *Submission 1*, NFF.

15 *Committee Hansard*, 11 September 2002, p. 205.

fees, insurance and education.¹⁶ Taxpayers Australia also broadly supported the Bill.¹⁷

2.15 Finally, the Committee also notes that the Certified Practising Accountants (CPA) of Australia advocated implementation of choice as bringing about better long-term outcomes in Australia's superannuation system, but that organisation too expressed concern about certain provisions of the Bill.¹⁸

Ownership and control

2.16 The principal argument made by the parties in favour of choice of fund and the current Bill was that individuals should have the right to choose their own funds. For example, in evidence to the Committee on 11 September 2002, Mr Bell from the ABA stated:

... the point we would like to make—and it is a very strong point of principle—is that people work hard for their money and should have the ultimate say as to whether they wish to invest their money in a particular fund.¹⁹

2.17 Moreover, various parties argued in their written submissions that providing individuals with the right to manage their superannuation funds would increase their awareness of fund alternatives and the need to plan for retirement. For example, the CPA argued that choice should encourage employees to take greater interest in and ownership over their superannuation, leading to better long-term outcomes in Australia's superannuation system.²⁰ Similarly, the FPA suggested that giving employees greater choice and control would engender a greater sense of ownership and generate a savings culture in Australia.²¹

2.18 Furthermore, the ACA argued in its written submission that with the exponential growth of superannuation funds, the interest of individual employees in their superannuation funds is only likely to increase. Indeed, the Association suggested that for a majority of Australians, more money is vested in their superannuation accounts than they have ever saved, and as such, they are demanding a say in where that money is invested.²²

2.19 The Committee was presented with similar views during hearings. For example, in evidence to the Committee on 3 September 2002, Ms Smith, representing

16 *Committee Hansard*, 2 September 2002, p. 19.

17 *Submission 23*, Taxpayers Australia.

18 *Submission 10*, CPA

19 *Committee Hansard*, 11 September 2002, p. 252.

20 *Submission 10*, CPA, p. 2.

21 *Submission 37*, FPA, p. 1.

22 *Submission 27*, ACA and FSCPC, p. 2.

Taxpayers Australia and Superannuation Australia, claimed that employees are demanding choice of fund because contributions are being made to funds that are performing badly.²³ Mr Hajaj, appearing on behalf of the Financial Services Consumer Policy Centre at the UNSW, also indicated his belief that a choice of fund regime would go a long way towards engendering a more proactive engagement by consumers.²⁴

2.20 The Committee notes that the choice of fund proposal offers individuals some additional opportunities to consolidate their superannuation into one fund, thereby avoiding paying multiple fees on different accounts and possibly minimising the number of ‘lost’ accounts. As claimed by Ms Smith from Taxpayers Australia, under this scenario, individuals could elect to have their SG contributions made to the one account even when they change employers and industries.²⁵

Competition and efficiency

2.21 Flowing on from greater ownership and control, some of the parties in favour of choice and the current Bill also argued in their written submissions that choice will lead to greater competition and efficiency in the superannuation industry. For example, in its written submission, the ABA argued that competitive forces will place downward pressure on costs and encourage rationalisation of the industry, while allowing individuals to spread exposure and adapt as their circumstances change. The ABA continued:

It will not be necessary that consumers in fact change funds for these effects to occur. As with other markets that have been deregulated, the mere threat that someone can change behaviour is sufficient to provide a competitive stimulus to the market. Allowing people greater control over “their” money is particularly important given the compulsory nature of our superannuation system.²⁶

2.22 The FPA also argued in its written submission that greater competition and efficiency would lead to lower costs.²⁷ Similarly, ACCI stated in its written submission to the inquiry:

Choice is an important element of a sound retirement incomes policy. Where there is an environment of genuine competition there will be the pressure on funds to keep their costs down and to perform in the

23 *Committee Hansard*, 3 September 2002, pp. 155-156.

24 *Committee Hansard*, 2 September 2002, p. 19.

25 *Committee Hansard*, 3 September 2002, p. 155.

26 *Submission 34*, ABA, p. 1.

27 *Submission 37*, FPA, p. 1.

marketplace. Fund choice is one of the pre-requisites to having a more competitive superannuation fund market.²⁸

2.23 These arguments were reiterated during hearings. For example, in evidence to the Committee on 11 September, Mr Loveridge from the ABA expanded on the ABA's position. He noted that deregulation of the banking sector allowed many more entrants to provide banking services, with the result that interest rate margins on home loans and small business loans have declined steadily since the mid-1990s.²⁹ Similarly, in evidence to the committee, Mr Wyatt from the CPA argued that competition amongst superannuation providers would see fees and charges come down, on the basis that the public would become much more aware of fees and charges.³⁰

2.24 The Committee also heard the evidence of Mr Hajaj, appearing on behalf of the Financial Services Consumer Policy Centre at the UNSW, that one of the principal reasons choice of fund may potentially reduce costs is that it will force industry consolidation. Mr Hajaj argued that currently, there are several hundred industry funds which basically replicate each other, leaving scope for enormous savings to be generated if economies of scale are applied.³¹ However, the Committee notes that consolidation may lead to opportunities for lower fees and charges, as has been seen in some sectors of the banking industry.

