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MEDIA RELEASE: Competition reforms could save Australians \$292 million in superannuation fees

The Financial Services Council (FSC) has today released new research by Australia's leading, independent economic consultancy Deloitte Access Economics (DAE) to demonstrate the benefits to consumers of making Australia's superannuation system more competitive.

The report seeks to add independent research-based facts into the public debate on superannuation by applying established competition principles from the Competition and Consumer Act 2010 to the default superannuation context.

DAE's key finding is that:

- Competition could reduce fees paid by Australian consumers by \$292 million each year, across the 14 million MySuper accounts in existence. This equates to a 13% decrease in total administration fees in the MySuper regime.

The research found the current system does not necessarily protect consumers from being placed into underperforming funds.

Consistent with the Productivity Commission's Interim Report into Alternate Default Superannuation Models, DAE analysis shows that consumers may be worse off as a result of being defaulted under a modern award or enterprise agreement into a subscale, high cost MySuper product.

For employees employed under modern awards, the available default superannuation products are limited to those selected by the Fair Work Commission. In 13% of such awards, the employer is provided with no choice of the default fund it may offer its employees.

DAE concludes that the current default superannuation regime for award employees does not adequately promote competition at a level that meets with community expectations.

The report supports a robust competition framework and offers recommendations for thinking about choice and competition in default superannuation. The clear conclusion is that further choice and competition should be introduced into Australia's default superannuation system.

FSC CEO Sally Loane said: "The evidence is clear. If competition reforms are introduced to allow all funds to compete in an open and transparent market, fees in superannuation will fall dramatically.

“While we always acknowledge the criticality of value and returns from super funds, fee reductions will greatly improve the ability of Australians to save more for their retirement and consequently improve their standard of living in retirement.

“The other critical issue is that all Australians should be enabled to freely choose a fund that suits them.”

Dr Ric Simes, the lead author of the report from Deloitte Access Economics said: “Competition policy has served Australia’s broader economy well over the past decades. Public policy implemented by both sides of the political divide has supported using more effective competition in many parts of the economy as a means of improving Australia’s welfare and productivity.

“This same approach should be brought to bear to consider how competition can improve Australia’s superannuation system, taking into account the inherent challenges in delivering effective consumer choice in the sector.”

The report was prepared by the financial services team at Deloitte Access Economics with input from an expert panel including superannuation expert, Russell Mason, life insurance expert, Alan Merten, and competition policy expert, Professor Ian Harper.

Key recommendations:

1. Employees should have greater scope to choose their own default superannuation funds;
2. All employees under Enterprise Agreements should be able to choose to switch away from their default superannuation fund if they would prefer to be in an alternative fund;
3. The current default system should be assessed against an analytical baseline of a ‘no default’ system;
4. If policy makers were to introduce a national auction mechanism, it should be subject to the two competition principles outlined in this report; and
5. Policy makers should consider insights from behavioural economics when developing policy from a ‘no default’ analytical baseline.

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About the Financial Services Council

The Financial Services Council (FSC) has over 100 members representing Australia's retail and wholesale funds management businesses, superannuation funds, life insurers, financial advisory networks and licensed trustee companies. The industry is responsible for investing more than \$2.7 trillion on behalf of 13 million Australians. The pool of funds under management is larger than Australia’s GDP and the capitalisation of the Australian Securities Exchange and is the fourth largest pool of managed funds in the world. The FSC promotes best practice for the financial services industry by setting mandatory Standards for its members and providing Guidance Notes to assist in operational efficiency.