
De Santis Management Agency

DATE: 7 / 9 / 2016

**Ms. Yvette Goss,
Productivity Commission.
Via email:**

Dear Ms. Goss,

I would like to place before the Commission observations relating to the Productivity Commission Inquiry into Superannuation – Draft Report. I have previously contributed to the Parliamentary Inquiry into Superannuation.

Apart from my obvious Business Management Agency involvement, I am a former Senior Executive Public Sector Manager, a superannuation recipient and have Business Management Qualifications at post graduate level. In addition I have been employed as a Middle Manager in a large Government Superannuation Fund.

I am available for further consultation or discussion as the Commission may require.

Thank you for your consideration.

**David De Santis,
Managing Director.**

'Helping Industry Work Smarter'

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Productivity Commission Inquiry into Superannuation – Draft Report.

Observations from David De Santis.

Opening statement :- I have read all of the 235 page report which is of great interest and shows indepth viewpoints in endeavours to assess the viability and validity of the current system of superannuation.

My observations are varied but are related by point issue to the draft paper for ease of reading. I must state that whilst I agree the superannuation system is extremely complex, which I will expand on, the Draft Report extends the increasing complexity in its attempts to be all embracing and would be difficult, as is superannuation, for the average reader/ superannuation member to understand and digest.

The aim of superannuation put simply I believe is to provide a retiree with adequate retirement income to live on consistent with their needs. The overall outcome should be to not require the retiree to rely on the age pension as a supplementary income source.

The aim of superannuation funds should be to invest members funds to best advantage for the member to ensure outcome benefits are achieved for adequate retirement income.

Regulatory checks and balances are required to ensure funds are appropriately managed and that investments are appropriate to safeguard members funds for the long term. These need to be regularly monitored and enforced.

Funds need to adopt simpler methods of maintaining member funds, with appropriate category identification, to ensure members at all time can understand their investment to the point where they can be easily involved in decision making.

Compulsory Superannuation payments by employers.

A major issue for superannuation members in my view is the ability of employers to delay compulsory payments from weekly to quarterly. A certain amount of untruth is given to employees in that they are advised by weekly / fortnightly pay slip that superannuation has been paid on their behalf, where in fact it has not.

The problems are obvious.

1. By the time the quarterly payment falls due the employer may have insufficient funds and default.,The employee has no notification of this or of other default periods unless they constantly monitor their fund balances, which the majority do not..
2. Money held by the employer can be gaining advantage to them but is rightly belonging to the employee and should be in the superannuation fund gaining advantage for the employee.
3. Employees funds may be gaining advantage for only part of the year instead of the full year. eg loss advantage in delay periods each quarter.

This issue needs immediate attention and appears to be an easy fix.

Observation 1.- Section 4 – Objectives of the superannuation system- P57- Key Points.

-The superannuation system maximises net returns on member contributions.....

I would contend that the current system where Fund Managers devise the range of available portfolios does not maximise net returns on member contributions. Members, whilst largely unfamiliar with this type of complex investment activities are easily led by Funds. The complexity and unfamiliarity I believe is in a major part construed to be a lack of interest / attitude by members.

Observations over time indicate that if members invested funds in renewable fixed term deposits over the same period as their superannuation funds contribution, returns would be greater, capital would not be lost in crashes and little if any management fees are applicable as financial institutions do not openly charge fees on fixed term deposits. Members could easily follow and understand their investment and manage it easily. Of course it would need regulatory control to ensure it was retained funding for retirement as the opportunity would be easily available to withdraw funds. Nevertheless it would maximise net returns greater than the current superannuation system.

If superannuation funds invested a greater proportion of member funds in fixed term deposits there would be a more steady and greater over time return than with current funds predominance with shares and stocks, given there increased high levels of volatility. Investment costs would also be minimalised for members.

As referred to later Fund Managers designed portfolios dwell heavily on stocks and shares which is then at the members peril of major crashes which in the last 10 years have negated Fund predictions of volatility. The usual 5 / 10 year volatility predictions have been eroded to 1/2/3 year actual volatility. But Fund Managers have not changed their approach. As a result I believe the system overall does not maximise net returns on member contributions.