2.25 The Committee raised these issues with Mr Boneham from the Treasury during the hearing on 11 September 2002. He indicated Treasury's belief that under a competitive choice environment, fees and charges would be expected to come down. He attributed this to more discerning decision making on behalf of employees, the consolidation of funds leading in turn to economies of scale, and the entrance of niche players that provide better services and/or offer additional products.³²

2.26 Other witnesses contended that the choice model under the current Bill would lead to higher fees and charges. For example, Ms Fiona Galbraith from Superpartners (the large industry fund administrator which manages the superannuation accounts for over 3.5 million fund members) asserted that increased competition can sometimes lead to increased fees and charges because of the cost of marketing and product development.³³

28 *Submission 25*, ACCI, p. 4.

29 *Committee Hansard*, 11 September 2002, p. 254.

30 *Committee Hansard*, 2 September 2002, p. 80.

31 *Committee Hansard*, 2 September 2002, p. 28.

32 *Committee Hansard*, 11 September 2002, pp. 299-301.

33 *Committee Hansard*, 2 September 2002, p.1.

Alternative views

2.27 The Committee notes that a small number of parties giving evidence to the inquiry, most notably the Australian Council of Trade Unions (ACTU), were opposed outright to the implementation of choice of fund in Australia. The ACTU argued in its written submission that choice of fund will increase retail selling opportunities for large financial institutions, forcing up costs and weakening returns for fund members, to the long-term detriment of employees.³⁴

2.28 Similarly, the AUSTSAFE Superannuation Fund submitted that, in its view, the proposed Bill would not have the desired outcomes and will be detrimental to the future accumulation of superannuation for the majority of Australians. Citing its experience over 14 years, AUSTSAFE emphasised that the Bill would result in reducing returns on members' superannuation savings.³⁵

Implementation issues

2.29 However, while a small number of parties opposed any introduction of choice of fund in Australia, and others, such as the Association of Financial Advisers, favoured limited choice rather than full choice,³⁶ the majority of parties to the inquiry supported the principle of choice, but argued that the current Bill and supporting measures before the Senate would not lead to successful implementation of choice. This position was adopted by:

- superannuation funds and associations such as the MTAA Superannuation Fund,³⁷ Quadrant Superannuation,³⁸ Cbus,³⁹ the Industry Funds Forum,⁴⁰ Superpartners,⁴¹ the Corporate Super Association (CSA)⁴² and the Association of Superannuation Funds of Australia (ASFA),⁴³
- professional financial and human resource organisations such as the Australian Institute of Superannuation Trustees (AIST),⁴⁴ the Institute of Actuaries⁴⁵ and Mercer Human Resource Consulting;⁴⁶

34 *Submission 5*, ACTU.

35 *Submission 52*, AUSTSAFE, pp. 1-2.

36 *Submission 24*, Association of Financial Advisers, p.1.

37 *Submission 11*, MTAA Super Fund.

38 *Submission 14*, Quadrant Superannuation.

39 *Submission 16*, Cbus.

40 *Submission 30*, IFF.

41 *Submission 26*, Superpartners.

42 *Submission 13*, CSA.

43 *Submission 17*, ASFA.

44 *Submission 29*, AIST.

45 *Submission 15*, Institute of Actuaries Australia.

- peak employer groups such as the Australian Industry Group;⁴⁷ and
- superannuation lobby groups such as the Society of Superannuants (SOS).⁴⁸

2.30 The fundamental concern expressed by these parties during the inquiry was that many individual employees would not be able to make an informed choice of fund, due to inadequate fund disclosure rules and financial education standards in Australia. This in turn would leave those employees vulnerable to commercial exploitation in relation to the investment of the compulsory SG contributions made on their behalf by employers. According to these parties, the result could possibly be a decline in superannuation retirement incomes due to higher fees and charges and lower returns, resulting in an increased burden on the social security system, and coupled with increased costs for employers. Accordingly, these parties argued that:

- a) Current financial disclosure standards and education standards in Australia need to be improved to support informed choice;
- b) The Government's portability proposal needs to be further developed;
- c) The provisions of the Bill in relation to insurance, the default fund, and defined benefit schemes need to be reconsidered;
- d) The Bill places significant costs and penalties on employers which need to be examined further;
- e) The Government needs to consider the impact of competition on fund costs and returns, and retirement incomes in Australia; and
- f) Consideration should be given to a cap on certain fees and charges and/or a prohibition of commission-based selling in relation to compulsory superannuation.

2.31 The following chapters analyse these and other issues arising from the provisions of the Superannuation Legislation Amendment (Choice of Superannuation Funds) Bill 2002.

46 *Submission 20*, Mercer.

47 *Submission 9*, AIG.

48 *Submission 4*, SOS.