Master Builders Australia

Submission to the Treasurer

on the

Financial System Inquiry Report's Recommendations about Superannuation

31 March 2015

MASTER BUILDERS
AUSTRALIA

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1 Introduction

1.1 This submission is made on behalf of Master Builders Australia Ltd.

1.2 Master Builders Australia is the nation's peak building and construction industry association which was federated on a national basis in 1890. Master Builders Australia's members are the Master Builder state and territory Associations. Over 125 years the movement has grown to over 33,000 businesses nationwide, including the top 100 construction companies. Master Builders is the only industry association that represents all three sectors, residential, commercial and engineering construction.

1.3 The building and construction industry is a major driver of the Australian economy and makes a major contribution to the generation of wealth and the welfare of the community, particularly through the provision of shelter. At the same time, the wellbeing of the building and construction industry is closely linked to the general state of the domestic economy.

2 Purpose of Submission

2.1 The final report of the Financial System Inquiry (Report) was released on 7 December 2014. Some of the recommendations deal with superannuation.

2.2 Master Builders made two submissions on other than superannuation to the Financial System Inquiry dated 4 April 2014 and 28 August 2014 which we stand by. Where they conflict with recommendations in the Report our view is maintained.

2.3 This submission is in response to the media release dated 7 December 2014 from the Treasurer, the Hon Joe Hockey MP, inviting stakeholders' views regarding the recommendations within the Report. The consultation process will close on 31 March 2015. This submission is confined to recommendations in the Report about superannuation which are articulated by number.

2.4 We set out a number of relevant recommendations regarding superannuation followed by our comment.

3 FSI Recommendation 9

3.1 This recommendation is: *Seek broad political agreement for, and enshrine in legislation, the objectives of the superannuation system and report publicly on how policy proposals are consistent with achieving these objectives over the long term.*

3.2 The Report recommends that the Government seek broad political support by a joint parliamentary inquiry into the proposed objectives. It recommends that the primary objective should be “To provide income in retirement to substitute or supplement the age pension”. The Report also proposes a number of secondary objectives.[1] These objectives and the recommendation are supported by Master Builders.

4 FSI Recommendation 10

4.1 This recommendation is: *Introduce a formal competitive process to allocate new default fund members to MySuper products, unless a review by 2020 concludes that the Stronger Super reforms have been effective in significantly improving competition and efficiency in the superannuation system.*

4.2 The practical reality is that not all superannuation funds, mainly retail funds, have fully implemented a MySuper product. In supporting a 2020 review we do not support a review to be undertaken earlier. Like other matters dealt with by the Report, it has not taken into account the many complexities relating to fees in the context of superannuation. Simply focussing on MySuper and net returns and somehow linking this to fees is not a sufficient response. A review in 2020 is supported on that basis; the current system should be allowed to normalise to the MySuper regime before a review is undertaken.

5 FSI Recommendation 11

5.1 This recommendation is: *Require superannuation trustees to pre-select a comprehensive income product for members’ retirement. The product would commence on the member’s instruction, or the member may choose to take their benefits in another way. Impediments to product development should be removed.*

[1] P 95, *Financial System Inquiry – Final Report*, November 2014

5.2 There is no one size fits all answer. In the longer term when the superannuation system has matured then income retirement streams will need to be seriously considered and when average account balances are significantly larger than they are today. Account holders with small balances should be able to withdraw and similarly account holders with certain individual or family circumstances regardless of balance size should be allowed the same.

5.3 Nevertheless, the conversion of superannuation accounts into retirement income streams is a meritorious policy objective as it reduces pressure on the age pension and encourages longer term investments by funds. Hence the recommendation is broadly supported.

6 FSI Recommendation 12

6.1 This recommendation is: *Provide all employees with the ability to choose the fund into which their Superannuation Guarantee contributions are paid.*

6.2 To portray the fact that 20% of employees cannot exercise choice as “choice suppression” as established in the Report is an oversimplification. The same labelling could be made where an employee is “forced” to place their SGC with an employer-nominated superannuation fund and where technically the employee has “choice”. Credible research by both retail and industry super funds shows that most people are disengaged and/or poorly informed about superannuation. The point is that even where full and open market-based choice is offered, it is somehow assumed that employees will in fact make a choice. Currently, when an employee fails to nominate a superannuation fund, the employer needs to make such an election to fulfil its obligation. The recommendation therefore is problematic.

6.3 To make a perfect choice assumes that the whole decision making process is also perfect, such as where employees have perfect information and where they have equal power in being permitted to nominate their superannuation fund without any limitations imposed by the employer. For instance, the recommendation would mean that an employer of a large number of employees must accommodate potentially 100-plus superannuation funds if there is to be genuine choice. The point is that choice impacts on both the employee and the employer. In other words, if "choice suppression" is removed then employers cannot then impose their own "choice suppression".

6.4 This discussion above highlights the complex nature of what may seem a simple, self-evident recommendation. Master Builders therefore backs the Productivity Commission's recommendations where there is choice provided to say, 10-12 potential default funds that might be chosen where they are specified in the modern Awards relevant to the employment. This factor mitigates the risks both for employees and employers and provides high-level certainty in an environment where there is considerable disengagement by employees with the superannuation system and at the same time would limit employers' compliance obligations where they are required to make contributions to a very large number of superannuation funds if full choice is to be exercised.

7 FSI Recommendation 13

7.1 This recommendation is: *Mandate a majority of independent directors on the board of corporate trustees of public offer superannuation funds, including an independent chair; align the director penalty regime with managed investment schemes; and strengthen the conflict of interest requirements.*

7.2 Master Builders acknowledges the Cooper Committee recommendation that there be independent and non-associated directors comprising one third of the Board. However, such a recommendation must not be looked at simplistically. Such a recommendation fails to address outcomes and only looks at the 'input' side, in other words it assumes an independent director will automatically lead to superior outcomes in terms of investment returns and services to members. Such a simplistic recommendation fails to address other key factors such as skill sets and deep understanding of sector specific superannuation funds. The recommendation assumes that independent directors have superior expertise or capability, no proof is offered in support of that proposition. While, at face value this recommendation seems to be focussed on industry superannuation funds, it must equally apply to retail funds. This brings the whole issue of the definition of who is independent into greater focus. How "independence" is established is problematic.

7.3 In addition, there is a body of evidence that would suggest that mandating a majority of independent directors on Funds or other Boards may be counterproductive.[2]

Augmenting all these arguments, Master Builders would submit that the diversity of backgrounds and life experience brought by representative directors and their affinity with the industry combined with appropriate superannuation skill sets has and continues to be a benefit, particularly of the fund with which Master Builders is affiliated, Cbus.

8 Conclusion

8.1 The Report's recommendations on superannuation should be modified as proposed in this submission.

8.2 Master Builders calls for stability in relation to the rules relating to superannuation as constant rule changes to the system undermine its objectives.

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[2] Fischer, Marc-Oliver and Swan, Peter L., Does Board Independence Improve Firm Performance (2103); Productivity Commission 2012, Default Superannuation Funds in Modern Awards; Wheeler, Sally, Independent directors and corporate governance (2012); The McKell Institute, The success of Representative Governance on Superannuation Boards, June 2014