



# WOMEN IN SUPER

## Lunch with Karen Chester

Wednesday 7 June 2017



@WomeninSuper #WISVIC





Australian Government  
Productivity Commission

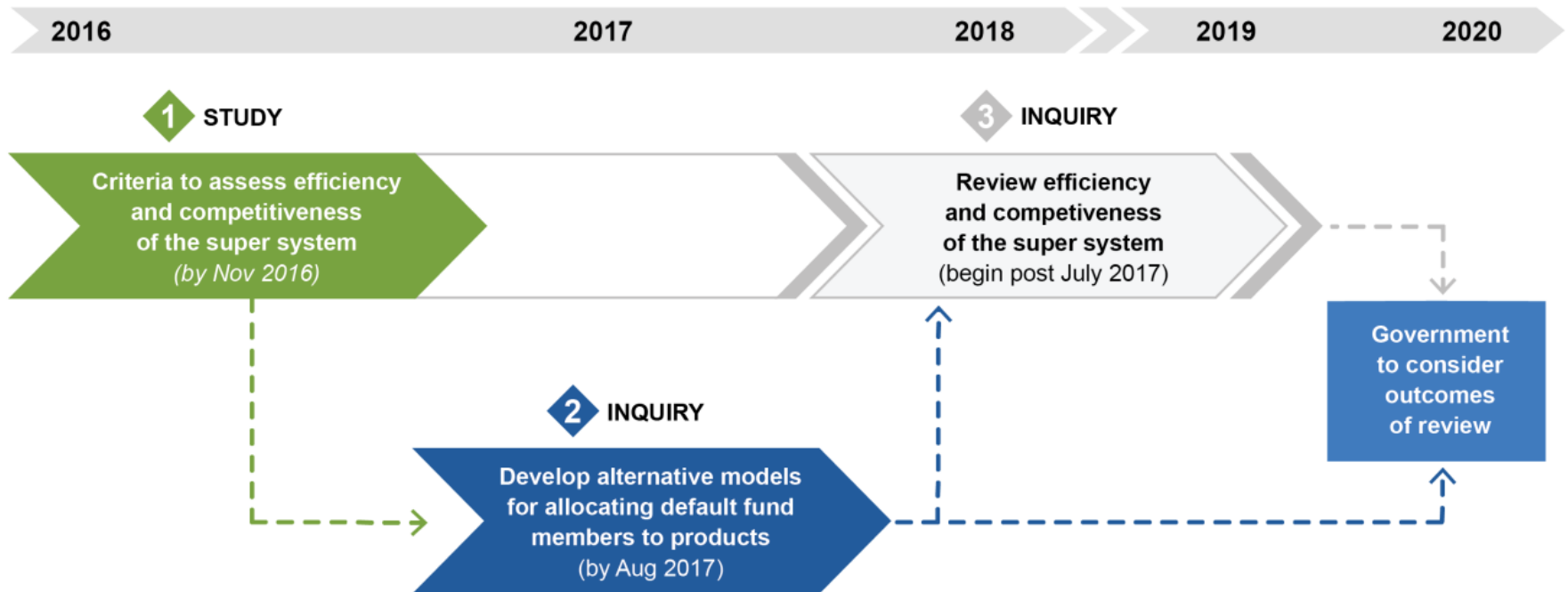
# Default superannuation: is there an alternative way?



**A lunch with Women in Super**  
**7 June 2017**

Karen Chester, Deputy Chair  
Productivity Commission

# Our super work: the trifecta



# Our approach

## Economy-wide wellbeing

### Stage 1

Members' best interests

#### Defining system-level objectives

What is the system trying to achieve?

