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Super System Review
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ASFA Submission - Super System Review – Phase Two: Operation and Efficiency

The Association of Superannuation Funds of Australia is pleased to provide this submission in response to Phase Two – Operation and Efficiency, of the Review by the Australian Government into the Governance, Efficiency, Structure and Operation of Australia’s Superannuation System (the Review).

ASFA is a non-profit, non-political national organisation whose mission is to advance effective retirement outcomes for members of superannuation funds through research and advocacy. We focus on the issues that affect the entire superannuation industry. Our membership, which includes corporate, public sector, industry and retail superannuation funds, has as members over 90% of the approximately 12 million Australians with superannuation.

Our Constitution requires that we promote and protect the interests of superannuation funds, their trustees and their members. As such we conduct extensive research, engage our membership in debate and offer what we believe is sound public policy which rises above vested interests.

ASFA Report Card: “Plenty of room for efficiency gains, do not compel consolidation”

ASFA contends that there is plenty of room for efficiency gains in the superannuation system through improved automation, such as the removal of manual transactions, better data quality and the elimination of duplicate and unwanted multiple accounts.

It is critical that the superannuation industry be able to refine and streamline operational processes and reduce costs and leakages. In order to achieve this, action will be required from:

- the superannuation industry - to implement new compulsory data standards and make some other key changes;
- the Government - to make some legislative changes to facilitate e-commerce and remove road blocks to more efficient operational processes; and
- employers - to deal electronically with their superannuation funds.

There is an assumption underlying the questions of this Phase of the Review that consolidation of superannuation funds will produce large efficiency gains. This opinion has also been expressed by Jeremy Cooper in his speech at the November ASFA conference. ASFA believes that the push for consolidation is pre-emptive.

ASFA is in favour of consolidation where it is in the best interests of members, and in fact we believe it will continue apace and we are advocating legislative changes to make it easier. However, we believe that the real issue is scale.

We support superannuation funds achieving scale in terms of their operations (such as investment and administration) however consolidation is not the only way in which this can be achieved. It can also be achieved through the merging of back office operations.

Once the key initiatives recommended in this paper are implemented, super funds will experience significant efficiency gains and the additional marginal gains from consolidation will be less significant. As such there will be less argument for consolidation on efficiency grounds alone.

Consolidation of superannuation funds should be encouraged but not compelled. Whilst larger, consolidated entities have scale and the potential to do things that smaller funds cannot, smaller funds can have their own valuable attributes. It should be up to trustees to determine the structure and size of fund that best delivers benefits for their members.

In order to facilitate consolidation the Government should provide permanent Capital Gains Tax (and Stamp Duty) rollover relief.

Ten key initiatives

ASFA has made a range of recommendations in our submission. However there are ten key initiatives which we believe are the most important.

E-enabling the superannuation industry

The first group are key e-commerce initiatives that will remove the roadblocks in the way of e-enabling the superannuation industry, and improve the quality of data to reduce the number of lost accounts. These are:

1. Superannuation funds must have the capacity (either directly or through a service provider) to receive and send contribution and rollover information electronically, in accordance with agreed data standards.
2. Superannuation funds must be allowed to use the Tax File Number as a primary search key for all superannuation processes. Legislative changes may be required to achieve this.
3. There must be a minimum data requirement or standard for superannuation contributions and rollovers. Superannuation funds must be prevented from accepting contributions or registering a new member unless the accompanying information meets these data standards.
4. To fulfil their SG requirements, employers must provide contributions electronically. They must also provide – electronically – an agreed minimum set of data about the contributor and for whom the contribution is being made. A change would be required in the Superannuation Guarantee Administration Act for this to occur.

We note that this requirement is premised on the availability of appropriate, low cost electronic portals.

5. It must be easy for members to rollover their money between superannuation funds. In order for this to happen:
 - A superannuation fund should not have to re-verify any part of a member's identity if another APRA regulated fund has already verified that information – they should be able to rely on the other fund's verification.
 - A standard form and standard industry process is required.
 - Where a superannuation fund has received the agreed minimum required data and notification from another APRA regulated fund that the member's identity has been verified and the data items match, the fund should have to make the rollover payment without seeking further information from the member.

Like-with-like comparability

6. Standard definitions are required of “investment”, “advice” and “other” fees. It should be compulsory for superannuation funds to categorise their fees into these “buckets” on the same basis.
7. Investment returns should be measured on a consistent post tax and post fee basis. There should be standard rules around which fees should be deducted from the investment return (eg. only investment fees as defined above).
8. In order that fund members can be clear about what they are choosing, and so that investments can be fairly compared, investment options within superannuation funds must be measured and disclosed on a compulsory standardised basis in terms of their risk/return profile. For example they could be categorised into high, medium and low risk under a compulsory standard methodology. (Currently options are categorised into “growth”, “balanced”, “conservative” etc, however there is no standard methodology to determine into which category an investment option should fall).

