OpEd - Turnbull's chance to open up a closed shop: super

By Sally Loane, Chief Executive, FSC

Having lost some skin through the 2016 Budget process, our compulsory superannuation system is heading into the new year ready to be transformed into a fit for purpose, efficient machine, muscled up to deliver for the next generation of Australians.

Super 2.0 needs to shed the flab built up over 24 years of protection inside the industrial relations system.

David Murray knew this when he delivered the Financial System Inquiry, the root and branch review of our current system, just over two years ago.

The absence of competition in the superannuation system was a key focus of the review. Mr Murray found that the current, anti-competitive industrial arrangements were preventing fees and costs for consumers from falling commensurate with the growth of the system.

Currently the Productivity Commission is working through a major review of the system to answer the $2.1 trillion question – is it competitive and efficient?

We think not. The protected model for the super system – which is currently at $2.1 trillion in size and growing steadily at over $100 billion per annum as all employed Australians mandatorily transfer 9.5 per cent of their wages into superannuation every week – is a glaring anomaly is our otherwise efficient, open and competitive economy.

The trade union movement did a good job decades ago shoring up what Steve Bracks, the former ALP premier and industry super fund chairman describes as a "secure funding model" for industry super funds. Industrial laws, enforced by the Fair Work Commission, effectively allow only trade union managed, or "industry" super funds to hold their buckets under the $9 billion waterfall of "default" funds – which is where super goes when Australians can't choose a fund freely (under industrial agreements) or don't indicate a choice.

These laws prevent consumers from escaping poorly performing super funds. They also prevent many more from being able to place their super into the fund of their choice – whether that's a major retail fund, a specialist ethical fund, or even the new, bleeding edge funds which only invest in high-tech companies or those which filter for cruelty-free investments, for example.

The Prime Minister understands how free markets work and knows that competition delivers economic growth. At the end of last year, in an upbeat speech to more than 500 financial services executives at the FSC-BT Political Series Breakfast, he stressed the importance of competition in all sectors of the economy, including in superannuation and financial services.

He said: "The path to prosperity is built on freedom, it's built on economic reform, it's built on open markets, it's built on encouraging investment and the employment that comes from it."

Karen Chester, the Deputy Chairman of the Productivity Commission, made a similar point in a recent speech on the critical need for evidence-based research. Chester recalled a meeting in 1987 with the then PM Bob Hawke which she attended with her boss and colleagues, describing herself, then an economics graduate in the Department of PM&C, as the meeting's "humble, silent notetaker". When the discussion centred on how to convince the ACTU to embrace tariff reform, she said under her voice, "because tariffs screw workers". She was heard. A model was built, an evidence base was formed, a case was made and good public policy - tariff reform – happened.

There is no doubt that the Hawke/Keating Labor government's tariff cuts and an open market economy provided Australia with the platform to compete and succeed on the global stage. The Productivity Commission found that these competition reforms added 2.5 per cent to GDP.

Competition delivers for consumers across every product.

The lobbying arm of the trade union owned super funds also knows this but they argue that it applies to every sector of the economy bar their own. Recently they urged the Treasurer to open up "closed shops" like the pharmacy sector and grocery retailers – but ignored their iron grip on super. The unions want their 'secure funding model" to remain for super, but every other market to be open to competitive forces.

This is a position that belongs in a bygone era of rust-belt factories and tariff walls. It's run out of wind, and has nowhere left to go. Millennial consumers – and their parents – want the same freedom to choose financial services, including superannuation, as everything else in their lives.

The Turnbull Government has the opportunity to open up the remaining, and arguably most important "closed shop" of all, superannuation. Like Labor's reforms of the past, this will deliver for consumers. Only underperforming funds need fear competition.

This article first appeared in The Australian on 23 January 2017.