

**Submission  
Financial System Inquiry**

Mr David Murray AO  
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Dear Mr Murray,

I have been prompted to write to you by the *Sydney Morning Herald* article *Super system expensive and inefficient, says Treasury*.<sup>1</sup> As a very dis-satisfied participant in the superannuation system, one is not surprised by the content of Mr. Martin's article. Rather, I'm dismayed that governments of all political hues, not to mention the bureaucrats who advise them, have let the situation deteriorate to such an extent.

In this respect, some of your reported comments are welcome.<sup>2</sup> However, it will take a lot more than superannuation trustees seeking a wider range of investment advice and taking opportunities which may arise from this, for me to have any real confidence in their management. Therefore, I will concentrate my remaining remarks on these Terms of Reference:

3. The Inquiry will identify and consider the emerging opportunities and challenges that are likely to drive further change in the global and domestic financial system, including:
  - ...
  - 3. changes in the way Australia sources and distributes capital, including the intermediation of savings through banks, non-bank financial institutions, insurance companies, superannuation funds and capital markets;
  - 4. changing organisational structures in the financial sector;
  - 5. corporate governance structures across the financial system and how they affect stakeholder interests; and
  - 6. developments in the payment system.

There is clearly a very large amount of money in superannuation funds. However, I question the wisdom of many workers continuing to contribute. For many employees such as myself part-time work, temporary contracts, disability and ill-health all impact on our connection to employment. Superannuation still seems to be based on an assumption of fairly steady employment throughout life, where many will make increasing contributions to superannuation as their career and salary rise. Ask a sample of unemployed people in the contemporary job market (especially women with children) and I'm sure many of us will tell you that employment has little to do with "ladders of success". Rather, you get "your foot in the door" with an entry-level job, only to find the door is a revolving one. A budget cutback, downsizing or strategic realignment will see you out job-hunting

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<sup>1</sup> Peter Martin, *Super system expensive and inefficient, says Treasury*, April 7, 2014 <http://www.smh.com.au/business/super-system-expensive-and-inefficient-says-treasury-20140406-366tb.html> as at 12 April 2014

<sup>2</sup> See Bianca Hartge-Hazelman, *David Murray, financial inquiry head, in warning over superannuation trustees*, March 31, 2014 <http://www.smh.com.au/business/david-murray-financial-inquiry-head-in-warning-over-superannuation-trustees-20140330-35rqy.html> as at 12 April 2014

again. These were all points one tried to make to the Productivity Commission's recent inquiry into *Default Superannuation Funds in Modern Awards*,<sup>3</sup> with limited success.

Or at least I thought it was limited success until I read Peter Martin's article. If Treasury is at least now conceding that the superannuation system is one beset by cost and other structural problems, then this is a start. It is just unfortunate that those in Treasury have taken 30 years to come to the conclusion that corralling all working Australians into a single mandated savings system was going to generate perverse outcomes.<sup>4</sup> As my *Super System Review* submission makes plain, I want more member control over my money and ideally, to be treated as a shareholder to whom a clear fiduciary duty is owed.<sup>5</sup>

While technically this is already the case, it is not my perception. Superannuation as a product still has a long way to go to convince me it is a worthwhile investment, where trustees are not wittingly away nest-eggs with administration fees, so that more of my money can be lost on speculative investments, including State infrastructure. It was this concern that caused me to write to the Treasury's recent Superannuation Consultation: *Transparency and Improved Competition in Superannuation — Focus Questions*.<sup>6</sup> There have been too many toll roads losing money, too many corruption scandals and too many governments at the Commonwealth, State and local level with a propensity for losing billions in taxpayers' money, for me to want any of them (or their capital works) anywhere near the little superannuation I have.<sup>7</sup>

Of course, one's ability to find work (and build savings) is mediated through employment services, whose "offerings" the unemployed are mandated to avail themselves of; regardless of how useful many of the providers are.<sup>8</sup> Equally, the failure of successive Governments to undertake the continuing and substantial tax reform that would provide many entry level workers with the financial incentive to fight "tooth and nail" to stay in the job market is just not there. As I have aged with disability my physical health has begun to assume a greater priority in my thinking; while the tax

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<sup>3</sup> See my submission to the inquiry at [http://www.pc.gov.au/data/assets/pdf\\_file/0009/116685/sub054-default-super.pdf](http://www.pc.gov.au/data/assets/pdf_file/0009/116685/sub054-default-super.pdf) as at 13 April 2014

<sup>4</sup> While acknowledging that no system can be perfect, the more I have read about superannuation as a product, the more one realises why the Federal Government had to mandate it; no rational investor would use it by choice. My doubts really began to take form when considering the issues paper for the Treasury's *Super System Review*. My response was the submission at [http://www.supersystemreview.gov.au/content/submissions/downloads/Adam\\_Johnston\\_091224.rtf](http://www.supersystemreview.gov.au/content/submissions/downloads/Adam_Johnston_091224.rtf) as at 13 April 2014

<sup>5</sup> See *ibid.*, particularly where I write at p.4 of 7: "...As such, I was encouraged to hear Mr. Kohler suggest on one of his recent ABC TV news financial reports that super funds would be regulated more like companies. It would be preferable however, if members were regarded more as shareholders. In my view, people understand and value shares in a way they will never appreciate superannuation. Indeed, I would like to see a situation where superannuation shares were expected to return some dividend to members on a regular basis, even if a part of the dividend was retained for long term reinvestment in the business. This would hopefully underline to super members the relevance of keeping track of their money in the near term, because they might get some return in the 'here and now'..."

<sup>6</sup> The submission to Treasury is provided to this inquiry as Appendix 1.

<sup>7</sup> See *ibid.*, pp. 4-5 of 6

<sup>8</sup> See generally, my submission to the Senate Education, Employment and Workplace Relations Committee's September 2011 inquiry into *The administration and purchasing of Disability Employment Services in Australia* at <https://senate.aph.gov.au/submissions/comitees/viewdocument.aspx?id=a6fa4e6a-eb31-49de-bb0f-c9f11849c86c>. as at 13 April 2014

taken from any earnings has made me wonder whether the economic benefit of paid employment is about as tangible as the Pot of Gold at the end of the Rainbow?<sup>9</sup>

I acknowledge that some of my points about taxation reform, as well as those on the benefits (or not) of finding and maintaining employment as someone with a disability may not be directly relevant to your review. However, it is hoped they provide with some context, in order to appreciate my perspective on Australia's financial system.

Yours faithfully

A handwritten signature in black ink that reads "Adam Johnston". The signature is written in a cursive style and is positioned above a horizontal line.

Adam Johnston

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13 April 2014

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<sup>9</sup> Not that I haven't tried to make this point in the past. See for example, my submission to the *Henry Tax Review*, calling for a simplified, streamlined system where the majority of citizens were relieved of the obligation to file an annual return with the ATO. Refer to [http://taxreview.treasury.gov.au/content/submissions/pre\\_14\\_november\\_2008/Adam\\_Johnston.pdf](http://taxreview.treasury.gov.au/content/submissions/pre_14_november_2008/Adam_Johnston.pdf) as at 13 April 2014