Another issue relevant to the cost factor of member needs is the fees levied by funds, as referred to later. Whilst Funds indicate fees for portfolio selection and this may appear minimal eg 1/2/3 % per portfolio selection, the overall fee structure can equate to 25% per annum of the yearly earnings attributed to the member from the funds. No mention is made of the issue of the Funds having access to members money to invest and make Fund profits outside member accounts.

Equally so Fund Managers obviously make money outside the member levied fees as they have in the main considerable infrastructure and find funding to support extensive marketing campaigns including sponsoring foot ball teams and stadiums. I can see no need for this as the funds are often industry funds and specific to industry groups so general advertising is partly wasted. In fact I see no need for the extensive marketing as a topic area.

-The superannuation system meets member preferences and needs.....

The larger majority of members don't understand the complex superannuation system. They are pushed into funds by employers, who undoubtedly receive some benefit from Funds, but whilst in recent years the opportunity to easily change funds has eventuated, because of the complexity of the system many members stay with the employer designated fund.

The majority of funds pay little heed to the need to adequately inform members on ongoing fund activities , products and product changes and in particular risk management. What information that is provided is mainly 'high brow' financial. Financial planning is provided at close to retirement times and certainly not over the members lifetime.

I am sure that the equal complexity surrounding the establishment of a 'self manage fund' has been pushed by the financial sector to ensure that it is complex enough to sway individuals from starting their own fund and pushing them towards established funds. The rules are overly stated and extensive. Eg. having auditors etc. Why can't an individual have their own simple superannuation investment fund.?

-The superannuation system provides insurance that meets members needs at least cost.....

There are two issues involved here. The insurance provision that goes with superannuation and the fact that Funds provide no insurance / guarantee for lost funds / inappropriate investments where members funds are greatly diminished.

In relation to the insurance provision for members, death and disability, these should not be associated with superannuation and should not be paid out of the employer contribution / member contribution for superannuation. Insurance should be completely removed from superannuation funds. If members wish to enter into death and disability insurance they should be required to do so voluntarily and preference should be given to funds who provide the inclusion of employment protection against loss of work and redundancy. Very few if any of the current superannuation associated insurers provide loss of work and redundancy insurance. If insurance is left within the superannuation fund structure this should be required to be included.

Fund members don't in the majority understand or know superannuation funds are being allocated to insurance provision. They don't have the ability to select the insurer, although it is recognised that they can 'opt out'. The issue of 'conflict of interests' arises where the Fund is receiving commissions from the insurer and in many cases the insurance policies are diverse and not consistent in their outcome provision. They could also be construed to be not the most viable for the member given the diversity and differences.

Given the high profile that superannuation has taken for members, Government, the extended retirement age implemented by Government and the alleged major strain this is allegedly placing on the economy it is high time that Superannuation Funds were required to provide insurance guarantee for the funds they have under management. All care and no responsibility is in the past. They like banks, who are guaranteed by Government, should be required to provide a guarantee to members.

They should be required by regulation to have a reserve fund, as the banks have been recently required to increase theirs, and provide an insurance guarantee for members to reimburse inappropriate investments and investment strategies..

Characteristics of a competitive and efficient superannuation system.- P62-dot points 456 & 8.

A competitive and efficient superannuation system....is transparent and accountable etc.....

The current systems are none of this eg. transparent, accountable to members or easy for members to engage with. I know of none across a number tested that are any of these.

Allows members to choose products that meet their preferences and needs.

There is a partiality of this available but most members don't understand the various portfolios, structures and investment strategies to sufficiently make an educated decision and are therefore left to the advising decision of financial planners. Evidence has shown how this process is flawed by the integrity of financial planners, particularly big institution planners and those who are able to link commissions with their decisions.

Takes behavioural biases into account etc.

