April 2017

Superannuation: Alternative Default Models – draft report

Submission to the Productivity Commission

ABOUT US

Set up by consumers for consumers, CHOICE is the consumer advocate that provides Australians with information and advice, free from commercial bias. By mobilising Australia's largest and loudest consumer movement, CHOICE fights to hold industry and government accountable and achieve real change on the issues that matter most.

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INTRODUCTION

CHOICE would like to thank the Productivity Commission for its thorough analysis and well considered alternatives to default fund allocation. The proposal to put an end to wasteful duplication, although simple, is a necessary reform which in combination with greater contestability will fundamentally improve Australian retirement outcomes. The Commission has anticipated that the immediate impacts of these changes will be the cutting each year of $150 million of waste across the economy. Taken over a lifetime, this is conservatively an extra $25,000 in each person's pocket upon retirement.

This debate primarily comes down to uncovering the best methods for ensuring consumers' needs are met by superannuation products. We agree with the Productivity Commission's characterisation that the current system hasn't always afforded or encouraged individual decision making. Some of the barriers to engagement in the system were well-intentioned and have protected consumers when making no or poor decisions. However, as the market and tools to assist consumer decision making have matured, there is a need to make it easier for consumers to engage, so they can reap the benefits of competition.

CHOICE wants to see models that build on MySuper consumer protections to deliver safer products, no matter which allocation model is chosen. There is now greater clarity around what the fundamental purpose of superannuation, with the Federal Government's stated objective – to provide income in retirement to substitute or supplement the Age Pension. Following from this objective, default products that provide the best long-term net returns (and not an array of ancillary options) must be placed at the centre of any allocation model.

CHOICE is concerned that allocation models that do not place individual consumers at the centre of the decision-making process have a strong potential to distort the market away from their interests. We are particularly concerned that the employer choice model will not deliver for consumers and is least likely to achieve the Commission's stated goal of beneficial competition. From a principled perspective consumers are best placed, if given appropriate assistance, to look after their own interests.

The evidence is that currently the majority of employers devote little time to research the best superannuation options for their employees. There is also large potential (supported by numerous anecdotal reports) for employers to place their own interests ahead of their employees in exchange for favourable treatment by financial institutions. There may be some scope to consider employer's role in some corporate tenders, so long an employee would be materially better off than under an alternative default, however this is not the case for the majority of employees. CHOICE maintains that the Commission should abandon the employer choice model.

Given the complex nature of consumer engagement in this market the Commission has developed useful model for assisted employee choice. Through the use of quality filters, tailored disclosure and ‘nudges’ this model has strong potential to drive greater beneficial competition for consumers.

This is not to say the other models (with the exception of the employer choice model) couldn’t be capable of achieving similar levels of benefit. For example, a hybrid model which included a tender or auction followed by assisted consumer choice may achieve many of the same benefits. What is vital for the long-term success of any model is a greater focus on true engagement and facilitated decision making so that consumers can begin to take ownership over one of the most important purchasing decisions they will ever make.

Thought should also be given to how contestability can be brought to retirement income products. The Treasury Inquiry into proposed reforms to introduce a Comprehensive Income Product for Retirement (CIPR) and the Commission Inquiry into default allocation models are happening in parallel. Many of the same principles the Commission has developed to improve contestability could be applied to the retirement income space. We agree with the Commission’s decision that making decisions early in the accumulation phase about retirement product features will add complexity and not improve consumer outcomes. However, developing an aligned allocation model for CIPRs for use as consumer approach retirement needs closer consideration.

We are pleased to see greater thought has been given on how to prompt consumer engagement with superannuation. Using the insights from CHOICE research into member engagement, we recommended in our previous submission that a centralised ‘one-stop-shop’ for superannuation fund selection and consolidation be created via the myGov website to help all consumers assess and more regularly switch to better products. We are pleased to see that these ideas have now been incorporated into the Commission’s proposals.

