Dear Sir or Madam,

Default superannuation funds in modern awards

On behalf of the Board and Management of UniSuper, I am pleased to make this submission on the Commission's draft report Default superannuation funds in modern awards. We also refer you to our earlier submission dated 5 April 2012 on the Issues Paper.

The Draft report: UniSuper's comments

Criteria above-and-beyond MySuper?
In our initial submission we argued that the award system has served super members well over many years. We also echoed the principle enunciated by the Minister, Bill Shorten, that Stronger Super will deliver better outcomes for members and their employers by "raising the bar for those managing our superannuation system, particularly for those managing default superannuation funds" and argued that as Stronger Super will require more from those managing default funds, that it is too early to say whether additional criteria above-and-beyond those contained in the proposed MySuper rules should be required.

Our view has not changed.

We do not support the naming of all funds offering MySuper options as default funds under modern awards. Rather, we see the naming of funds that offer MySuper options (or exempt defined benefit funds) as a measure designed to enhance the integrity of how award super contributions are managed, particularly "for those who take no real interest in their super" and for those "who choose to be in a large, low-cost and well-managed product where the investment strategy is designed and implemented by the trustee".

That said, if only two options are under consideration, that is: Options 3 and 4, we would prefer to see Option 3 with a Fair Work Australia (FWA) panel – comprising full-time members and part-time experts – to be the expert body making an

important *industrial* decision i.e. which funds ought to be named in modern awards. We are concerned that Option 4 (i.e. having decisions made by an independent body with FWA playing a minimal role) is a significant departure from the existing treatment of superannuation as a key industrial issue.

**Draft report makes limited reference to defined benefit funds**

In our initial submission we pointed out that we were concerned that the issues paper was silent on the issue of defined benefit funds. We note that defined benefit funds are now mentioned in the Draft Report. For example the draft report states that:

**Option 1** Under this option, each employer would choose a fund from all of those that offer a MySuper or other approved default product (including an EPSSS or defined benefit fund).³

We remain concerned, however, that defined benefit funds are not mentioned in other sections, for example, the draft report argues that:

...the Commission considers that, under the reformed process, it is essential for all funds that have MySuper authorisation (and EPSSSs) to be able to apply to be listed in awards and have their case considered on its merits.⁴

We submit that defined benefit funds, which are exempt from the MySuper requirements, should also be referred to in the above statement. While we understand that MySuper “tranche three” touched on this issue, it is our view that defined benefits should be able to be named in Modern Awards even if they do not offer MySuper – quite simply for fact that some defined benefit funds may never apply for MySuper authorisation but are currently named in Modern Awards.⁵

**The value of advice**

While the Report does not include additional criteria for the selection and on-going assessment for selecting funds to be included in modern awards, it does list a number of factors including:

*The quality of member- and fund-specific intra fund advice⁶*

UniSuper supports the principle that advice matters. In fact, we believe that advice to superannuation fund members is vital to achieving greater financial literacy, transparency and member self-determination. It is for these reasons that we established UniSuper Advice in 2009.

UniSuper Advice offers our members advice that is both relevant to their needs as well as accessible. Advice is made both relevant and accessible via the number of channels through which members can receive advice. These channels include education seminars, low-cost telephone-based advice and comprehensive retirement and financial planning through a meeting with one of our Private Client Advisers in one of our offices around the country.

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³ Op cit 151  
⁴ Op cit 155  
⁵ UniSuper has not made a final decision about applying for MySuper authorisation but is named in the two higher education Modern Awards  
UniSuper, however, does not currently offer “intra fund advice” simply because we have no need to rely on ASIC’s Class Order because UniSuper Management Pty Ltd holds an Australian Financial Services Licence (AFSL).

We submit that the full spectrum of advice needs to be recognised, however provided (i.e. through a Trustee relying on ASIC’s Class Order or through a Trustee holding an AFSL or through an administration company holding its own AFSL), and however delivered (i.e. general advice from a call centre, scaled telephone advice from an AFSL holder or comprehensive fee-for-service advice from salaried advisers). All advice models should be considered and not just intra-fund advice in its current limited form. We believe that dictating the advice model that funds adopt is not the intention of any explicit government policy provided that the advice fits within its proposed Future of Financial Advice (FoFA) reforms and the fee rules proposed under Stronger Super which ensures that only those who receive advice bear the cost of it.

**UniSuper’s unique governance structure**

UniSuper has a unique governance structure which we documented (see enclosure) in our submission to Phase One of the Super System Review (“Cooper Review”). While we do not have any particular comments on governance to make in this submission, we point out that some long-established and well-managed funds have different governance structures that have served members well over many years and we ask that Commission be aware of these issues if making recommendations about fund governance structures.

**Conclusion**

We appreciate the opportunity to comment on the Issues paper. If you require more information, I am more than happy to meet with you to discuss the issues or you can speak to Benedict Davies who manages our policy submissions.

Yours faithfully,

Terry C. McCredden  
Chief Executive Officer