#### Formulating assessment criteria

Performance standards to assess whether system-level objectives met

#### Developing indicators

To facilitate assessment

Focus on factors within the control of the superannuation system

Questions to ask & answer

Collective evidence base

### Stage 3

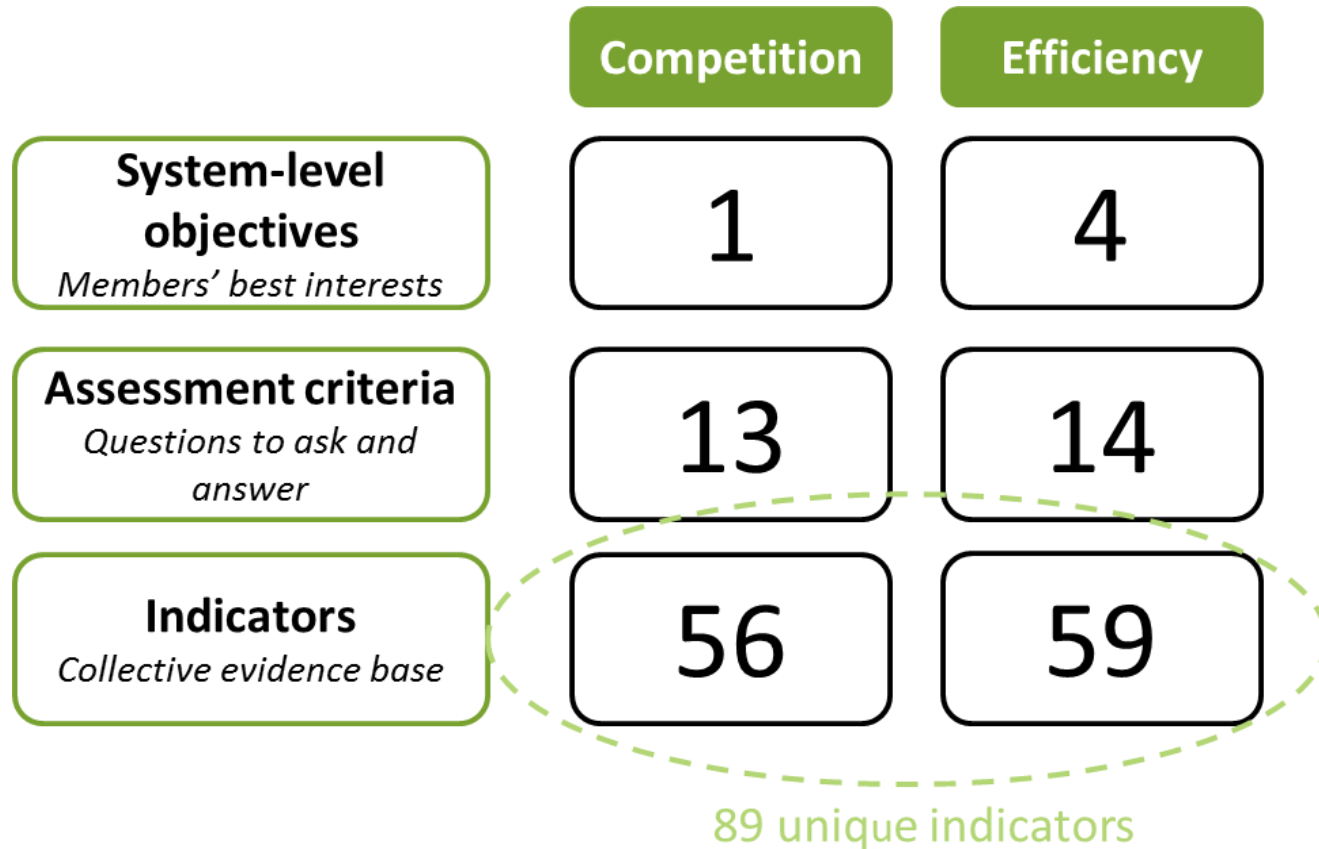
Overall assessment

Apply results

Undertake performance indicator analysis

Collect data

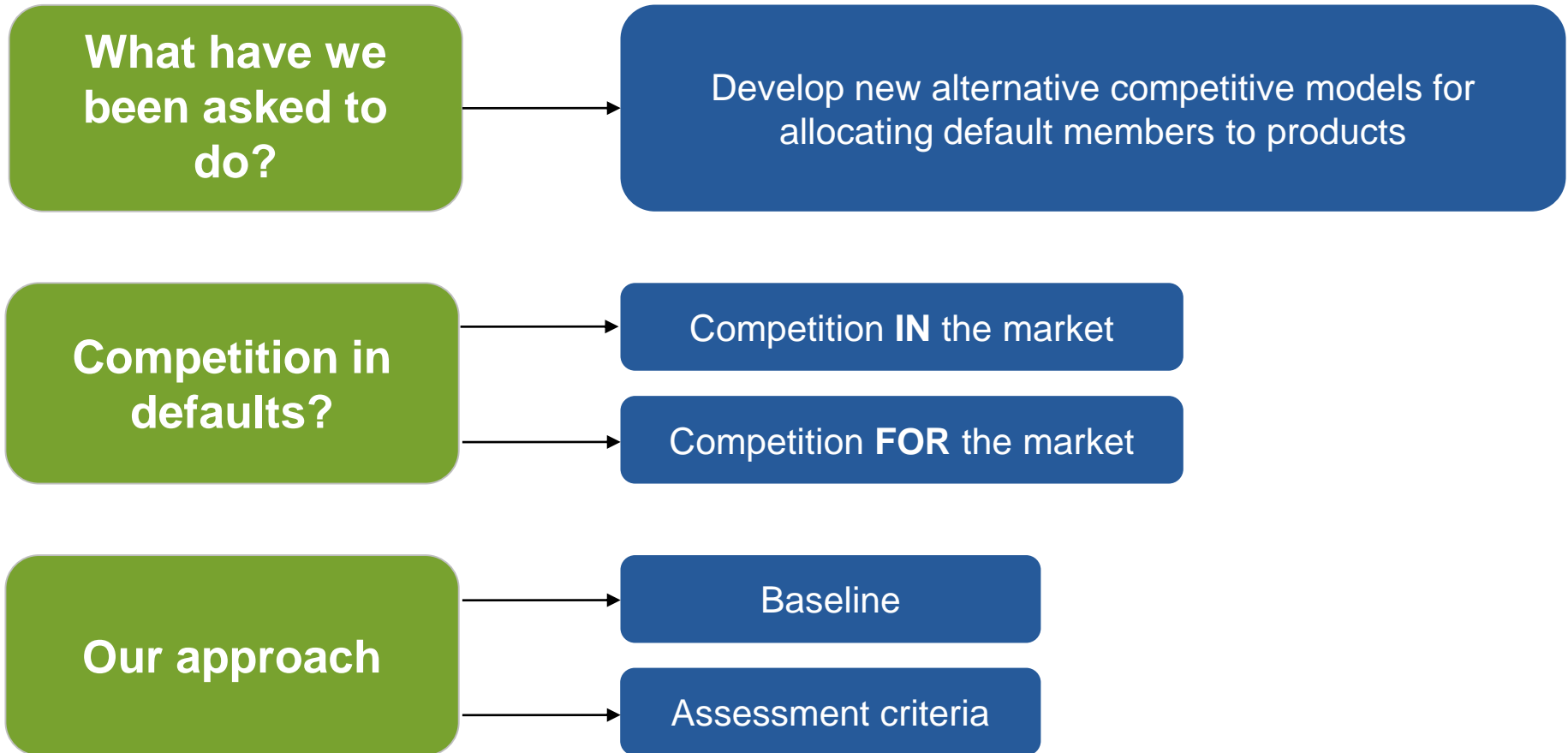
# Our assessment framework



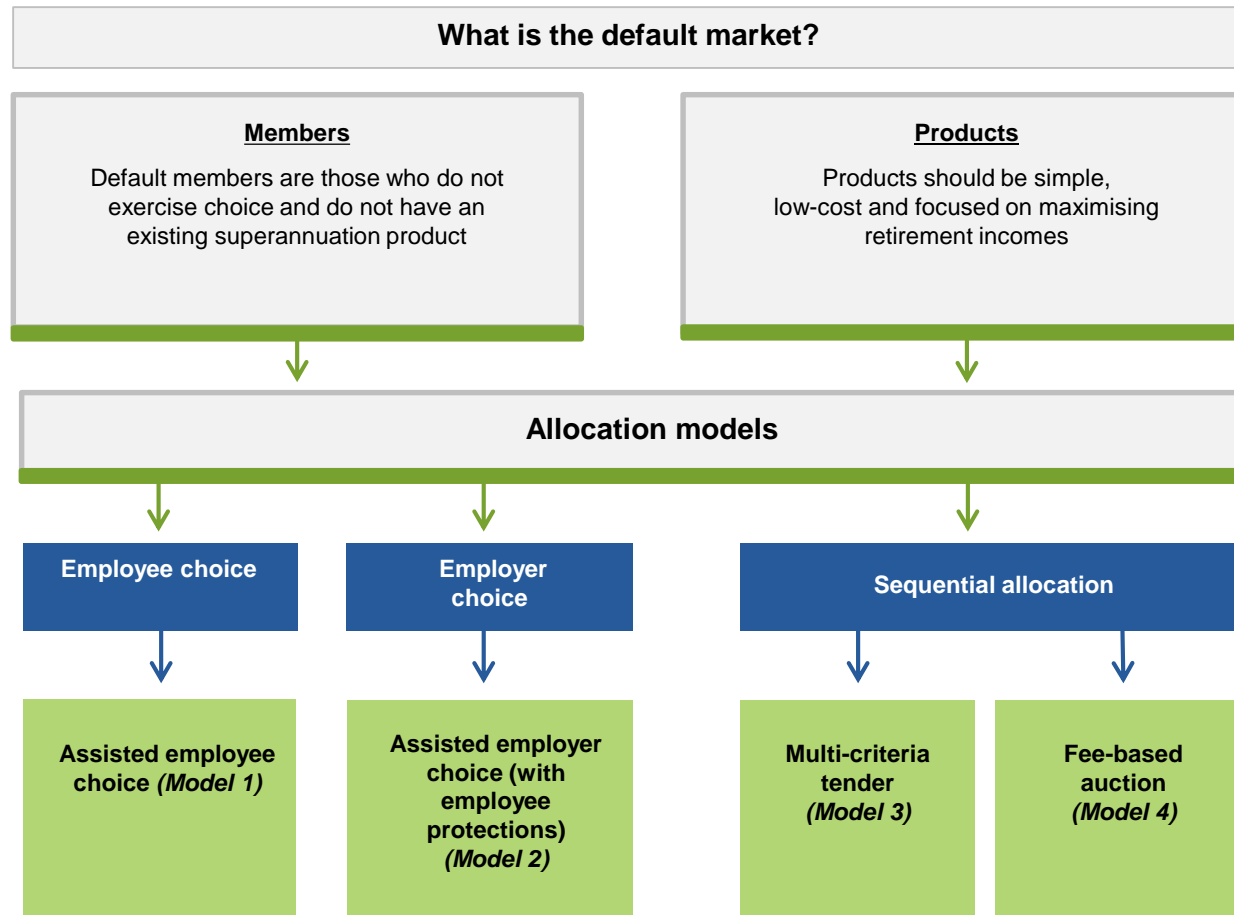
# Our approach: assessment framework examples

