Universal Superannuation for Universal Needs

ACTU submission to the Treasury Consultation *Retirement Income Covenant Position Paper*.

ACTU Submission, 15 June 2018
ACTU D. No 126/2018

Introduction

Since its formation in 1927, the Australian Council of Trade Unions (ACTU) has been the peak trade union body in Australia. There is no other national confederation representing unions. For 90 years the ACTU has played the leading role in advocating for workers for the improvement of wages, conditions, and social welfare.

The ACTU consists of affiliated unions and state and regional trades and labour councils. There are currently 43 ACTU affiliates. They have approximately 2 million members who are engaged across a broad spectrum of industries and occupations in the public and private sector.

The ACTU and its affiliated unions founded industry superannuation and won the right for all workers to be entitled to super. The ACTU continues to be a leader in the superannuation sector, advocating to ensure workers retain rights over their deferred wages, and that superannuation delivers adequate retirement outcomes for workers.

The ACTU is concerned that the approach outlined in the *Retirement Income Covenant Position Paper* will be harmful to members as it deviates from the core principle of universal superannuation – to provide a universal outcome to workers through a universal mechanism. The founding purpose of universal superannuation is to provide workers with a dignified retirement through deferred wages earned. This purpose is best realised through a default, compulsory and industrial distribution system with default funds determined in the Fair Work Commission. The Government has an agenda to increase the market share of for-profit, bank-owned superannuation and the method proposed by Treasury will achieve this. The ACTU believes a stronger retirement system can be achieved by working with the superannuation sector to facilitate the implementation of collective defined benefit funds through the industrial system.

The position in the retirement income covenant ignores the success of default funds and industrial distribution to insert a point of sale for members at a critical juncture of their lives. Superannuation through industrial defaults has delivered excellent outcomes for workers, mainly through industry super funds. Industry super funds outperform for-profit, bank-owned funds on every measure.[1] Despite this, the Government is intent upon pursuing a strategy of increasing the access of for-profit superannuation to workers. By requiring trustees to offer Comprehensive Income Products for Retirement (CIPRs) to their members at retirement, and forcing the member to choose which product is best for them, the Government is creating another point of entry for profiteering pension product providers.

The banks and other for-profit superannuation providers have no place in the system. For-profit superannuation funds consistently underperform, and they intentionally confuse or overwhelm workers so they choose products which make them worse-off. There are 40,000[2] superannuation products available to members, of which nearly all are provided by for-profit superannuation. The effect is such that bank-owned funds are able to bamboozle their customers into choosing their preferred product. Should CIPRs be implemented, bank-owned superannuation funds would have a significant incentive to market heavily to customers using confusing and likely conflicted practices to skim workers' retirement savings.

According to a study by Rice Warner into the effects of active choice found that members who actively switched their savings from their default fund were usually worse-off.[3] This is likely due to the fact that 75% of advice from for-profit bank-owned superannuation is non-compliant with laws

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[1] Industry Super Australia, 2018. *Industry super funds run rings around banks – new data*. [Online] Available at: http://www.industrysuperaustralia.com/media/media-releases/industry-super-funds-run-rings-around-banks-new-data/

[2] Australian Prudential Regulation Authority, 2016. *Productivity Commission Issues Paper: Superannuation efficiency and competitiveness*, Canberra: Commonwealth of Australia

[3] Rice Warner, 2017. *Member Switching*, Sydney: Industry Super Australia.

required to provide advice in the client's best interest.[4] As the public has seen through the Royal Commission into Misconduct in the Banking, Superannuation, and Financial Services Industry, banks prey upon vulnerable and poorly informed customers to drive their profits. Strong marketing campaigns and a toxic executive sales culture will lead to a proliferation of CIPRs offered which will be to the detriment of members. To introduce a point of sale to the members will lead to poorer outcomes for members.

This approach breaks the default system which is designed to protect workers from this problem and cuts at the heart of the purpose of compulsory superannuation. Compulsory superannuation was established as workers did not adequately save for retirement due to their own preference for immediate spending. The benefit of an adequate retirement for all workers trumps this preference. Despite calling for a flagship product designed for the needs of the majority of the membership, the effect of introducing an active choice will necessarily lead to individualisation. The nature of the design has the implicit intention that retirees will choose between products offered by funds, which requires financial advice in order to make an informed decision.

The best outcome for members is to provide the highest level of stable income in retirement, and this will not be achieved if it is required that each trustee tailor products to each member. It is the nature of universal superannuation that it provides a universal solution to the universal challenges faced in retirement. By thrusting product choice upon every retiring worker in a profit-driven market, the superannuation system becomes individualised which erodes the universality of this highly successful system.

The CIPR framework as outlined is consistent with the Government's ideological campaign to allow the banks more access to superannuation. If implemented, it would lead to an increased financialisation of superannuation and break down the industrial framework which has protected members from exploitation by the banks. The system would become more complex for the individual and lead to poorer outcomes for many. It would also shift significant risks to workers transitioning to retirement, as once purchased, a CIPR is essentially for life. There is little-to-no opportunity to recoup retirement savings from a poor initial choice.

The retirement income system is best served by allowing default superannuation system to allocate default funds as legislated. The Government has ideologically stalled the Fair Work Commission process for determining defaults which should be immediately rectified. The framework as

[4] Australian Securities & Investment Commission, 2018. *Financial Advice: Vertically integrated institutions and conflicts of interest,* Canberra: Commonwealth of Australia. p. 7

proposed should be scrapped in favour of working with unions, employers, and industry funds to allow for whole-of-life superannuation products to be a workers' default fund. The transition to retirement should not be difficult, and a worker should be able to comfortably rely upon the income generated by their retirement savings.

Works Cited

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126/2018

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