

Why consumers need super funds that work for them

By Sally Loane, CEO, Financial Services Council.

The Productivity Commission is currently developing criteria to assess the efficiency and competitiveness of the superannuation system.

In its interim report the Commission has concluded that the current 25 year old industrial system contributes to the duplication of accounts that cost each of us as much as \$25,000 in retirement savings. This is untenable.

While the default superannuation inquiry relates to consumers who, by definition, are currently disengaged and largely default to a MySuper product chosen by their employer, this does not mean that the Commission and the industry should assume this cohort of consumers will *always* default – or that they are better off defaulting.

Our default superannuation system today fosters – indeed promotes – ambivalence. No-one gives employers or unions carte blanche to choose their bank accounts – why do so many allow them to choose their super funds?

The Financial Services Council made the case to the Productivity Commission on Monday that consumers deserve a competitive default super model that encourages engagement and is decoupled from political interference. Our current system is ruled by out-dated, industrial barriers that stifle competition between superannuation providers, and which ought to be removed.

Too many people in parts of the super system assume that young people can't or won't make decisions about their long-term future, that they're chronically disengaged. That they need decisions made for them by a third party who may or may not have their best interests at heart.

I do not believe for a minute this is true. If you give people information, choice and innovative products, they will engage.

More importantly, this paternalistic, old fashioned attitude is not sustainable if we genuinely want our superannuation system to deliver adequate retirement incomes for all Australians, including women who take career breaks, or our increasingly 'uber-ised' Millennial workforce.

The competitive superannuation model the FSC has proposed – which we call Super 2.0 – offers consumers choice between funds, is competitive, flexible and fit for purpose for young Australians entering the workforce. This model can be contrasted with the status quo – our current industrial model that encourages disengagement.

The current industrial model is predicated on the average white male working from 9am-5pm, in the same occupation, in the same industry for 40-plus years, is disengaged from responsibility for his retirement savings and is prepared to leave its management to his employer.

This rust belt view of superannuation has no place in a modern financial services industry or a modern economy – where in any other product category consumers can manage their financial affairs at the touch of the iPhone. It has no place in a modern society where we are trying to find solutions to ensure women can save at least as much for their retirements as men.

The Commission has put forward four options, each of which are intended to increase competition between trustees. The FSC believes, however, that the Commission should focus its final report on

identifying the policy objectives that a default superannuation model is intended to achieve, and compare their recommended model, or models, against these objectives.

The FSC argues that the best model to achieve these objectives is a hybrid of the employee and employer choice models from the Commission's interim report, where every consumer can choose their own fund, with an enhanced APRA approval process for MySuper accreditation, and where a consumer does not make a choice their employer can choose a default fund for their workplace.

Competitive markets work best when engaged, informed consumers discern between products to choose an offering that best suits their personal needs. This principle holds true for superannuation, as it does with any other product or service in our economy.

Engaged consumers in the superannuation market not only choose a product that is best suited to their needs, but their engagement also increases pressure on funds and their trustees to raise the standard of their products and reduce their costs to attract and retain members.

Under the system we propose there is no reason why any efficient, well-performing fund – whatever its ownership structure – should fear open competition. Opening up super's default system to competition and choice will kick start an arms race in innovation to the benefit of all Australians.

This article first appeared in the Sydney Morning Herald.