Despite my level of academic and business acumen I am not sure I understand the meaning of behavioural biases. Does it relate to ethnic background?, to employment levelling background?, financial level of investment?, to a behavioural level of understanding needed to make considered decisions on investment strategies.? The lack of desire to be involved in superannuation by part of the employee community.?

Most don't understand the unit investment composition of funds under management. Eg. they think in dollars and not investment units = dollars. This adds to the confusion eg. \$5,000 invested in a fixed term deposit is still \$5,000 + interest. = \$5,000 @ 3% = \$5,150.

\$5,000 invested in superannuation = \$5,000 dollars which buys x amount of units across varying portfolios each with different unit values. The resultant calculation of what you earn when units go up and down further complicates the issue.

Added to this is the need to understand the financial terminology used by funds to describe investments. Eg. Growth alternatives.? Defensive alternatives?. Australian shares- bonds; cash; understandable; infrastructure,? Alternative assets,?

Is sufficiently stable

The current systems are not stable they have suffered ever more increasingly from market volatility in recent years where, as indicated earlier, the financial advice of funds where volatility may occur every 10/15 years has been negated and is in fact occurring every 1/2/3 years. In addition the manipulation of the stock market for and by large investors plays a large part in ensuring volatility occurs. Eg. large investors with pre franked shares selling before the end of the financial year at a high level, then buying back in at a lower level and reaping the subsequent large profits.

In addition there are large numbers of documented cases where Fund Managers have inappropriately invested member funds in adventures which have proved to be major losses with the resultant evidence being discovered that there were flawed business cases surrounding the investment.

The level of prudential regulation may well be there but it is not publicly shown to be actively undertaken by ASIC and other regulatory authorities. Eg. ASIC didn't uncover the Commonwealth Bank financial planner issues they were brought to attention by whistleblowers and individuals and prosecuted by private legal firms.

The level of regulatory oversight of the financial industry overall is sadly lacking, hence the current calls for a Royal Commission etc. Senior executives in the financial industry when submitted to various public forums, eg. Senate committee; have shown them to be inappropriately lacking in their responses to various issues, in particular home loan funding variability.

Allocative efficiency in the superannuation system.....- p 63.- Para. 1,2.-P64 para. 1.

Again I find this to be overly complex in its description of the needs. Members I believe in the majority expect the Fund Manager to gain the best outcome possible with a minimum of risk. Of course there would be a percentage of members who are 'risk takers' and want to make more money than their fellow members. Along with the majority view I believe that they would want the Fund Manager to gain sufficient funds over time to ensure their safe and benefited retirement.

As is clearly understood the majority of fund members have little interest in superannuation until later life and because the system is extremely complicated and left to pre retirement approach before funds appear to want to get actively involved with members, reliance on members investment making is not adequate. Members need to be led. Funds lead them by the overly complex system and its financial overtones during the passage of time to pre retirement..

As previously stated, the majority of members don't know they have financial advice available other than at pre retirement. Funds don't advertise this, and many don't openly offer it. I am not sure what ancillary services refers to in this section, but at early stages of govt. superannuation the funds also provided home loan funding to members, which was a good service and supported members who supported the fund. It was also a stable investment strategy for the fund in most cases and successful outcomes.

In so far as insurance is concerned the only insurance I believe funds should be offering is insurance for their own misadventures/ poor investments and losses to fund members Insurance companies should stand alone in providing death and disability insurances, employment protection insurances etc. There are major conflicts of interests / integrity issues in the current mix. The majority of members don't understand that part of their superannuation benefit is contributing to an insurance policy/ policies. Policies are diverse, subject to conflict and interpretation issues as is general insurance.

Competition in the Superannuation System – P65..

Para. 2 examples the ACTU. As a party arguing that competition in the superannuation funds was not necessary. Given the issues that have arisen in the Royal Commission surrounding unions and misappropriation of members funds, I contend the ACTU has no standing in providing financial advice to anyone and any advice proffered by them should be disregarded.

