

MEDIA RELEASE

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Fair Work superannuation process will cost \$400 million

The selection process by the Fair Work Commission (FWC) for default superannuation funds under Modern Awards will cost superannuation fund members a staggering \$400 million if it is allowed to proceed.

Laws put in place by the previous Federal Government require the FWC to assess all MySuper products that apply to receive default contributions and then replace every single fund in every Modern Award. As early as 1 January 2015, each Modern Award must have from two to 15 default MySuper products.

New research by Rafe Consulting for the Financial Services Council shows the superannuation arrangements of at least 2.25 million working Australians and 100,000 employers will be thrown into turmoil if the Fair Work Commission is allowed to complete its review of default superannuation terms in awards.

It is the first research to analyse the systemic risks that superannuation members and employers face if the FWC process is not reformed.

Rafe estimates this will cost consumers and employers a massive \$400 million due to duplication of fees, insurance premiums and employer search costs.

He says within two years fund members would be \$150 out of pocket due to the cost of duplication of fees and premiums. Additional costs which will have no benefits for consumers. Costs which undermine years of reform aimed at stripping unnecessary expense from superannuation.

John Brogden, CEO of the FSC said: "The default superannuation system needs to be reformed as a matter of urgency."

"The consequences of not making reform are far-reaching," he said.

"These unnecessary costs to employers and employees may be incurred as early as 1 January 2015 unless the Government acts to reform the process before the FWC review is completed."

The Financial System Inquiry interim report released last week made a point of commenting on this issue. It observed that "the selection of default funds in awards largely reflects precedent and is not subject to a competitive process."

In the broader context, the Murray Review focused on driving costs lower to increase the adequacy of Australia's retirement savings.

Chant West data released this week demonstrates that FSC members have outperformed industry funds over the last three and five years. Opening up the default market to competition will enable more Australians to enjoy the benefits of their outperformance, forcing industry funds to lift their game.

“Superannuation funds that offer competitive products and provide good service to their members have nothing to fear from competition.”

Mr Brogden also said: “The closed shop of default superannuation is a risk not just for individuals who will have lower savings in retirement as a result of less competition, but for the Government which will ultimately bare the cost of lower fund balances in retirement through paying more in Age Pensions.”

EDITORS' NOTE

The research by Rafe Consulting focused on data from superannuation funds which manage more than \$88 billion in employer-sponsored superannuation fund assets on behalf of around 117,000 employers and their 2.5 million employees.

It showed from that sample:

- at least 1.25 million employees will need to be redirected to alternate superannuation arrangements;
- there is a potential cost to these impacted employees of \$185 million;
- potential losses to these members of \$50 million from asset buy/sell spreads and crystallisation of tax losses;
- around 100 000 employers will be required to redirect superannuation contributions on behalf of some or all of their employees; and
- a potential cost to impacted employers in the region of \$30 million.

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About the Financial Services Council

The Financial Services Council represents Australia's retail and wholesale funds management businesses, superannuation funds, life insurers, financial advisory networks, trustee companies and Public Trustees. The Council has over 130 members who are responsible for investing more than \$2.2 trillion on behalf of 11 million Australians. The pool of funds under management is larger than Australia's GDP and the capitalisation of the Australian Securities Exchange and is the fourth largest pool of managed funds in the world. The Financial Services Council promotes best practice for the financial services industry by setting mandatory Standards for its members and providing Guidance Notes to assist in operational efficiency.