	Competition example	Efficiency example
System-level objective	Competition in the superannuation system should drive efficient outcomes for members	The superannuation system contributes to retirement incomes by maximising long-term net returns on member contributions and balances over the member's lifetime, taking risk into account
Assessment criterion	Are economies of scale realised and passed on to members	Are long-term net investment returns being maximised, taking account of risks
Indicators	<ul style="list-style-type: none"><li>• Unused scale economies</li><li>• Entries, exits and consolidations</li><li>• Pass through of benefits</li><li>• Fees and costs align</li></ul>	<ul style="list-style-type: none"><li>• Long-term returns relative to benchmarks</li><li>• Net return variance relative to benchmarks</li><li>• Number of defaults that persistently underperform</li></ul>

# Our default super work: genesis



# How have we built our models?





# Who are default members?

- Shift from 'turnover' to 'first timers'
- Turnover pool
  - *Almost 1 million members a year*
  - *\$5.2b in contributions a year*
- Defaults only applicable to 'first timers'
  - *400 000 members a year*
  - *\$800m → \$2b in contributions a year*
- Young disadvantaged – multiple insurance and fees

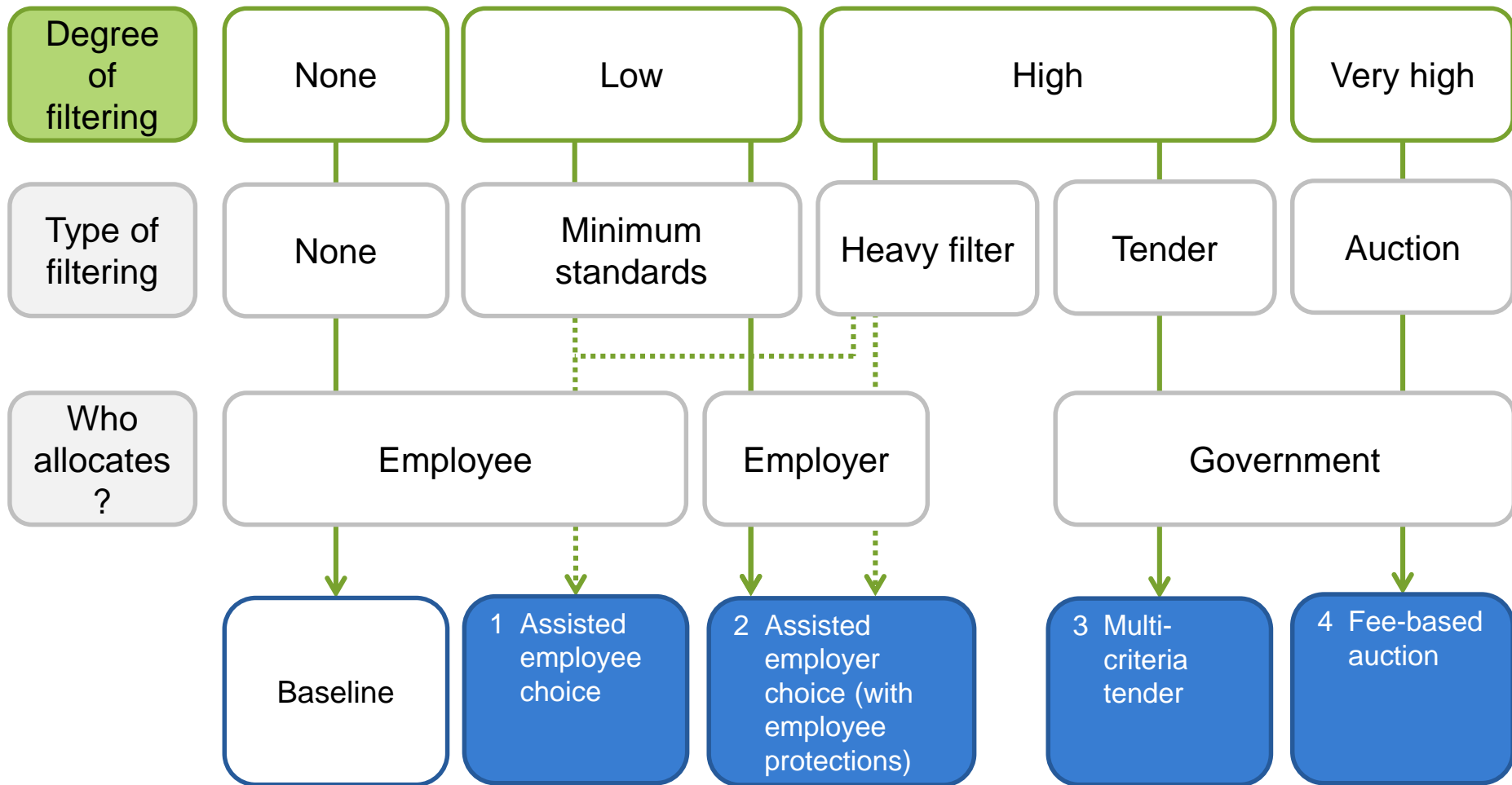
# Selection body to choose default products

