



“[Australia’s] superannuation system is large by international standards and has grown rapidly since the Wallis Inquiry in 1997.” (*Financial System Inquiry Final Report, page 89*)

“Australia’s superannuation system has considerable strengths. It plays an important role in providing long-term funding for economic activity... and it contributed to the stability of the financial system and the economy during the global financial crisis.” (*Financial System Inquiry Final Report, page 89*)

“The Inquiry sees significant scope for the superannuation system to meet the needs of superannuation fund members better and provide broader benefits to the financial system and the economy.” (*Financial System Inquiry Final Report, page 90*)

“The superannuation system is not operationally efficient due to a lack of strong price-based competition and, as a result, the benefits of its scale are not being fully realised.” (*Financial System Inquiry Final Report, page 89*)

“Substantially higher superannuation balances and fund consolidation over the past decade have not delivered the benefits that would have been expected; these benefits have been offset by higher costs elsewhere in the system rather than being reflected in lower fees.” (*Financial System Inquiry Final Report, page 89*)

The Inquiry believes action can be taken in the following three areas:

- Set clear objectives for the superannuation system;
- Improve operational efficiency during accumulation; and
- Improve efficiency in retirement. (*Financial System Inquiry Final Report, pages 90-91*)

“The package of superannuation measures... would deliver better outcomes and a more seamless experience for superannuation members throughout their lives... [see *Figure 1: The superannuation system for default fund members – page 5 of this brief*]. This package has the potential to increase retirement income for a male on average weekly ordinary-time earnings by 25-40 per cent in retirement (excluding the Age Pension).” (*Financial System Inquiry Final Report, page 92*)

Recommendations relating to superannuation and retirement incomes are listed in Table 1.

Table 1: Superannuation and retirement income recommendations

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Source: Derived from Financial System Inquiry Final Report, page xxiii

Providing clear objectives for the superannuation system

“The superannuation system does not have a consistent set of policies that work towards common objectives... The lack of an agreed policy framework and objectives reduces the efficiency of the system.” (*Financial System Inquiry Final Report, page 96*)

“The absence of agreed objectives contributes to short-term ad hoc policy making. It adds complexity, imposes unnecessary costs on superannuation funds and their members, and undermines long-term confidence in the system.” (*Financial System Inquiry Final Report, pages 96-97*)

The Inquiry has made the following recommendation:

“Seek broad political agreement for, and enshrine in legislation, the objectives of the superannuation system and report publicly on how policy proposals are consistent with achieving these objectives over the long term.”

(Recommendation 9) (Financial System Inquiry Final Report, page 95)

The primary objective of the superannuation system put forward by the Inquiry is “To provide income in retirement to substitute or supplement the Age Pension.” (*Financial System Inquiry Final Report, page 95*)

Proposed sub-objectives are to:

- facilitate consumption smoothing over the course of an individual’s life;
- help people manage financial risks in retirement;
- be fully funded from savings;
- be invested in the best interests of superannuation fund members;
- alleviate fiscal pressures on Government from the retirement income system; and
- be simple and efficient, and provide safeguards.

“Consistent policy settings across the accumulation and retirement phases would meet the retirement income needs of Australians more efficiently and effectively. It would also assist Government in implementing policy settings that are well targeted and sustainable over the long term.” (*Financial System Inquiry Final Report, page 97*)

“Importantly, in supporting greater policy stability, the Inquiry is not seeking to avoid future change. The system needs to adapt to changing circumstances but avoid unnecessary or ad hoc changes that cannot be sustained over time.” (*Financial System Inquiry Final Report, page 97*)

“Defining the objectives of the superannuation system is necessary to build an efficient superannuation system... Stating the objectives would also help to align community expectations and industry initiatives with policy settings.” (*Financial System Inquiry Final Report, page 99*)

Improving efficiency during accumulation

“Fees have not fallen by as much as would be expected given the substantial increase in the scale of the superannuation system. As noted by the Super System Review, a major reason for this is the absence of strong consumer-driven competition, particularly in the default fund market. This reflects members’ lack of engagement and reliance on employers to choose default funds for their employees.” (*Financial System Inquiry Final Report, page 101-102*)

