



FINANCIAL PLANNING
ASSOCIATION *of* AUSTRALIA

5 May 2017

Productivity Commission
Locked Bag 2, Collins Street East
Melbourne Vic 8003

Email: super@pc.gov.au

Re. Superannuation: Alternative Default Models

Dear Sir/Madam,

We welcome the opportunity to provide brief comments on the Commission's draft report on alternative default superannuation models. We have focussed on those areas where we believe we're most likely to be of assistance to the Commission.

DRAFT Recommendation 3.1

To avoid perpetuating the legacy problems of the current system, any future alternative system for allocating members to default products should be premised on employees being assigned a default product only once, when they join the workforce.

FPA Response

We agree that the number of default superannuation accounts per individual should be minimised. We also believe that disengaged individuals should be encouraged to take responsibility for their choice of superannuation product. A change of employer offers a convenient opportunity for this encouragement.

We strongly recommend that, regardless of any other changes to the process for allocating individuals to default products, employers be required to seek instruction from each new employee as to where to send the employee's superannuation contributions. We would be against, for example, an opt-in arrangement where an employer could make a new employee's superannuation contributions to the employee's existing default superannuation account without seeking instructions from the employee beforehand. Although such an arrangement might not be feasible now, it would seem to be once the proposed centralised online service (see Draft Recommendation 3.2) is established.

DRAFT Recommendation 3.2

The Australian Government should establish a centralised online service for members, employers and the Government that builds on existing functionality of myGov and Single Touch Payroll. The service should:

- allow members to register online their choice to open, close or consolidate accounts when they are submitting their Tax File Number on starting a new job to facilitate the carryover of existing member accounts when members change jobs
- collect information about member choices (including on whether they are electing to open a default account) for their employer and the Government.

There should be universal participation in this process by employees and employers.

FPA Response

There is a strong argument for supporting the recommendation if facilitating the opening, closure and consolidation of accounts in accordance with each product provider's rules, and collecting information about member choices, would reduce costs for product providers, professional advisers and consumers. However, we are concerned about compelling employees and employers to participate. We would prefer that the wishes of those who choose not to participate are respected, and that broad participation is achieved because the benefits of the system encourage employees and employers to choose to participate.

DRAFT Recommendation 3.3

The Australian Government should introduce a formal framework that specifies the process and obligations of trustees when making or considering merger proposals. As part of the framework, trustees would be required to disclose all merger attempts involving their fund, as well as the reasons for any decisions.

FPA Response

We agree in principle with this proposal.

Information request 7.1

Which aspects of member services should be included in the tender criteria? Do default members value the same services as choice members?

FPA Response

We believe that all member services should be included in the tender criteria because default members may, in the future, become choice members. In our view, it is better to distinguish default and choice members on the basis of the weight given to members services (relative to other, such as returns net of fees), rather than excluding certain members services outright.

For example, the ability to start an income stream from a fund is arguably of equal value to both types of members as default members are likely to be as interested in the issue at retirement and choice members. In contrast, it would be reasonable to assign a much lower weight (for default members compared to choice members) to a facility for direct investments.

Information request 8.1

What are the main drivers of costs to employers in selecting default products on behalf of their employees? Would a shortlist of preferred default products make this task easier for employers? Is there an ideal minimum number of products that should be nominated on the preferred default list?

Are there other specific criteria in addition to those proposed under the minimum standards criteria that default products should meet to protect members and help to achieve better outcomes for them in the long term?

Would a dual-list approach, allowing employers to select a product from one of two lists, provide them with sufficient flexibility to select tailored default products that best meet the needs of their employees?

FPA Response

In selecting default products on behalf of their employees, employers face administrative costs and, potentially, the cost of professional advice. We believe a shortlist of preferred default products would make the task easier for employers if this reduces the number of funds the employer compares. The risk of this approach is that products that may be more suitable to the employer's employees are likely to be excluded from the start.

A dual-list approach might overcome this problem because the broader list, if sufficiently wide, would give employers the flexibility to tailor their choice of default product to the needs of their employee base. However, we would expect that, in practice, only well-resourced employers will consider the broader list.

As already discussed, we are against the notion of excluding consideration of any member benefit outright. This is because default members may become choice members. A better approach is for a low weight to be assigned to some features (such as the ability to invest in direct assets). By contrast, the ability to start an income stream from a fund should be given a high weight as default members are likely to become engaged when they can access their super.

If you have any queries or comments, please do not hesitate to contact me at policy@fpa.com.au or on 02 9220 4500.

Yours sincerely

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Policy Manager

Financial Planning Association of Australia¹

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 - In 2009 we announced a remuneration policy banning all commissions and conflicted remuneration on investments and superannuation for our members – years ahead of FOFA.
 - We have an independent conduct review panel, Chaired by Mark Vincent, dealing with investigations and complaints against our members for breaches of our professional rules.
 - The first financial planning professional body in the world to have a full suite of professional regulations incorporating a set of ethical principles, practice standards and professional conduct rules that explain and underpin professional financial planning practices. This is being exported to 24 member countries and the 150,000 CFP practitioners that make up the FPSB globally.
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