

CHAPTER 2

THE ROUNDTABLE FORUM

Conduct of the roundtable

2.1 The Committee invited representatives from government, the superannuation industry, service providers to the industry, consumer advocates, employer and employee bodies and the major consulting groups to attend the roundtable forum. Representatives from twenty organisations participated in the discussions.

2.2 The agenda for the meeting covered all aspects of choice of fund, including the broad principles that should apply in a choice model, investment choice, education of employers and members and the possible timing of the introduction of a choice regime.

2.3 The roundtable discussion gave participants the opportunity to revisit many of the issues that were extensively canvassed in the previous Committee's 1998 report on *Choice of Fund*. These included the issues of support for the choice principle, the choice model, education, disclosure, the default fund, insurance, employer liability, costs and economic benefits, consumer protection and the timing of choice introduction. A significant new topic – the effect of the development of e-commerce on the roll out of choice – was also raised.

Experience of choice in the states

2.4 By way of introduction to the forum, the Committee Chairman, Senator John Watson, invited Mr Howard Rosario, of Westscheme Superannuation Fund, and Mr Peter Downes, of Jacques Martin Industry Funds Administration, to brief roundtable participants on their organisations' experience with the different choice models that have emerged in Western Australia, Queensland and New South Wales where choice of fund has been introduced under state legislation.

2.5 It was noted that the complex, regulated choice system established in Western Australia differed substantially from the form of choice offered in the other two states. The form of choice offered in Queensland and New South Wales is an individual opt-out type of provision in industrial legislation where the employee can choose to be in a fund other than that specified in an award.

2.6 Mr Rosario told the meeting that choice of fund commenced in Western Australia on 1 July 1998 for employees under state industrial awards and agreements. Westscheme has some 90,000 members but Mr Rosario was unable to give any firm statistics on the actual take-up of choice of fund in the 18 months since it was introduced.

2.7 He went on to note, however, that there has been substantial growth in the number of employers using Westscheme because people were taking the fund to their new workplaces.

2.8 Mr Rosario indicated that engaging in such a wide ranging public debate through the roundtable forum, prior to the introduction of a choice regime was to be highly commended and that he was 'impressed by the duty of care that everybody at the table (was) willing to exercise in the public interest.'¹

2.9 In describing Westscheme's experience of choice, Mr Rosario outlined some problems with its operation that might serve as pointers for a federal regime. These included:

- **inconsistency between federal and state awards** - The inability of employers to offer choice to everyone in the workplace caused initial difficulties;
- **default fund** - Under state industrial legislation, employees who do not initially exercise their right to choice default into the fund nominated under the relevant award or agreement. However, a number of the funds nominated in awards charge high exit fees which can disadvantage employees who later elect to exercise choice;
- **insurance** - Westscheme offers employees cover from the date they begin work where employers have a bona fide relationship with the fund. However coverage is an issue especially where people delay making a choice. Whereas the proposed federal legislation nominates periods of 28 days for notification and 28 days for acceptance, there is no notification period in the WA legislation. Consequently until an employee notifies the employer concerning choice, he or she may remain in the default fund, perhaps without insurance cover;
- **education** - WA legislation provides for a notification to be given to employees who are entitled to choice. However they receive little advice or information when they are informed that they have a right of choice. What information they do get is often expressed in terms not readily understood by the ordinary person;
- **dispute resolution** - The lack of a low cost and easily accessible disputes mechanism in Western Australia to handle problems arising from the choice process means that employees only have recourse to the industrial relations process;
- **portability** - The WA legislation is silent on this issue. Some employees who assumed they had portability under the choice legislation have been unable to move their superannuation accounts unless they are changing employment and/or industry;

¹ Hansard, p. 82.

- **disclosure** - Disclosure is not specified in the legislation and is not approached in a standardised way by employers. While Westscheme prepares an introductory brochure for employers to give to employees, it is entirely discretionary for both funds and employers as to what information is provided;
- **administrative burden** - Employers are experiencing difficulty in complying with the choice provisions both in transmitting contributions to a number of different funds and in dealing with the joining requirements some funds impose, viz. contribution or account balance thresholds. The former problems have been alleviated to some extent by the establishment of a number of clearing houses that enable employers to pay their superannuation obligations to a trustee service that distributes the money to the relevant funds. However these are not sophisticated systems. The Australian Taxation Office project to develop messaging standards between payroll companies and superannuation funds will be a major advance in dealing with this administrative burden.

2.10 In concluding his evidence, Mr Rosario warned:

I just hope that we are not in the situation of actually having been thrown out of an aeroplane without a parachute and that we are not saying to each other in Western Australia 'What problem?' until we hit the ground with a crashing thud.²

2.11 Mr Downes referred to the experience that his company had of the confusion amongst both employers and employees between the current state arrangements in Queensland and New South Wales and the proposed Commonwealth arrangements. Citing evidence of increased salesforce in anticipation of choice of fund, he said:

I think it very clearly points to the need for very transparent disclosure on fees and charges and for dispute mechanisms that will inevitably arise in situations where you have disreputable agents simply trying to line their pockets at members' expense.³

Issues addressed

2.12 Following these briefings, the Chairman opened the forum to group discussion on the issues involved where there is a greater availability of superannuation fund choice.

2.13 The major issues addressed at the roundtable related to the following:

- Options for the form of choice;
- Preconditions (such as appropriate and standardised disclosure and a broad education campaign), and other measures (such as standard protocols for e-

2 Hansard, pp. 83-84.

3 Hansard, p. 8.

commerce) which would need to be in place prior to the introduction of the choice option;

- Other implementation issues associated with the introduction of the choice option, including the arrangements for default funds, insurance and frequency of payments of employee contributions;
- Prudential supervision and consumer protection issues;
- Investment choice; and
- Timing of the introduction of the choice option.

2.14 These issues are discussed in the body of the report.