



31 March 2015

The Hon. Joe Hockey MP  
The Treasury  
PO Box 6022  
House of Representatives  
Parliament House  
Canberra ACT 2600

Dear Minister

Telstra Super response to the Financial System Inquiry

Telstra Super welcomes many of the findings outlined in the Final Report of the Financial System Inquiry, not least the recommendation that a clear objective should be established for the superannuation system to provide income for retirement.

Telstra Super was established in 1990 and has grown to become Australia's largest corporate super fund, with over 100,000 members and over \$17 billion of funds under management. Membership is open to current Telstra Group employees (including Foxtel, Sensis and Reach), former employees and eligible family members. We are in a unique position within the financial services industry, having both a public offer licence and admitting public offer members, but operating as a Not For Profit corporate super fund.

We would like to share Telstra Super's perspective regarding Recommendation 10 of the Final Report, which addresses the potential introduction of a formal competitive process to allocate new default fund members to MySuper products.

**Breadth of focus when comparing funds**

The Inquiry has already considered stakeholder feedback regarding such a competitive process in its Final Report. We share many of the concerns expressed to date, as outlined in the table headed *Potential design issues of a competitive process (FSI Final Report – Recommendation 10 - Table 4)*.

The superannuation industry covers a broad spectrum of funds, with widely differing product offerings and service options for members. Funds should be evaluated individually. We would particularly like to comment on the concern acknowledged by the Inquiry, that fees should not be the sole focus of a competitive tender, nor is it desirable that a "race to the bottom" result in terms of asset allocation and investment strategies. The Inquiry has concluded that the focus should be somewhat broader and include the expected ability to

generate high after-fee returns based on asset allocation and investment strategy, as well as past performance.

Telstra Super is a self-administered fund with extensive internal advice and investment capabilities and has considerable experience in this area. The industry has acknowledged our achievements by conferring significant accolades, such as the 2015 SuperRatings Fund of the Year and Super of the Year Awards. Our members benefit from active, value-added services and support which go well beyond providing a low cost product and generate high after-fee returns. We provide this as a function of our duty to act in the best financial interests of our members, to help them achieve optimal retirement outcomes.

We strongly recommend that any process to consider the relative merits of superannuation products should be undertaken with a holistic focus, having regard to members' best financial interests. We would illustrate this by reference to the features of the Telstra Super product offering.

### **Product Options and value-add**

A major consideration concerns the value-add components provided by Superannuation funds when it comes to investment choice, ability to meet the requirements of different member cohorts, the level of insurance provided, as well as member education.

With Telstra Super, for example, members can choose from a broad range of investment options, covering all major asset classes, to suit a wide range of investor requirements. Our active approach to investment, competitive management fees and investment choices have been recognised as providing strong, long-term net performance regularly above benchmarks, for the benefit of our members.

MySuper arrangements can offer lifecycle investment strategies designed specifically for the unique characteristics of fund membership. In our case, for example, MySuper members enjoy the same access to benefits as Choice members.

It is also notable to recognise the importance of adequate levels of insurance cover and to be able to provide levels of default death and TPD cover above the legislatively prescribed minimums. A fund like Telstra Super is able to provide members access to more comprehensive cover.

Wide-ranging education programmes such as ours play a major role in helping our members achieve better retirement outcomes, as there is a need to better engage members with their superannuation and to support them with various levels of financial literacy.

To help members make informed choices about their super, a fund like Telstra Super invests extensively in providing expert information in diverse ways, ranging from face to face, to print, to seminars and online learning, as well as tools and calculators which encourage and assist members to engage further with their superannuation.

Whilst we agree with the FSI's recommendations of cost containment, appropriate cost/benefit balance needs to be achieved and a process primarily driven on fee reduction would surely see these valuable benefits eroded.

## **Role of existing high performing corporate funds**

The Inquiry also acknowledged in its commentary around Recommendation 10, that existing corporate super funds could be allowed to receive new default fund members from new workforce entrants subject to the provision of comparable member benefits to those funds which are successful in the formal competitive process.

Telstra Super welcomes the Inquiry's acknowledgement of the unique role and position occupied by corporate funds. The Inquiry's concerns about the risks of employers selecting default funds for their employees are not applicable to our particular circumstances, where there is a strong alignment between Telstra Super, its members, and Telstra Corporation.

In this regard, the Telstra Superannuation Scheme was established by Telstra Corporation and continues to be a key component of the value proposition offered to its employees.

The vast majority of Telstra Super's members are either current or former employees of the Telstra group of companies and associates. Therefore Telstra Super is in substance, a corporate fund. However, we hold a public offer RSE licence from APRA in order to admit eligible family members of such employees and to re-admit former employees.

In determining the scope of any competitive tender process, we are concerned to ensure that the definition of corporate super fund applied is sufficiently broad to capture a fund of our nature.

As such, we recommend that a superannuation fund whose members are sourced primarily from a single standard employer sponsor and its associates should be considered to be corporate fund for the purpose of any competitive process.

In conclusion, we would ask you to carefully consider the importance of taking a case by case approach to superannuation funds when evaluating fee structure and benefits, and assess each fund on its merits.

We would welcome the opportunity to discuss this with you further.

Yours faithfully,



Chris Davies  
**Chief Executive Officer**