- All models require a selection body
- New body – not APRA or ASIC
- Best practice principles:
  - *Understanding of member perspectives*
  - *Obligation to act in best interests of members*
  - *Expertise*
  - *Transparency*
  - *Procedural fairness*
  - *Free of conflicting interests*
  - *Accountable for its decisions*
- Risk if body members lose independence, but process needs to be transparent and accountable

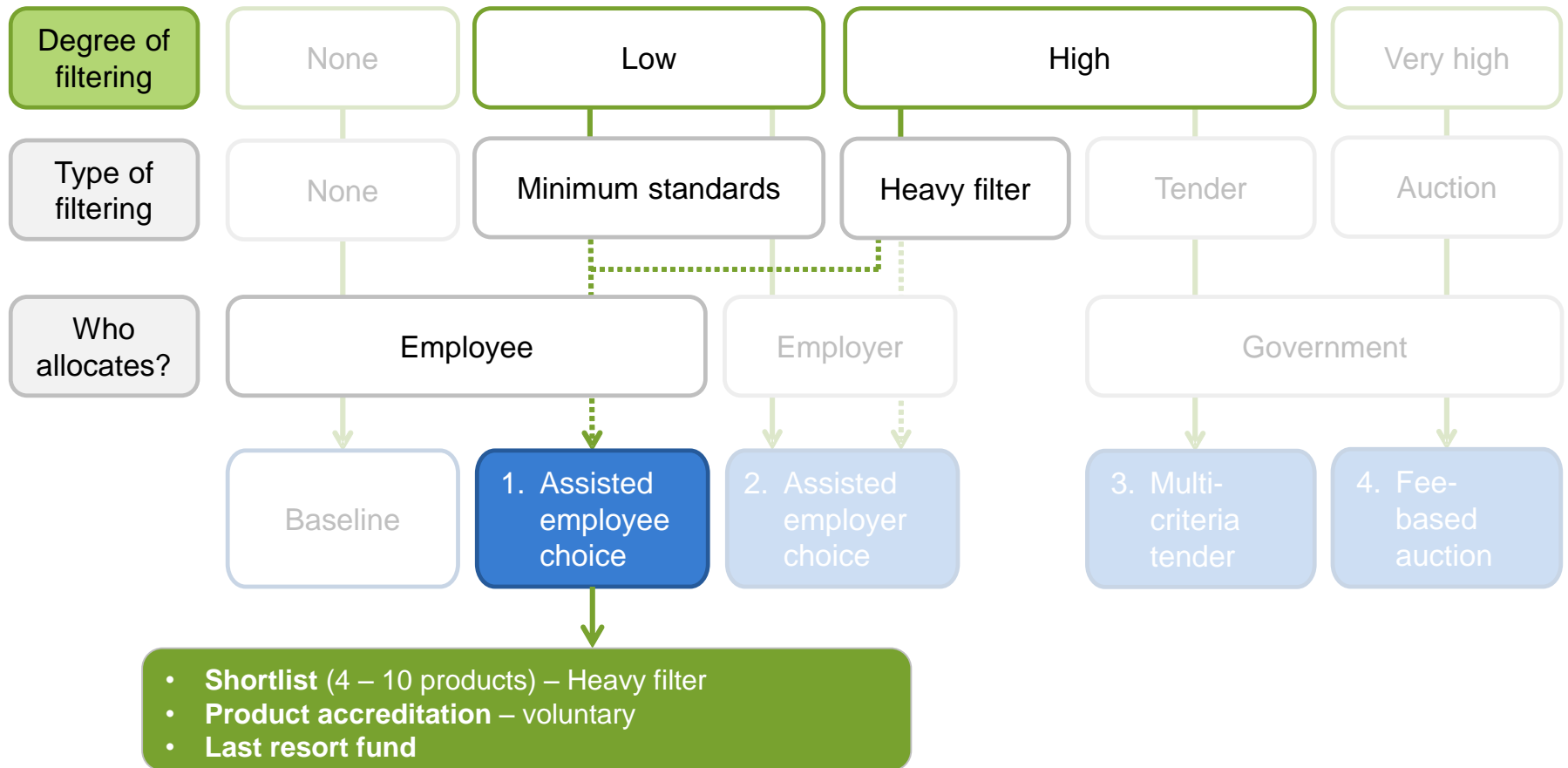