Comments on draft findings and recommendations

General feedback

DRAFT FINDING 1.1

Complementary policy action (including to extend genuine member choice to all employees) will be needed to deliver the full potential of member driven competition under the alternative models developed in this Inquiry and also under current default arrangements.

As the Commission notes there are an estimated 20 per cent of members who are still unable to exercise genuine choice due to restrictions under their workplace instrument.

This is a significant restraint on member-driven competition. CHOICE was recently contacted by a consumer who was forced to maintain an account with Unisuper against her wishes because it was the nominated default fund in the industrial agreement under which she was casually employed with a university. Initially she had taken to consolidating her Unisuper account into QSuper every few months in order to follow the conventional logic that paying two sets of fees was wasteful. However, she was continuing to be charged fees for the first month with Unisuper before she was able to enact a transfer. This was a sizable proportion of her balance given she was employed for limited hours on a casual basis. She had eventually resolved to maintain two accounts but take up a cash investment option with Unisuper to minimise the fees on her small balance.

Her chosen fund was with QSuper, which she had chosen because she preferred the customer service experience. In terms of net returns performance, the default Unisuper and QSuper funds perform comparatively well against the market, so either would have been sound choices.[1] However, this consumer had gone to the extra effort of exercising choice based on her customer service experience. Under a properly functioning market she would have been able to exercise this choice and QSuper would have been rewarded for its superior customer service.

[1] https://www.superguide.com.au/boost-your-superannuation/top-10-performing-super-funds-2015-2016-financial-year-past-10-years

Currently the market fails to serve consumers in this situation and leads to perverse outcomes, like the need to invest sums of money in lower performing options in order to avoid fees as well as disincentivising funds to actively compete on customer service.

DRAFT FINDING 1.2

Where there is third party involvement in the selection of a default product, there needs to be effective regulation or arrangements in place to ensure these third parties act in the best interests of members.

There is always a risk consumer interests will be lost where third parties are exercising choice on their behalf. This risk is endemic to any system that removes consumers from directing their own preferences. This risk is exacerbated when the third party has different incentives to consumers, particularly businesses which, even as employers, have other financial objectives that can place consumer interests and their interests in conflict. Ideally, these conflicts are avoided all together. If this isn't possible, conflicts need to be carefully managed through clear and enforceable legal protections that require actions in the best interests of consumers. Adequate consumer protections need to include space for consumer involvement in the decision-making process, including directly having a choice in products and through consumer representation on decision-making bodies.

DRAFT FINDING 1.3

For the purposes of this Inquiry, a formal competitive process for allocating default members constitutes any new alternative process that permits open participation (contestability), encourages rivalry between funds (competition) to the benefit of members, and involves products being selected for members based on merit.

These are sound principles on which to base a formal competitive process for allocating default members. It is important that competition is not seen as an end in itself and that the long-term interests of consumers are the primary objective. The Commission's report makes it clear that there are some outcomes from competition, for example excessive spending on advertising, that are likely to diminish the value of introducing more competition into the market. Proposed allocation models need to be geared towards driving clear distinctions between the value of each product, so that competition can be driven by merit.

To achieve this, products need to be simple and easily comparable. Comparison should be also be possible between default and choice products. There is a risk that the benefits of a strong default system could be undone if consumers are lured away by confusing poor value choice products (similar to some of the unintended consequences of the introduction of competition in retail energy markets). Digital tools should be used to reduce the time taken to compare multiple products, including between default and choice options.

DRAFT FINDING 3.1

The current arrangements where members can be defaulted to a new account on every change of job increases the proliferation of accounts. This materially adds to costs for members and reduces member balances at retirement.

DRAFT RECOMMENDATION 3.1

To avoid perpetuating the legacy problems of the current system, any future alternative system for allocating members to default products should be premised on employees being assigned a default product only once, when they join the workforce.

DRAFT RECOMMENDATION 3.2

The Australian Government should establish a centralised online service for members, employers and the Government that builds on existing functionality of myGov and Single Touch Payroll. The service should:

- allow members to register online their choice to open, close or consolidate accounts when they are submitting their Tax File Number on starting a new job
- facilitate the carryover of existing member accounts when members change jobs
- collect information about member choices (including on whether they are electing to open a default account) for their employer and the Government.

