

13 January 2020

The Manager
Retirement Income Policy Division
Treasury
Langton Cres
Parkes ACT 2600

By email: superannuation@treasury.gov.au

RE: Consumer Advocacy Body for Superannuation

I welcome the opportunity to provide feedback on how the Consumer Advocacy Body for Superannuation should be established and funded, its functions, and its governance and accountability arrangements. I intend addressing the first topic listed in the Treasury's invitation to respond. That is functions and outcomes.

This feedback is based on 30 years' experience in Superannuation, Wealth Management and Life Insurance, much of which has been spent working with institutions big and small that are committed to improving the retirement outcomes of Australians. My clients range from established entities, including some of Australia's largest superannuation funds, through to emerging businesses bringing new solutions to the industry.

Member outcomes

Whilst there is no consensus on the exact wording of the purpose of superannuation, there is a consensus that superannuation is all about improving member retirement outcomes. Therefore, the function of the Consumer Advocacy Body for Superannuation should be focused on improving member retirement outcomes by improving the relationships between consumers and the superannuation industry, and the relationships between consumers and the providers of superannuation products and services.

The introduction of compulsory superannuation savings through the SG Act arrangements has led to Australia's retirement income system regularly being assessed as one of the best in the world. Whilst it is good to be seen as a world leader, there is still more work to be done.

The most measures used to assess the performance of the system as a whole and that of the individual funds, including those in the new APRA member outcome assessment, can be categorised under the following headings (see Figure 1):

- Net investment returns
- Operating efficiency
- Products and services available to members
- Governance, risk and compliance

Figure 1: Member Retirement Outcome Model



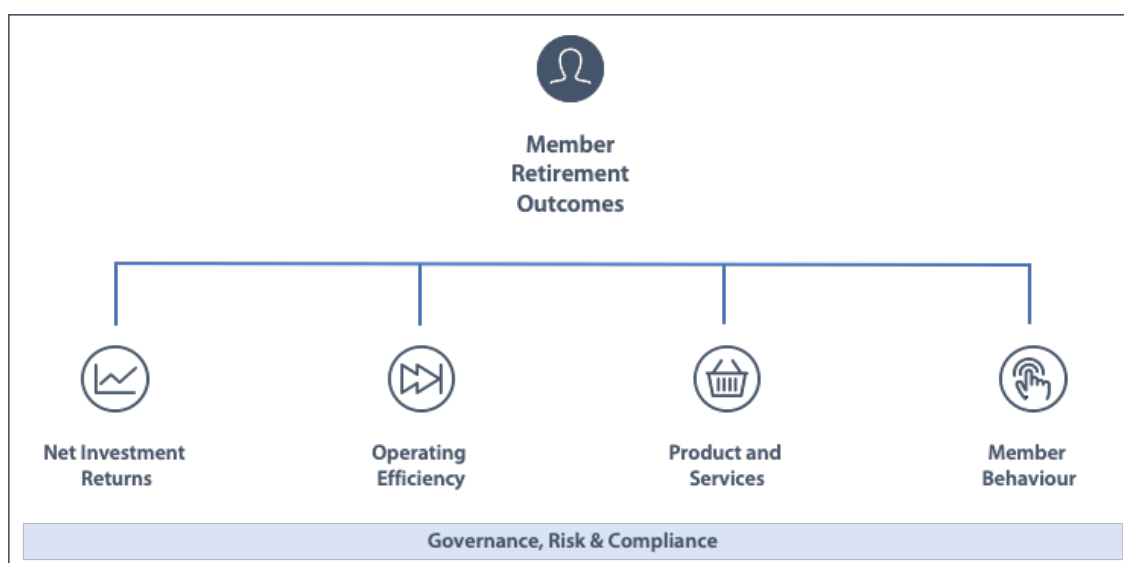
These aspects of a superannuation fund are necessary but not sufficient for helping superannuation fund members achieve the best possible retirement outcomes. For example, consider a fund that consistently achieves excellent net investment returns and low operational costs. This fund has a good range of well-designed products and services available for its members. Now consider a member who joins this fund at age 20 and chooses the cash investment option and remains in this option until retirement. When this member retires they will not have achieved the best possible retirement outcomes, despite being in a good superannuation fund.

Member behaviour

Member behaviour is a critical component for achieving better retirement outcomes. I like to think of this as “doing the right thing at the right time”. Members will be more likely to do this with better understanding of superannuation and with higher levels of trust in both the system and its participants.

For this reason, I include member behaviour in my member retirement outcome model (see Figure 2).

