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Consultation on workplace relations measures being considered for introduction in the first part of 2023.

Reform of the 4-yearly review of superannuation default products needs broader fix

Due to the compulsory nature of super, the government has a responsibility to ensure the default system is delivering good outcomes to all Australians. For too long our system has been designed without sufficient incentives that drive good performance from our default funds. Some steps have been taken to improve the performance of default products, but many issues remain unresolved.

People not being defaulted into the best performing funds will have demonstrably less to spend in retirement. The Productivity Commission estimated people would be worse off to the tune of \$502,000 compared to those who end up in the best funds.¹ This is a life changing difference, which will see some easily cover their cost of living and the occasional luxury, while others will struggle to pay for basics like rent, food and utility bills.

Default reform is unequivocally needed, but the narrow focus of the current process cannot deliver the required improvements and will further entrench the regulatory overlaps and gaps. **We recommend that the process to reform the review of superannuation default fund products is conducted as a separate, public and more considered consultation.**

Issues require broader consultation

Duplication with APRA's role - APRA is at the centre of the regulatory architecture for determining member outcomes

¹ Inquiry report - Superannuation: Assessing Efficiency and Competitiveness, p13

APRA, as a superannuation regulator, has an intimate knowledge of member outcomes in superannuation. APRA's member outcomes team and their focus on using data to compare and assess funds makes them central to the assessment of super funds and their delivery of member outcomes.

APRA's superannuation functions and capabilities are wide-reaching. They currently perform an annual performance test and conduct annual product heatmaps which track performance, fees and sustainability metrics. This allows them to analyse funds performance and fees in an objective manner.

APRA is also responsible for prudential regulation in relation to key areas such insurance, governance, retirement income strategies and broader member outcomes. This provides APRA with oversight into how funds are designing their insurance, and are making decisions about how to provide quality services to their members.

Crucially all of this information is built upon the many data points APRA receives. APRA's super data transformation project continues to widen the breadth and depth of data APRA receives from super funds. These detailed datasets extend from fees, costs, performance, insurance, investments, asset allocation to membership flows and growth.

Picking a good quality product to be a default product is complex. Detailed and expert consideration needs to be given to aspects like investment performance, fees, retirement strategies, governance and insurance. A broader and more considered consultation should determine who is best placed to make these decisions and ensure reforms don't duplicate the processes of other agencies, such as APRA, which has direct regulatory oversight of super.

Employers are not best placed to choose default funds.

Current modern awards typically contain a number of superannuation products an employer can select. As outlined above, picking a good quality product is complex. The Productivity Commission found that employers are not always well placed to navigate the super fund maze and make decisions on behalf of their workers.² Employers will always be hostage to constraints on time, expertise and even goodwill to find the best super product for their members.

A broader consultation is required to consider these limitations on employer involvement in default fund choice.

Onboarding systems are diverting the default process

Processes put in place by software providers, super funds and employers are actively undermining the default system. We have seen evidence of businesses taking advantage of the weaknesses in the fund selection process to channel people away from safe defaults or an existing fund into high fee alternatives.

² Inquiry report - Superannuation: Assessing Efficiency and Competitiveness, p24

Super Consumers Australia investigated the online onboarding application owned by an MYOB subsidiary, Flare HR. According to MYOB, one in four employees in Australia are being onboarded via its platform (a million people in the year to March 2022). The platform requires consumers to make an active choice of super fund when they are onboarding at a new employer.

MYOB, through its subsidiaries, owns a super fund brand called Slate Super which is prominently marketed on the platform. According to Slate Super, the fund has amassed 100,000 members since it began in 2020. This is massive growth compared to other new entrants like Spaceship Super (18,000 members), Zuper (which failed to reach sufficient scale and was withdrawn) and Future Super (43,785 members).

Slate Super's early performance is anaemic, and its fees are also well above average. Their total fee on a \$50,000 balance is \$645 or 1.29% ([Slate Product Disclosure Statement](#)). The average for all super funds MySuper option in June 2022 was 1.00%. ([Rainmaker](#))

The current default system is not set up to protect consumers from these practices. A broader review into how the default system is operating is required if we are to resolve these issues. The current proposals paper over the cracks in the default system and fail to address fundamental challenges facing the consumer protection regime.

A holistic approach is needed to review default super

A holistic approach which builds on the Productivity Commission report and considers recent changes in super is needed. This needs to include consumers, employers, super funds, unions and regulators. We recommend the Government consult on default reform as part of separate, broader and more considered industry-wide consultation.

Recommendation

We recommend that the process to reform the review of superannuation default fund products is conducted as a separate, public and more considered consultation.

Insert a right to superannuation in the National Employment Standards

Super Consumers supports a consistent right for all national system employees to directly pursue unpaid minimum superannuation guarantee contributions from an employer.

The ATO estimates that the amount of unpaid super is approximately \$4 billion.³
Non-compliance by some leads to an unacceptably high amount of stolen retirement income.
Measures to give people more rights to pursue unpaid super are welcomed.

³<https://www.ato.gov.au/about-ato/research-and-statistics/in-detail/tax-gap/super-guarantee-gap/?anchor=Latestestimatesandtrends#Latestestimatesandtrends>