The Superannuation Forum - Introductory Comments
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Ladies and Gentlemen, in my more than five years at the Financial Services Council, superannuation has undergone substantial change. In 2009 superannuation funds under management were $1.1 trillion. This has grown to $1.8 trillion. As it has grown, superannuation has become a bigger and more influential part of the economy.

As a country, we should be – and are – rightly proud that Australia has one of the world's leading private pension systems. Over the past five years there have been a number of changes that have improved the system. In this time, competition between funds has driven lower fees and higher returns. And the commencement of MySuper this year has had a dramatic impact on fees.

Fees
Whereas average total fees for all superannuation funds declined from 1.37 per cent to 1.2 per cent between 2002 and 2011, a significant decline in its own right, the decline has accelerated in the past two years. Overall fees declined a further 0.08 percentage points to 1.12 per cent in June 2013 with MySuper default products driving the majority of the decline.

Between 2011 and 2013 fees in MySuper default-like products declined an average of 0.92 per cent to 0.73 per cent (or 73 basis points). At 0.5 percent and $50 per year, ANZ's MySuper product "Smart choice" is the lowest fee default product in the country.

Recent Deloitte research shows that at 73 basis points, MySuper products compare favourably to fees on similar products in other countries including the US, Canada and Chile. With respect to returns, according to superannuation research house Chant West, retail superannuation funds have outperformed Industry Funds over the last five and three year comparisons.

In the MySuper contest, the results demonstrate the real benefits to consumers of competition. The MySuper legislation requires APRA to publish quarterly comparisons of the MySuper products on a like-for-like basis. The first of these reports was published two months ago. It shows that FSC member superannuation products have, on average, outperformed industry funds – returning 3.4 per cent compared to 3.18 per cent for industry funds - since MySuper commenced.

Despite its success to date, MySuper must be given time to deliver what Jeremy Cooper's landmark superannuation review intended it to do - that is, lower costs through genuine competition. The way default superannuation funds are selected must be reformed by the introduction of an open, competitive and transparent market. Fees can go even lower if default funds are open to true competition.

Default and awards
The Government has a genuine opportunity to further reduce fees in superannuation and boost member returns by opening up the default superannuation market to competition. In its final days the previous Government legislated a conflicted and anti-competitive process for selecting default superannuation terms in modern awards.

The previous Government legislated that the Fair Work Commission (FWC) must review every super fund in all 122 modern awards and select new funds. The FWC process, however, allows only unions and employer organisations to make submission into which fund is selected for each award.

The previous Government chose three experts to sit on the review panel, two of whom have had to stand aside due to potential conflicts of interest. One of the 'experts' appointed was on the Board of an industry super fund. The current default superannuation process is conflicted, anti competitive, and must be abolished. It is not a safety net – it's a racket!

The FWC process delivers industry funds monopoly control over $9 billion in annual flows of default super contributions. The prudential regulator, APRA is responsible for approving MySuper products as suitable to come to market. APRA ensures that the products have a suitable investment strategy for default members and that there are adequate consumer protections in place.

The prudential regulator, not the industrial arbiter, is the appropriate body for assessing MySuper products, not a conflicted industrial tribunal. Having the industrial tribunal involved in the process is unnecessary and solely protects vested interests and the incumbents.

I want to strip away the debate and show the Fair Work Commission default superannuation process for what it really is – a distribution channel for the industry funds. Why else would Industry Funds today launch a desperate, farcical and extraordinarily hypocritical proposal to restrict one class of superannuation funds from the opportunity to provide Australians with low cost, high performing retirement funds? Here's what employer groups think about the Industry Fund monopoly:

John Osborn, the COO of the Australian Chamber of Commerce and Industry, was right when he said "There is no defensible public policy reason why the Fair Work Commission should add an unnecessary and duplicative layer of red tape to superannuation or limit the open and competitive functioning of the market for superannuation products."

Peter Strong, CEO of COSBOA, said "It is essential… that the obvious monopoly that industry funds have within the workplace relations system as compulsory default funds for small businesses is brought to an end."