# Common supporting reforms

- ATO to provide central online information service
  - *Facilitate the opening, carry-over, consolidation and closing of super accounts*
  - *Collect data to improve decision making*
  - *Central clearing house service would be an attractive extension*
- Extend choice to all members
- Increased transparency and accountability on merger decisions

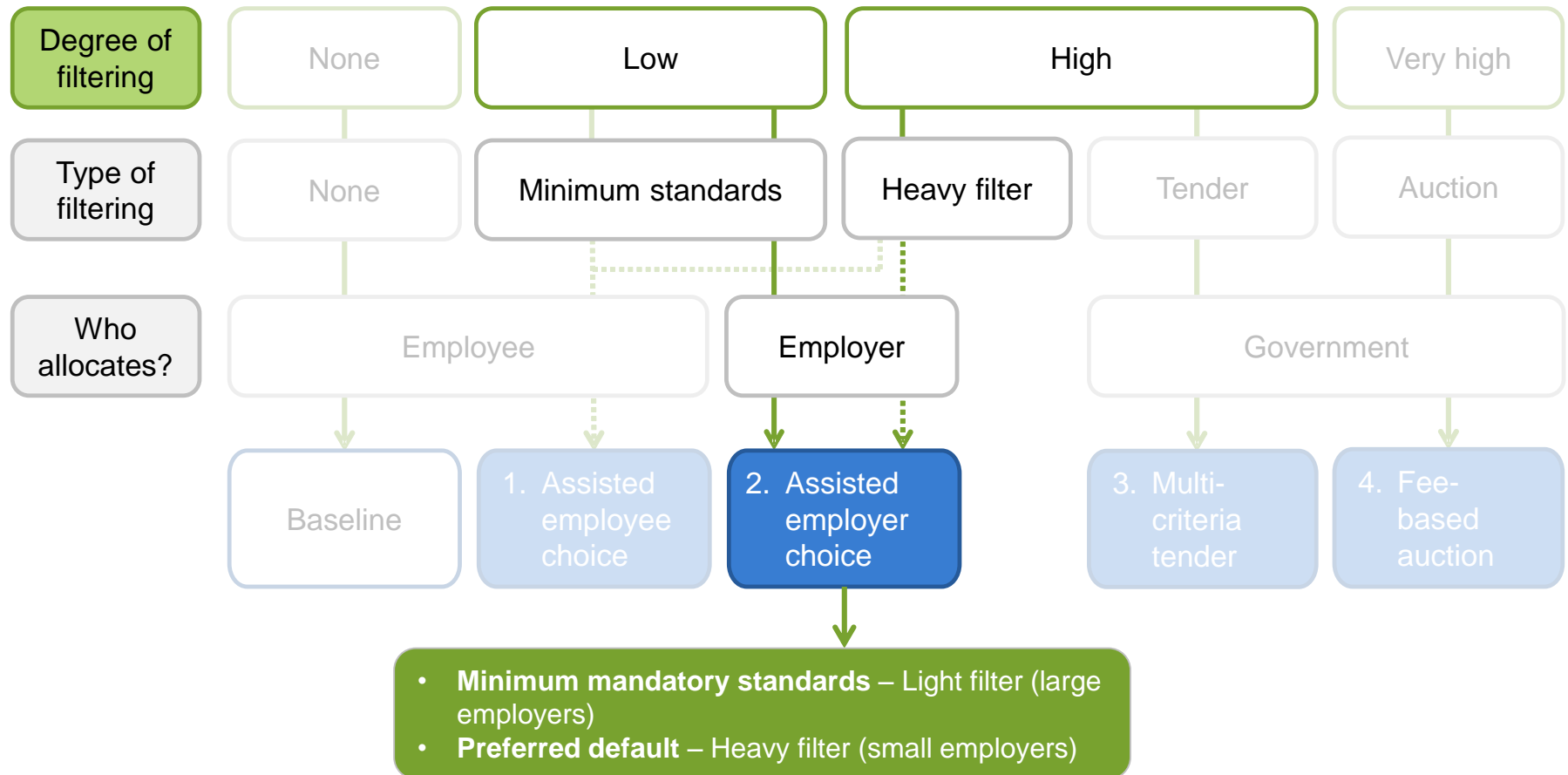
# What models have we come up with?