There should be universal participation in this process by employees and employers.

CHOICE strongly agrees with this finding and two recommendations to address account proliferation. Account proliferation is estimated to cost the average retiree $25,000 in income and an economy wide loss of $150 million each year. Account proliferation has an acute impact on younger consumers, who are more likely to work multiple jobs or move between casual or part-time jobs while studying or at the early stage of their working lives. The recommendations would address the harm caused by multiple accounts: multiple fees and insurance leading to balance erosion. Ending unnecessary account proliferation is a measure which should be adopted without delay.

DRAFT FINDING 3.2

There are strong grounds for requiring a fund that wins default status for contributions of new default members to extend the same fees and service terms to all its existing members of the default product.

As noted in our previous submission, the system should ensure all employees can access competitive defaults. Any possibility for flow on benefits to existing members should be incorporated into the model.

Placing too much emphasis on creating competition for new rather than existing members may see legacy members left on uncompetitive products. Due to extremely low rates of product switching, consumers are unlikely to benefit from new default offers if they are simply 'made available'. System design should look to incorporate a series of 'nudges' throughout a consumer's life to help them find the best available product at appropriate intervals. CHOICE research found there are a number of key moments when engagement with superannuation would be most beneficial, for example for young people entering the workforce, people planning career breaks and those close to retirement.[2] If contestability is to be effective it needs to be applied on an ongoing basis.

Rice Warner research found that the fees charged for legacy retail products were 29% higher than those charged for current superannuation products. [3] It also estimated that in 2014 around 30% of retail personal superannuation assets were held in these higher fee legacy products.[4] This is a clear indication that if efficiencies are to be gained, existing members need to be able to easily benefit from a new default allocation model.

DRAFT FINDING 3.3

The default product in all models will focus on the accumulation stage and include investment, administration of member accounts and intrafund advice. It will be a simple

[2] Pollinate, 2016, 'Project Superpower – informing a strategy to engage people with their superannuation', Research commissioned by CHOICE, available at: https://www.choice.com.au/money/financial-planning-and-investing/superannuation/articles/why-consumers-avoid-thinking-about-super-20161024

[3] Rice Warner, 2014, 'Superannuation Fees Report 2014', Financial Services Council, available at: http://www.fsc.org.au/downloads/file/ResearchReportsFile/FSCSuperannuationFeesReport2014FINAL.PDF, p.26

[4] Rice Warner, 2014, 'Superannuation Fees Report 2014', Financial Services Council, available at: http://www.fsc.org.au/downloads/file/ResearchReportsFile/FSCSuperannuationFeesReport2014FINAL.PDF, p.26

and low cost (but not conservative) product aimed at the needs of those who are disengaged from the system.

- A bundled insurance product will not be a factor in the selection of products and is best addressed through regulation and regulator oversight.
- Funds will primarily compete on long term net investment returns and costs, subject to meeting a threshold quality of service, not on the quality or range of ancillary services per se.

The Commission has found that bundled insurance should not be factored into the selection of products and is better addressed through regulation and regulator oversight.

In our previous response to the inquiry we raised concerns that bundled insurance was not adequately meeting the needs of consumers. We saw this lack of responsiveness to consumer needs as primarily caused by an absence of competitive pressure due to low levels of consumer engagement. Therefore, we saw potential for this problem to be solved through a separate competitive process for life insurance products. We acknowledged at the time that there may be significant administrative cost to introduce competition to this market.

Since then we have been encouraged to see industry respond to these concerns through the Insurance in Superannuation Working Group.[5] Its current work priorities include:

1. reducing benefit erosion on superannuation account balances for members, including establishing the right level of automatic cover for young people and low-income earners
2. reducing inappropriate multiple insurance policies
3. providing better and more timely assistance to members during claims
4. improving superannuation fund member communications on insurance
5. improving data standards to improve service to members
6. undertaking independent research on the costs and benefits of group insurance within superannuation.