Figure 2: Enhanced Member Retirement Outcome Model



Research findings show that improving consumers superannuation decisions can improve member retirement outcomes¹ and that there is a relationship between superannuation knowledge and behaviour².

One of the impediments to the superannuation system being the best it can be is the negative narrative around superannuation. This creates a barrier between the consumers and the system resulting in low levels of understanding, trust and engagement. This is one of the issues that the Consumer Advocacy Body for Superannuation should be charged with addressing.

Improving the narrative will not be easy. It will require a different way of thinking about the relationship between Australians and the superannuation system, and Australians and their superannuation funds. The Consumer Advocacy Body for Superannuation should focus on these relationships be a true voice of the consumer to the government, the regulator and the industry.

One of the reasons for the community's negative narrative around superannuation is the political battles constantly being fought within the system. I recommend that the Consumer Advocacy Body for Superannuation keep away from the politics of superannuation.

The outcome of the Body should be to empower Australians to make the right decisions at the right time.

Member empowerment

Optimal member behaviour concerning their superannuation will only occur if members are empowered and informed when they transact on their superannuation. Superannuation is compulsory and currently 10 million Australians have superannuation accounts³. This means 10 million Australians will at some point need to engage with their superannuation.

Financial literacy in Australia is poor. One in five Australians – around three million adults – have low literacy and/or numeracy skills, according to the PIAAC Survey of Adult Skills, which was conducted in Australia from October 2011 to March 2012⁴. For this report, adults with low literacy or numeracy skills are not able to reach Level 2 proficiency in literacy or numeracy on a scale that goes up to Level 5.

Low financial literacy combined with limited trust and engagement leads to superannuation being too complex for many Australians. For example, that superannuation death benefits do not form part of a member's estate can be counter-intuitive and confusing for many. In any event, more than half of Australians do not leave a valid will⁵, so grappling with concepts such as the definition of 'dependant' and the difference between binding and non-binding death benefit nominations is challenging for many Australians.

A consumer advocacy centre that provides fund-agnostic information for superannuation fund members before they engage with their superannuation fund could have a significant positive impact the on member's empowerment and the likelihood that their engagement will be more effective and enhance their member outcome.

This assistance is already provided in some fora but these are all adversarial – e.g. AFCA (and its predecessor the SCT) assists members in their understanding of superannuation but only once a complaint has arisen – plaintiff law firms likewise. Many members would not to resort to the AFCA and/or legal representation if timely, relevant and independent support was available.

Some areas of the superannuation industry argue that the fiduciary obligation to act in the best interests of members means that members' interests are already prioritised, but in my experience, this has not extended to ensuring members feel that they understand their superannuation and can confidently navigate the system should the need arise. The opportunity to have a fund agnostic 'on the ground' resource to assist Australians to understand their super in their individual circumstances (without giving 'personal advice') could be invaluable.

Implementation

As mentioned, addressing the negative narrative and removing barriers between consumers and the industry will not be easy. The Consumer Advocacy Body for Superannuation will need to take a multi-disciplinary approach to tackling these problems. Relevant inputs include academic research such as that referenced by this submission (and I can provide further references), learnings from AFCA and the SCT, and work done by ASIC's Financial Wellbeing Network⁶.

I recommend that the Body adopt principles of human-centred design to developing materials and other solutions. That is, to involve the human perspective in all steps of the problem-solving process. Whilst most superannuation funds aspire to be member-centric, they continue to measure their success on fund-centric measures.

Further information regarding this submission, please contact me. I look forward to the development and implementation of the Consumer Advocacy Body for Superannuation.

Yours sincerely

A handwritten signature in black ink, appearing to read 'S Huppert', with a long horizontal flourish extending to the right.

Stephen Huppert, Director
Huppert Nominees Pty Ltd

¹ Rafizadeh, Schumann & Delpachitra, Sarath. (2018). *Switching Decision: Are members of the Superannuation Funds Rational and Informed Investors?*. Available at: <http://bit.ly/384Aqdn>

² Richardson Agnew, Julie and Bateman, Hazel and Thorp, Susan. (2012). *Superannuation Knowledge and Plan Behaviour*. Available at: <http://bit.ly/2tWXxyQ>

³ ATO (2019). *Super data: multiple accounts, lost and unclaimed super*. Available at: <http://bit.ly/2OKDSLJ>

⁴ OECD (2017). *Building Skills for All in Australia*. Available at: <http://bit.ly/30crQxQ>

⁵ Carey (2018). *New research reveals 52 per cent of adult Australians don't have a will*. Available at: <http://bit.ly/35Gv6Cl>

⁶ See <https://financialcapability.gov.au/>