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**To:** Sue Morton, Senate Select Committee on Superannuation

**Fax No:** (02) 6277 3130

**Date:** 5 September

*No of Pages:* 4

**Subject:** Superannuation Legislation Amendment (Choice of Superannuation Funds) Bill 2002

Hello Sue,

Attached is the ABA's submission to the Senate Select Committee on Superannuation. I will put the original in the mail this evening.

As discussed, David Bell (and one other to be confirmed) would be pleased to participate in the Hearings on Wednesday, 11 September.

If I can be of any further assistance, please don't hesitate to contact me.

Cheers

Lynn Wheildon

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5 September 2002

Senator John Watson  
Chair  
Senate Select Committee on Superannuation  
Parliament House  
CANBERRA ACT 2600

Dear Senator Watson,

**Superannuation Legislation Amendment  
(Choice of Superannuation Funds) Bill 2002**

The Australian Bankers' Association (ABA) is pleased to have the opportunity to contribute to your Committee's inquiry into the Superannuation Legislation Amendment (Choice of Superannuation Funds) Bill 2002. As you will aware from the submission which the ABA made to your Committee's 1998 inquiry into Superannuation Choice, the ABA has been a consistent supporter of greater freedom of choice as a means of increasing competition and efficiency in the superannuation market.

It was for these reasons that the Wallis report recommended allowing member choice of fund. The competitive forces encouraged by Superannuation Choice will in turn help put downward pressure on costs and encourage rationalisation of the industry, an outcome consistent with the Government's concerns about prudential soundness.

Freedom of choice will allow people to more readily indicate to providers how they feel about their products. If they don't like particular products, they may choose another one.

Choice will give people greater control over their money: control to select funds based on risk return preferences, to spread exposures to avoid undesired funds, or to adapt as circumstances change.

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.

## Specific Concerns

In considering the needs of both employers and employees, we believe that the effectiveness of the proposed legislation could be strengthened in regard to three important issues:

- simplicity;
- portability; and
- education

## Simplicity

One of the most challenging issues in the Choice legislation is defining the rules to apply for a defaulting employee. Unfortunately, the current proposed Choice legislation appears to be unnecessarily cumbersome in respect of the Default Fund. The results are likely to be the suppression of market forces and significant costs to member balances and the taxpayer.

From an employer and employee perspective, the essential elements for a default fund are equity, security, competition, and simplicity. These are met if the employer can nominate any complying superannuation fund as the Default Fund, to apply to all Superannuation Guarantee payments that are not subject to an award, or any other mandated responsibility.

In this way, the employee response to the employer nominated fund would act as a barometer of perceived value. Defaulting employees who are satisfied with the Default Fund's performance will stay, while those who are not, will look for an alternative. A high rate of acceptance would be a positive endorsement of the employer's choice. Alternatively, a low level response would be a signal to the employer that an inferior or unpopular choice should be reviewed in order to provide a market competitive arrangement for the benefit of all employees.

## Portability

It is acknowledged that the Government proposes to introduce legislation concerning Superannuation Portability at a later date. However, as the Choice legislation will only apply to new Superannuation Guarantee payments, it will enable an employee to take only partial responsibility for the management of their retirement savings. The ability to transfer savings is equally important.

Without Portability, \$500 billion in accumulated superannuation entitlements will largely remain beyond the reach and influence of employees. Portability is the key to the success of Choice and, subject to appropriate rules, we believe that portability rights should be conferred on members, either before or concurrent with the commencement of the Choice legislation.

Until an employee is in a position to manage all their superannuation savings, there is a likelihood they will lack the incentive to become actively involved in planning for a financially secure retirement.

In order to be effective, the rules around Portability should:

- only apply to an Accumulation Fund;
- allow the Trustee to impose a minimum notice period (subject to the nature of the investment); and
- be subject to a minimum amount, to avoid the cost of transfer of small amounts.

### Education

The ABA supports the Government's initiative to devote \$28 million to member education in order to help employees appreciate the value of superannuation savings and the opportunity which the Choice legislation gives to become more personally involved with the management of these savings.

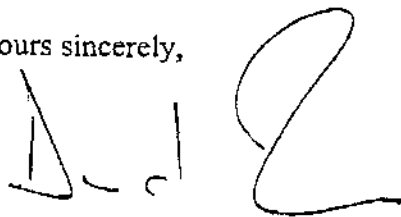
A concentrated awareness program is of course a short term initiative. Superannuation education should be an ongoing process aligned with the regular presentation of superannuation fund information.

Trustees of superannuation funds should be encouraged to provide members with convenient access to a basic description of the following:

- how the superannuation system works
- principles of risk and return
- investment diversification
- contribution levels required for a financially secure retirement
- taxation concessions/special funding opportunities
- spouse funding options
- importance of insurance
- value of advice
- on-line access to education material/personal information
- secure storage of personal portfolio particulars

The ABA would be pleased to respond to any questions your Committee may have on the above material.

Yours sincerely,



**David Bell**