If this process meets its ambitions it should assist in improving the suitability of default life insurance for members. However, there remain significant questions around the level or regulator oversight and the enforceability of the consumer protection framework being

[5] ASFA, 2017, 'Joint Media Release: Call for submissions on Insurance in Superannuation Working Group (ISWG) discussion paper', available at: https://www.superannuation.asn.au/media/media-releases/2017/joint-media-release-9-march-2017

developed. This is an area which will need close scrutiny by the Federal Government to ensure the industry self-regulatory response is effective.

CHOICE sees significant merit in the Commission's finding that bundled insurance not be considered in superannuation product comparisons. Bundled products in general greatly complicate comparability of products and can hinder decision making.

DRAFT FINDING 3.4

The desirable frequency for the selection process is between four and eight years, with the greater frequency best used in the early period.

CHOICE agrees with the finding that the selection process be conducted between four to eight year intervals with greater frequency during the establishment phase. It is important to create system stability and ensure funds can structure their offers towards greater net returns in the medium to long term. Current industry practice is to compare funds based on performance between three to ten years.[6] Sufficient time is required to establish a historical pattern of medium-term investment practice. Conducting a review every four years would give time to make an adequate assessment of ongoing performance without reacting to the vagaries of short-term market fluctuations. Conducting these comparisons too far apart may be a major barrier to innovative new market entrants entering the list and gaining sufficient scale to rival incumbents.

Draft Finding 3.5

The selection of eligible default products should be administered by a government body, and be subject to strong governance rules. The decision-making body must:

- have a strong focus on fund member interests
- have sufficient expertise to evaluate products
- be independent and free of real or perceived conflicts of interest
- have processes that are transparent and afford procedural fairness be accountable for its decisions.

The decision-making body should be looking to move away from existing paternalistic approaches to superannuation. It should be developing methods to engage consumers and be seen as a trusted partner in helping them understand their superannuation.

[6] For example CANSTAR, Chant West, Morningstar, RateCity, Rainmaker, SuperSavvy.

Regular user testing and surveys should keep this body accountable to changing consumer needs.

Avoiding real or perceived conflicts of interest will be vital to the reputation and functioning of this body. CHOICE research found that consumers already have low levels of trust in the government when it comes to superannuation.[7] This was due to what was seen as constant 'shifting goalposts' in the treatment of retirement savings.

To overcome these problems there is merit in including consumer representatives in the governance of this decision-making body. As has been the experience in other sectors (e.g. ombudsman services), consumer representatives help improve the public perception of the independence of the body. Consumer representatives can also bring a vital experience in understanding consumer concerns and capabilities in understanding the at time complex superannuation environment.

Feedback on default models

DRAFT Finding 5.1

Relative to the baseline, the assisted employee choice model would:

- significantly reduce the complexity employees face in choosing a product and lead to more employees choosing high performing products that meet their needs, thereby increasing member benefits
- focus competition on product aspects of value to members, put downward pressure on fees (through greater product comparability) and likely curtail wasteful product proliferation
- better align funds' interests with those of members
- support a stable superannuation system
- have lower search costs for many employees and very low costs for employers, but with government and funds incurring additional costs associated with regulatory structures.

In principle CHOICE sees merit to this model, although we acknowledge significant consumer protections would need to be built in to this framework to ensure it delivered substantial benefits above the current model.

[7] Pollinate, 2016, 'Project Superpower – informing a strategy to engage people with their superannuation', Research commissioned by CHOICE, available at: https://www.choice.com.au/money/financial-planning-and-investing/superannuation/articles/why-consumers-avoid-thinking-about-super-20161024

To date, government comparison services have had mixed success in improving markets for consumers. We have provided further information below about how user-centred design can be better harnessed to improve consumer decision making.

Empowering consumers introduces risk if consumers cannot easily compare the value of a safe default fund with funds outside of this scheme. As is the case currently, where there are lesser consumer protections and disclosure requirements on 'choice' products, comparison is difficult. This can lead to consumers being sold products which may not be appropriate.