Adding to this is the stupidity of the plethora of union based superannuation funds. Eg. C.BUS,, HOSTPLUS. etc. These funds have been seen to be a landing ground for union officials in a highly paid Director position across the various funds. They also lend themselves to severely duplicated management structures and to resultant mismanagement in the name of the union group involved. The Royal Commission has more than readily identified the propensity for union official to openly misuse members funding.

Why is there a need to have separate funds for every union?. They should be all brought under the one umbrella.

The issue of competition is important. The current Fund Managers would contend that there is competition that is why they must advertise and have extensive advertising campaigns. I believe like the banking industry there is minimal competition.. This is instanced by the close alignment of the various investment portfolios across funds.

A second and unnoticed issue in the area of competition is the issue of outsourcing superannuation management to private contracts / contractors by recognised financial institutions. Eg. ING, AMP, their superannuation funds management is administered by contractors with the financial institution taking no real responsibility for the actions/ activities of the contractors in dealing with superannuation members, other than for that part of the investment of the funds provided through their advertised funds. In other words they have only a passing interest in the superannuation fund which is driven by their financial interests in getting hold of the funds.

P66- dot point 1.- ACTU contention competition may lead to lower living standards in retirement.

They obviously don't understand the concept of competition. How can competition be bad for the industry.? How could they contend it would lower living standards in retirement.?.As indicated earlier any view provided by the ACTU should be disregarded.

The superannuation system provides insurance that meets members needs.....P69.

My comments earlier complement my comments here. I believe having insurances linked in with superannuation creates a major conflict of interest, where funds receive commissions from insurance providers. Members in many cases are unaware of the providers other than that they have some form of insurance.

Members don't have a choice to include or preclude categories of insurances, other than to opt out. Benefit levels are agreed by superannuation fund managers without agreement with fund members. Fund members have to take what is offered.

The insurance offerings vary across funds, including variance in benefits, scale of insurance outcomes, costs and other associated issues. Some funds provide for death and disability, with time of work for injuries covered, some provide employment protection, some provide employment protection with redundancy included. Employment protection policies in the main have extensive lead times before a benefit is paid eg. 13 weeks off work before the any benefit is paid by the insurer. 3 months is a long time to have to pay mortgages, other bills without an income, whilst you are also suffering a disability.

Members in the main are unaware of the outcome benefits until they make a claim and find the benefits may not be adequate. This mirrors the current debacle in private health insurance, where assurances are provided but benefits are left to the decision of the insurer, who find loopholes to diminish returns to members.

This happens in the superannuation associated insurance funding, where members often have to bargain / negotiate an outcome with the insurer. Often this is after life threatening injuries / illnesses where the member is not in a fit state of health to undertake intensive bargaining.

As a guarantee system to provide default insurances this is highly unsatisfactory. The Fund Managers take no part in the negotiation of claims on behalf of the insured which is also an unsatisfactory situation where the Fund determines for the member the insurance company they should be in.

In Summary of my issues.

1. Remove the option for employers to pay superannuation quarterly and have it paid in the pay cycle as is indicated on employee pay advice docs.
2. Increase regulatory controls on the superannuation industry and ensure regulators provide adequate control and enforcement of these controls. This is essential given the multi billion value of the industry.
3. Ensure greater competition in the superannuation industry.
4. Cut through the complexity and remove it so that employees can gain a better understanding of the overall system and more importantly what their investment options mean.
5. Introduce an industry wide insurance scheme to require Superannuation Funds to guarantee members funds and insure them against losses, which would also stimulate the need for greater responsibility in Fund investment options.

6. Separate the death and disability and other insurances from superannuation or at the very least require funds to provide equitable and the same insurance options across all funds to their members. Include in this removal of any financial commissions to funds by insurance companies. Include in this also employee coverage for redundancy along with employment protection..

7. .Establish and dedicated Superannuation Industry Ombudsman to deal with complaints from fund members, funded by the Superannuation Funds but independently administered under one of the Govt. regulatory authorities.

Thank you for the opportunity to express my views.

David De Santis, 7/9/16.