“Despite some early signs of fee reductions, the fees offered on MySuper products still vary widely, with a difference of 136 basis points between the highest and lowest fees. (Chart 1 on page 4 of this media brief: *Range of MySuper fees*).” (*Financial System Inquiry Final Report, page 107*)

“Government intervention in the superannuation system is warranted to improve the system’s efficiency in the accumulation phase... A more efficient system would ensure that all default fund employees, including the disengaged, receive the benefits of wholesale competition” (*Financial System Inquiry Final Report, page 108*)

“The Productivity Commission should hold an inquiry by 2020, following the full implementation of MySuper... to determine whether further reform would be beneficial.” (*Financial System Inquiry Final Report, page 101*)

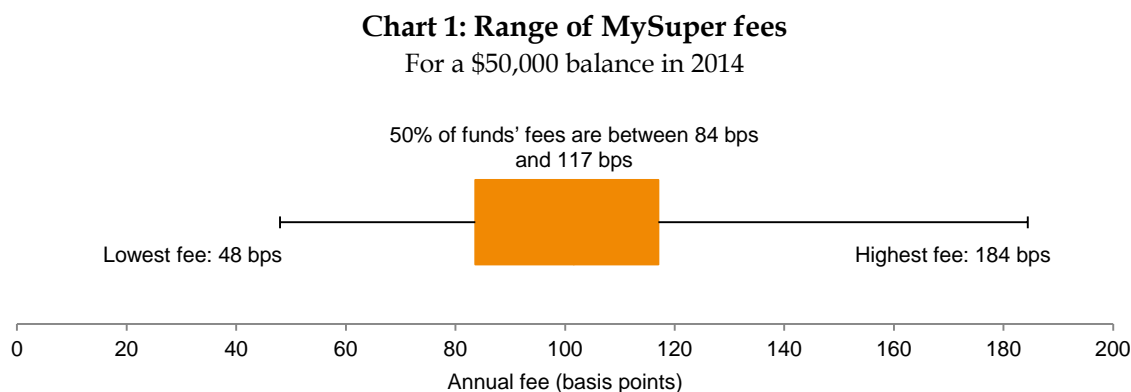
The Inquiry has made the following recommendation:

“Introduce a formal competitive process to allocate new default fund members to MySuper products, unless a review by 2020 concludes that the Stronger Super reforms have been effective in significantly improving competition and efficiency in the superannuation system.”

(*Recommendation 10*) (*Financial System Inquiry Final Report, page 101*)

This recommendation seeks to: “Enhance efficiency in the superannuation system to improve long-term net returns to members and build trust and confidence in funds regulated by the Australian Prudential Regulation Authority.” (*Financial System Inquiry Final Report, page 101*)

“This option [also] addresses the main driver of account proliferation and would reduce the extent of workers paying fees and insurance in multiple accounts or losing superannuation accounts.” (*Financial System Inquiry Final Report, page 110*)



Source: *Financial System Inquiry Final Report, page 108*

The retirement phase of superannuation

“Government should require superannuation fund trustees to pre-select an option for members to receive their superannuation benefits in retirement... The pre-selected option should... include a regular and stable income stream, longevity risk management and flexibility.” (*Financial System Inquiry Final Report, page 117*)

“The potential gains to members, the economy and taxpayers from a more efficient retirement phase are significant and warrant intervention.” (*Financial System Inquiry Final Report, page 121*)

“Pre-selected comprehensive income products for retirement and greater use of longevity risk pooling at retirement could significantly improve the superannuation system’s efficiency in providing retirement incomes and better meet the needs of retirees.” (*Financial System Inquiry Final Report, page 126*)

“Regulatory impediments to developing retirement income products, which include tax policy settings, need to be removed.” (*Financial System Inquiry Final Report, page 117*)

The Inquiry has made the following recommendation:

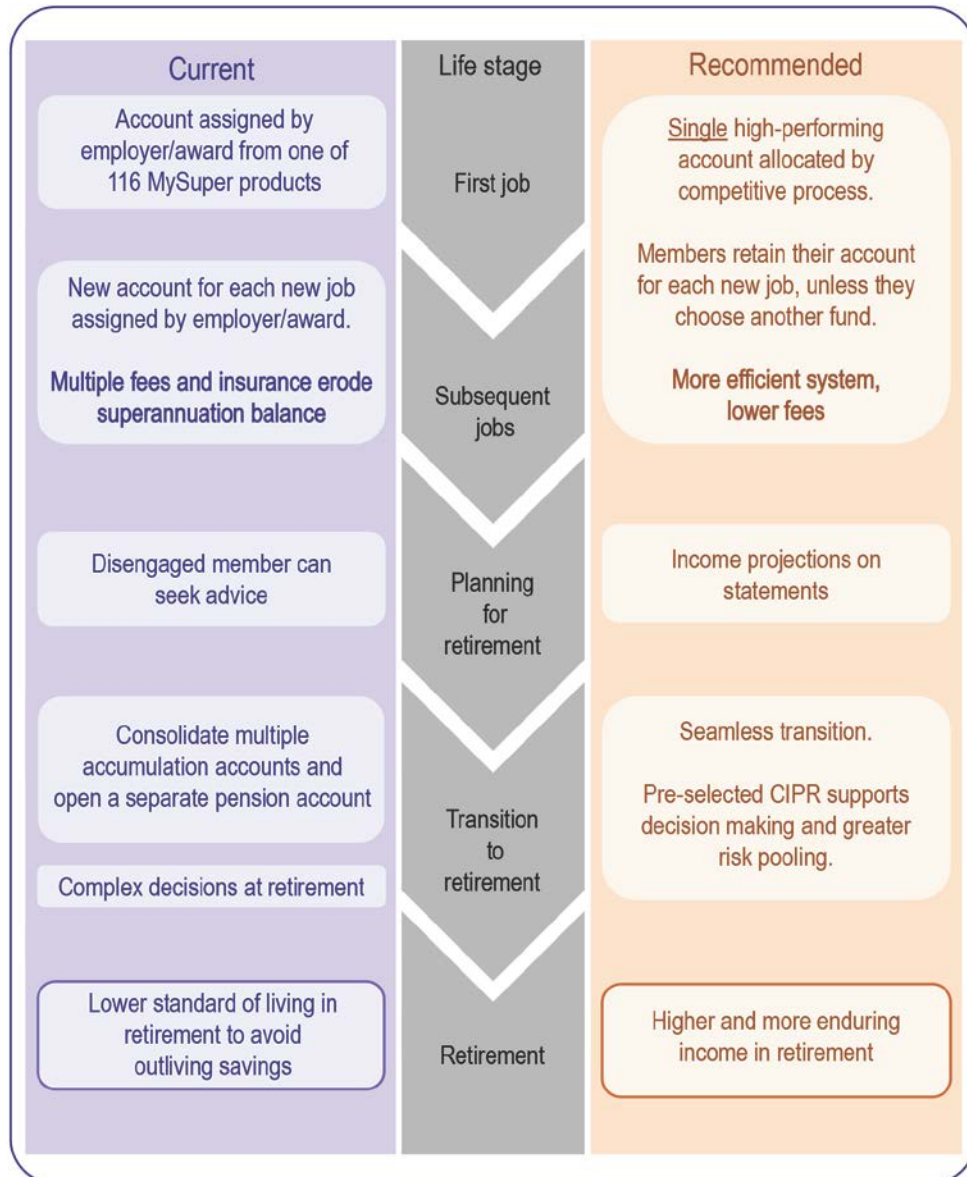
“Require superannuation trustees to pre-select a comprehensive income product for members’ retirement. The product would commence on the member’s instruction, or the member may choose to take their benefits in another way. Impediments to product development should be removed.”

(*Recommendation 11*) (*Financial System Inquiry Final Report, page 117*)

This recommendation seeks to:

- “Better meet the needs of retirees, including those who are disengaged or less financially sophisticated, and provide a more seamless transition to the retirement phase of superannuation.
- Achieve the objectives of the superannuation system... by strengthening the focus on providing retirement incomes.
- Improve Australians’ standard of living during their working lives and retirement through greater risk pooling.” (*Financial System Inquiry Final Report, page 118*)

Figure 1: The superannuation system for default fund members



Source: *Financial System Inquiry Final Report, page 93*