To prevent this happening improved consumer protections are required. These may come in the form of enhanced product comparison, so that consumers can compare on a simple, like-for-like basis.

When consumers are moving away from a safer default option there should be a high bar to prevent mis-selling, such as a requirements on funds to only sell a product that is materially better than a consumer's existing fund. Additional powers for the finance regulator, ASIC, should also be introduced to prevent gross mis-selling. These include product intervention powers and design and distribution obligations that will require appropriate product design and marketing.

DRAFT FINDING 6.1

Relative to the baseline, the fee based auction model would:

- promote member benefits by exerting downward pressure on fees
- focus competition on, and elevate transparency of, member fees
- likely assist integrity due to its simplicity and accountability mechanisms
- be unlikely to compromise long term stability because the model as designed would not lead to excessive concentration of funds or volatile movement of members and assets
- have slightly lower system wide costs, mainly due to lower search costs for members

We have two in-principle concerns with a fee based auction model. Firstly, a focus on fees is likely to distort the market away from the more important focus on net long-term returns. This would detrimental to the retirement savings of Australians. Secondly, it removes consumers completely from the decision-making process. CHOICE has consistently maintained that whichever model is selected it needs to include a component of assisted consumer choice. While this model is likely to be very effective as driving down costs it will struggle to keep pace with other demands consumers are likely to place on their superannuation fund, such as better customer service and engagement.

CHOICE acknowledges that this model may work in combination with assisted consumer choice as a first step to build a shortlist of low cost providers from which consumers could exercise choice.

DRAFT FINDING 7.1

Relative to the baseline, the multi criteria tender model would:

- promote member benefits by focusing competition on member satisfaction and long term net returns
- focus competition on aspects of performance that matter to members, and more generally through the winning bid providing a market wide performance benchmark
- create risks for integrity due to its vulnerability to subjective judgments, yet on the other hand promote integrity through stronger accountability mechanisms
- not create any material risks to stability, since it is unlikely to lead to excessive concentration or volatile movement of members and assets
- have slightly lower system wide costs, mainly due to lower search costs for members.

A multi-criteria model may be more adept at picking up the range of consumer needs in a high performing superannuation fund. However, by replacing actual members with an expert assessment panel it is unlikely to be responsive to changing consumer need. A multi-criteria model also requires weighting to be given to each metric. This can lead to distortions that may not match up with an individual consumer's needs in selecting a fund.

Again, CHOICE acknowledges that this model may work in combination with assisted consumer choice as a first step to build a shortlist of high performing providers from which consumers could exercise choice.

DRAFT FINDING 8.1

Relative to the baseline, assisted employer choice (with employee protections) — employing both a light filter for mandatory minimum standards and a heavy filter for a preferred default list — would:

- enhance member benefits by increasing the likelihood of members being placed in higher quality products, and reducing the likelihood of them being in a poor product
- promote healthy competition by presenting product providers with incentives to

perform strongly against the preferred list selection criteria or compete for corporate tenders and facilitating greater comparability, but there would still be some scope for unhealthy and wasteful marketing to employers
- increase the potential for agency problems given the involvement of employers, although the risk to the integrity of the system would lie primarily in the appointment process for the preferred default list selection panel
- create few stability concerns
- reduce search costs for employees, while increasing search costs for employers and regulatory costs for funds and government.

The employer choice model has the potential to divert fund selection away from member interests and overall is least likely to achieve the goals set out by the Commission. Employer involvement in default fund selection may have been justified under defined benefit schemes where employers took on the risk of directly funding retirement incomes. However, now that Australia has moved to a contributions model, risk lies with employees. The exception may be some corporate funds, where employers have managed to negotiate benefits that may not be available on the open market, although as CHOICE made clear in its previous submission this experience is not universally applicable. Employer involvement in decision-making processes is antiquated and unlikely to lead to the consumers' best interests being taken in to account.