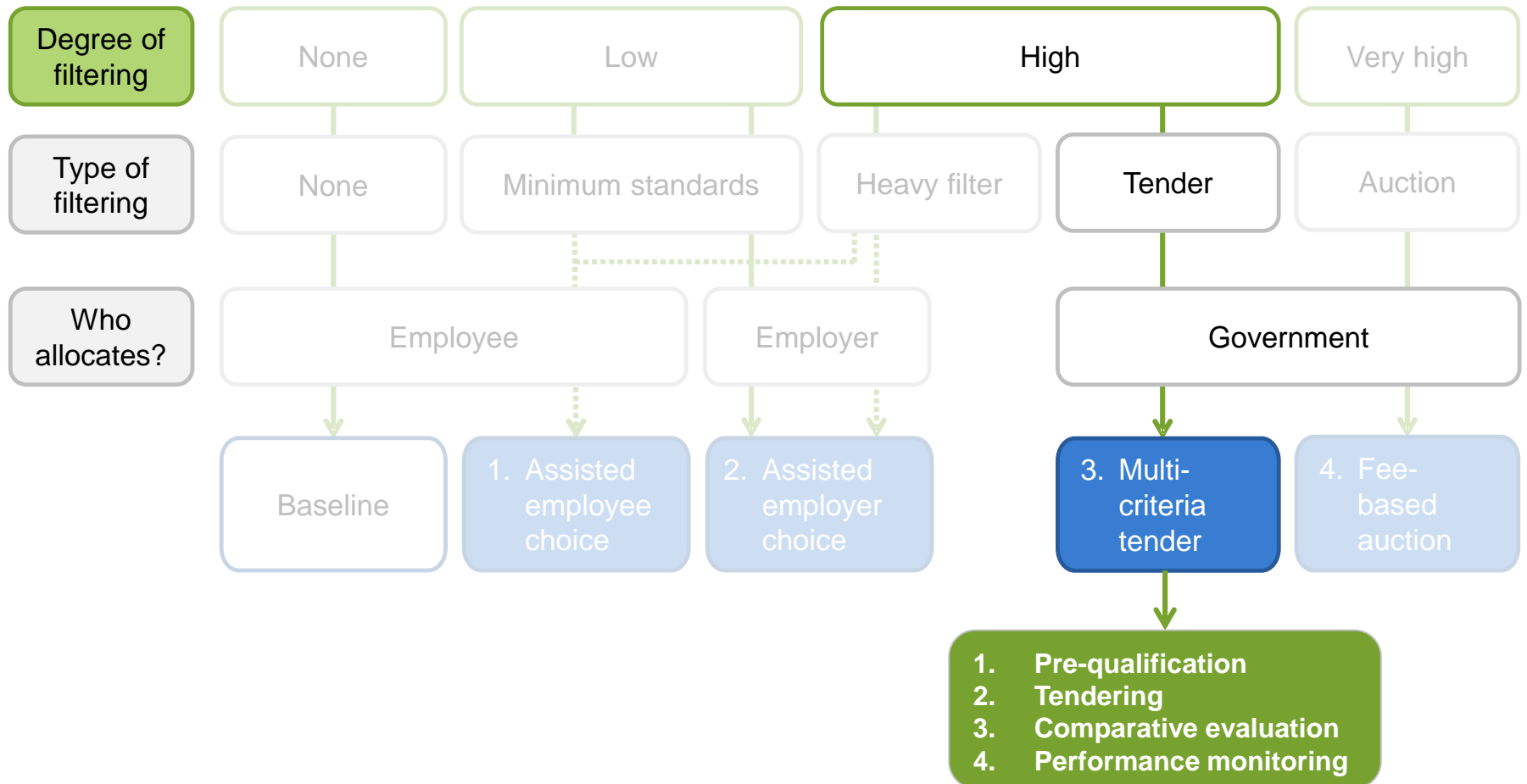
# Model 1: Assisted employee choice



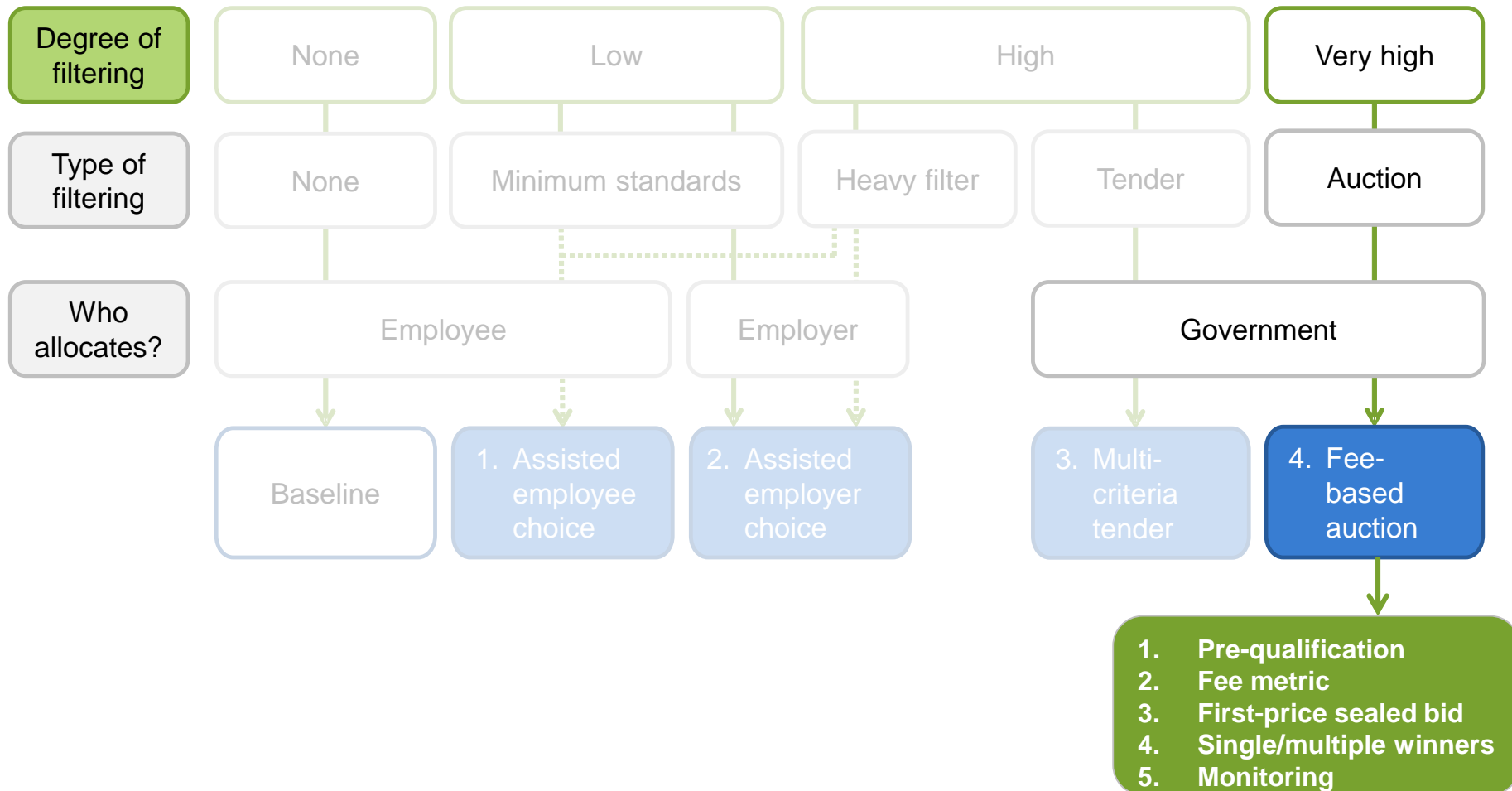
# Model 2: Assisted employer choice (with employee protection)



# Model 3: Multi-criteria tender



# Model 4: Fee-based auction





# How do these compare to the baseline?

	Baseline		Model
Member benefits	-	↑	All models guide members to better products
Competition	-	↑	All models focus competition on member value
Integrity	-	↑ ↓	Potential conflicts of interest, but addressed through selection process
Stability	-	-	Not compromised
System-wide costs	-	↑ ↓	Search costs would fall but administrative complexity would rise

No obvious winners at this stage

# Key take outs

## Why consider new alternative models?

25 years and still more to go, yet legacy issues remain

Workable alternatives that promote competition in members' interests

Varied performance in default products, for **all** fund types

## Australians have too many duplicate accounts

Unfair to young workers

New default models only apply to those without an account

Make it easier to take existing account to new job

## Other necessary ingredients for better member outcomes

Give everyone the right to choose

A larger role for the ATO to support the super system

↑ transparency of merger considerations to hasten exit of poor products

# Where to from here?



Over to you for...