Dictating which super fund employers must use is an insult to the intelligence of every employer in the country. If industry funds are so confident of their proposition, why are they so afraid of competition? The anti-competitive and conflicted FWC process should be abolished. Superannuation must be removed from the industrial system. Employers should be free to choose from all the APRA authorised MySuper products which is the best for their employees.

Governance

It beggars belief that anyone could attempt to argue against independent directors on superannuation boards in a modern, mandatory retirement system. Australia's superannuation system deserves the highest standards of governance. This is why the FSC moved last year to require our superannuation fund members to have a majority of independent directors and an independent chair on their trustee boards.

In contrast, industry funds want to be afforded the option of considering, having some independent directors. However, the same industry funds are signatories to the ASX Corporate Governance Principles that state that best practice requires the majority of a board to be independent directors that the Chair of the board should be an independent director. Industry funds expect independents on the boards of the companies in which they invest, their members should be able expect it of the funds themselves.

Michael O'Neill, CEO of National Seniors Australia, put it succinctly on Monday when he said "Independent trustees are essential in ensuring accountability, and should be a fundamental requirement of the people overseeing our nest eggs."

"Besides eliminating conflict of interest, they also bring a healthy diversity to a board."

He reflected the public's expectations of super fund governance when he said "They're playing with people's life savings, and should be held to the same high standards of governance that we expect from all Australian companies."

"Whether you're an employer or employee, a commitment to transparency and accountability should simply be a given in this day and age."

Independent directors serve a very important role ensuring that the potential conflicts of other board members and staff are kept in check. So long as the Government allows trustee boards to continue with equal representation between unions and employers, and for the FWC to continue to choose default funds at the behest of unions and employers, there will continue to be an untenable conflict of interest. Superannuation boards must have independent directors to protect the interests of fund members.

I want to turn now to focus on the challenges for the future. As I said earlier the Superannuation system presently stands at $1.8 trillion, the fourth largest in the world. It will be $3 trillion in 2020 and $5 trillion in 2030.

Retirement Incomes Policy
As an Industry, we must now embrace the opportunity and lead the debate on taking superannuation from a world class accumulation scheme to the world's best retirement system. We must see superannuation and retirement income policy in the overall context of short, medium and long-term national budget sustainability.

The system must not only provide a majority of Australians with an appropriate retirement – it must also take intergenerational pressure off the budget. Failure to do this will mean our superannuation system and policy has failed. Australia does not have a national retirement income policy.

In the 1980s we adopted a comprehensive national competition policy which drove the reforms that have underpinned much of the economic success over 25 years – deregulation, privatisation, lower tariffs and more flexible labour markets. Over the next few months we will work with the industry, business leaders, community organisations and others to develop a "National Retirement Outcomes Policy".

This policy will form views on critical issues that will determine whether superannuation succeeds or fails as the savings vehicle for Australia's future. The alternative is rolling, piecemeal and constant changes to the system that undermine confidence and stability.

The "National Retirement Outcomes Policy" will integrate the design of the superannuation system with government policy on ageing, welfare, health and tax. Our policy must consider the following:

- The efficiency of tax concessions at the contribution, earnings and drawdown phases;
- Whether tax concessions cease at a certain accumulation point?
- Should we continue to allow access to lump sums or opt for compulsory or incentivised pensions?
- Are the age pension and preservation ages right? Should they be aligned? Should they be actuarially linked to life expectancy?
- Is the assets test set at the right level? Is access to the age pension too easy?
- What is the increased role of life insurance attached to superannuation? How can life insurance reduce the burden of welfare payments, aged and health care costs? Should life insurance be incentivised as health insurance is? AND;
- We remain disappointed with the Government's decision to delay the increase to 12 per cent. Is 12 per cent the right contribution level? Can 12 per cent ever provide for life expectancies moving into the 90s and beyond 100? Does it meet our demographic profile? Do we move to 15 per cent? If so, does the additional 3 per cent pre-fund our health and ageing costs?

Lastly, in anticipation of the final report from David Murray we argue Australia's superannuation system is achieving its objectives:

- Savings are three times larger than they would otherwise be with out a Superannuation System;
- Superannuation ensures effective Capital Flows into the economy; and
- We have a world class retirement system.

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