Research conducted by the superannuation fund REST found that 42% of employers spent less than five minutes selecting a default fund for their employees.[8] This leaves very little time to consider the merits of the superannuation fund, let alone other considerations, such as bundled insurance. The potential for poor choices may be lessened where employers are assisted to make better decisions via a filtered short list. However, this begs the question as to what extent are employers are better positioned to make this same decision if similar assistance were provided to employees.

All things being equal, if a consumer is presented with a list of high performing funds, their final decision is likely to be based on harder to quantify metrics, such as feedback from friends and family or personal experience of things like customer service. This is by far a preferable set of metrics for a final decision when compared with some of the allegations made by ISA around factors which have previously gone in to employer decision-making, such as:[9]

- employers selecting funds based on maintaining relationships with key financial clients,

[8] REST, 2016, 'Bridge the gap', November 2016, p.20
[9] ISA, 2016, 'Submission to the Productivity Commission's superannuation competitiveness and efficiency inquiry', p.54

- banks offering incentives to employers to sign up employees to retail funds owned by the bank,

CHOICE maintains that there is significant risk in any model that leaves limited room for genuine consumer choice. Therefore, we have reservations about the ability of the employer choice model to deliver the benefits of competition to consumers.

Information requests

INFORMATION REQUEST 3.3

The Commission is seeking comment on its approach to, and alternative ways of estimating the size and value of, the turnover and first timer pools and the benefits from reducing account proliferation due to moving to the first timer approach.

CHOICE is broadly happy with the Commission's attempt to quantify the benefits of reducing account proliferation. However, we believe there needs to be an acknowledgement that the estimate is a conservative one and the savings are likely to be substantially higher.

Firstly, the estimate only includes fixed fees and insurance, leaving out percentage based (typically investment) fees. These non-fixed investment fees typically range from 0.5-1%. As percentage-based fees are levied on an individual's balance it is very difficult to estimate their impact at an economy wide level. Suffice to say the $150 million annual saving by reducing account proliferation is a conservative estimate.

Secondly, as the Commission notes, the annual savings are cumulative. Savings from each of these accounts are likely to continue until they would have been consolidated or exhausted entirely due to fees.

INFORMATION REQUEST 5.1

In terms of a shortlist of superannuation products, what evidence is available on the size of the list that would best facilitate the majority of employees to choose a fund that meets their needs?

What specific information should be included alongside such a shortlist to help employees to choose between products? In what format should the information be presented? What evidence is there for how the metrics would assist employees to make decisions?

What institutional arrangements would best suit a last resort fund? Should it be managed by existing eligible rollover funds or the Future Fund?

Under a system of active employee choice, what would be the costs and benefits of prohibiting funds or related parties from offering prospective members a short term benefit that is unrelated to the superannuation product? What specific form should any such prohibitions take?

Without conducting research to better understand how consumers understand superannuation products it is difficult to make definitive statements about the size of shortlists, specific information for comparison and format. Instead we can point to user centred design principles as a useful framework to discover answers to these questions. The Federal Government Digital Transformation Agency (DTA) clearly articulates these design principles as a guide to service delivery agencies within government.[10] The approach puts continuous user testing at the centre of development.

CHOICE's experience in building product comparison tools has taught us that you need to test to see what consumers need to help make decisions. This is not to say consumers always know what they require to make the best decisions. However, in combination with expert analysis and input comparison tools could be significantly improved on current attempts.

There are a number of elements included in superannuation product dashboards which could be included and refined in any future tool.[11] The main problem with the existing disclosure regime is that is does not take account of the individual circumstances of a consumer. Account balance is one factor that could be used help consumers' further narrow down a shortlist of products. Knowing a consumer's account balance will give a more accurate picture of the non-fixed fees. Age may also be an important factor to help choose a product with an appropriate level of investment risk.

CHOICE research found that consumers are unlikely to engage with superannuation if they do not understand the language or it is not tailored to their specific circumstances.[12] The current explanation of 'investment risk' is a useful example of poor communication. It is currently described as 'the anticipated number of years of negative returns for the product over 20 years'. This means very little to consumers. It would be better, as the Commission proposes, for funds to pre-state expected returns over a given timeframe and if a fund persistently underperforms (over multiple years) then it would lose accreditation. Consumers should be actively informed of loss of accreditation as a nudge to move their savings if they are not satisfied with performance.

[10] Digital Transformation Agency, 2015, 'Design principles', available at: https://www.dta.gov.au/standard/design-principles/#start-with-needs-user-needs-not-government-needs
[11] ASIC, 2014, 'MySuper product dashboard requirements for superannuation trustees', available at: http://asic.gov.au/regulatory-resources/superannuation-funds/superannuation-guidance-and-relief/product-dashboard/mysuper-product-dashboard-requirements-for-superannuation-trustees/
[12] Pollinate, 2016, 'Project Superpower – informing a strategy to engage people with their superannuation', Research commissioned by CHOICE, available at: https://www.choice.com.au/money/financial-planning-and-investing/superannuation/articles/why-consumers-avoid-thinking-about-super-20161024

Comparison tables are well used formats for comparing products and making purchasing decision. Comparison tables help to reduce search costs and improve consumer decision making.[13] Again, consumer testing is required to determine the precise layout which is most likely to aid decision making.

The DTA's design principles are particularly instructive when it comes to giving guidance on the extent to which Government should be providing comparison services. The principle to 'do less' and look to build platforms that others can build upon, providing resources others can use and focus on the 'irreducible core'. In the superannuation comparison context, this means making comparison data and weighting available so that third parties can innovate and improve. For example, there may be new innovative ways to improve user design or add metrics that consumers might demand in the future (e.g. life insurance comparisons). This approach also aligns with the Commission's draft report on data availability and use and its call for greater availability of data so that new businesses and ideas can emerge that are capable of innovating and competing with existing data sources.[14]

Last resort funds

Operating a last resort fund to protect lost or inactive accounts is a sensible solution to prevent erosion of benefits. However, it should be extremely rare for a consumer to be defaulted into this kind of fund. In the same way that an employer typically requires a bank account to pay staff into, so too should a superannuation account be required. Extensive efforts to contact new employees and get them to set up a fund should be made, where this still does not occur, the same process for lost and inactive accounts should be followed.

Prohibition on short-term benefits

There is a real possibility that short-term benefits will be offered to win employees to a certain fund. However, the assisted employee choice model has significant in-built mechanisms, such as a filter, accreditation and short-list to ensure that consumers are only offered high quality products via the default system. Therefore, a short-term benefit to select one fund over another may not be detrimental to a member's outcomes. CHOICE notes the Commission's concern that it would be difficult and perhaps even undesirable to limit these benefits. So long as adequate protections are in place to ensure only high quality funds make a short list, then additional short term benefits are of minor concern.

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[13] Meyer, K., 2017, 'Comparison Tables for Products, Services, and Features', available at: https://www.nngroup.com/articles/comparison-tables/
[14] Productivity Commission, 2016, 'Data availability and use – draft report'.

Where protections are more likely needed are outside of the default environment, where choice products offer short term benefits to lure consumers into poor performing products. This kind of behaviour could be curtailed through a design and distribution obligation for all financial services providers. Alternatively, ASIC could develop a regulatory guide for marketing and promotion of superannuation products that specifies what kind of marketing behaviour leads to harmful customer outcomes.

INFORMATION REQUEST 8.1

What are the main drivers of costs to employers in selecting default products on behalf of their employees? Would a shortlist of preferred default products make this task easier for employers? Is there an ideal minimum number of products that should be nominated on the preferred default list?
Are there other specific criteria in addition to those proposed under the minimum standards criteria that default products should meet to protect members and help to achieve better outcomes for them in the long term?

Would a dual list approach, allowing employers to select a product from one of two lists, provide them with sufficient flexibility to select tailored default products that best meet the needs of their employees?

Which types of employers prefer to retain a role in default product selection? To what extent are default products or corporate fund offerings considered important benefits offered to prospective employees in competitive labour markets?

See comments above on the employer choice model.