Other initiatives

9. Superannuation trustees should have information which will allow them to benchmark the efficiency of their operations compared with other similar funds. This information will be used by trustees for operational improvement purposes rather than being released to members (who are more interested in fees and net investment returns).
10. As key service providers to the industry, superannuation fund administrators should be regulated by APRA and all agencies that rate superannuation funds must hold an ASIC Australian Financial Services Licence, and be licensed as a principal.

The superannuation industry should be given a two year implementation lead time before any new mandatory requirements outlined above become compulsory.

A summary of all of the recommendations is provided at the end of our main submission.

As an addendum to our submission, Appendix 1 contains our responses to the consultation questions, together with views on the other issues which ASFA feels are important for the Review to address.

Appendix 2 contains a summary report based on research undertaken for ASFA by The Allen Consulting Group in September 2009, titled “Better living standards and a stronger economy: the role of superannuation in Australia”. The summary report discusses the positive benefits of superannuation to the Australian economy, to Government and to families.

I trust that the information contained in this submission is of value. We would be pleased to meet with you to discuss our submission.

Yours sincerely



Melinda Howes
Director of Policy & Industry Practice

Enclosures:

Main submission

Appendix 1: Responses to the specific consultation questions

Appendix 2: Summary Report – “Better living standards and a stronger economy: the role of superannuation in Australia”

Summary of Recommendations

Our key propositions / recommendations from the above submission are listed below under various relevant headings.

Recommended regulatory changes

- Where the administration for a superannuation fund (or RSE) is performed by a separate entity, APRA should regulate that entity.

E-enabling the superannuation industry

- Superannuation funds must have the capacity (either directly or through a service provider) to receive and send contribution and rollover information electronically, in accordance with agreed data standards.
- Superannuation funds must be allowed to use the Tax File Number (TFN) as a primary search key for all superannuation processes.
- There must be a minimum data requirement and a messaging standard for superannuation contributions and rollovers. These standards must then be made compulsory through changes to SIS and the SG legislation.
- Superannuation funds must be prevented from accepting contributions or registering a new member unless the accompanying information meets the compulsory data standards, and unless agreed minimum data has been provided.
- Employers should be required to provide contributions electronically in accordance with the prescribed data messaging standard. That is, employers must also provide – electronically – an agreed minimum set of data about the contributor and for whom the contribution is being made.

We note that this requirement is premised on the availability of appropriate, low cost electronic portals.

- Superannuation funds should be required, within a suitably short prescribed timeframe, to advise a contributor if a contribution was unable to be processed.
- It must be easy for members to rollover their money between superannuation funds. In order for this to happen:
 - A superannuation fund should not have to re-verify any part of a member's identity if another APRA regulated fund has already verified that information – they should be able to rely on the other fund's verification.
 - A standard form and standard industry process is required.
 - Where a superannuation fund has received the agreed minimum required data and notification from another APRA regulated fund that the member's identity has been verified and the data items match, the fund should have to make the rollover payment without seeking further information from the member.
- In order to reduce the incidence of potential illegal early release, and also reduce the incidence of contributions made to an incorrect bank account, the Australian Business Register's (ABR) Super Fund Lookup application should be modified to provide access to product information and bank account details. Access to the bank account details would be on a restricted basis.
- The superannuation industry should work with the finance sector to develop processes that will allow more information to be carried with financial transactions.

The superannuation industry (including funds, administrators, intermediaries and employers) should be given a two year implementation lead time before any new mandatory requirements outlined above become compulsory.

Consolidation should not be compelled

- Consolidation of superannuation funds should be encouraged but not compelled.
- In order to facilitate consolidation the Government should provide permanent Capital Gains Tax (and Stamp Duty) rollover relief.

Fees and charges

- There should be no mandated ceiling on fees.
- Legislative changes should be implemented to remove impediments preventing trustees from closing down legacy products, which are a big driver of high costs for some funds.
- Standard definitions are required of “investment”, “advice” and “other” fees. It should be compulsory for superannuation funds to categorise their fees into these “buckets” on the same basis.
- The industry needs consistent standards for the disclosure of investment fees such that fees for underlying investment arrangements must be disclosed;
- It may be more useful to show the fees in the PDS based on three different account balance amounts (eg. \$25,000, \$50,000 and \$100,000) so that members can compare a figure closer to their own balance. However we recognise that this is trading off simplicity for accuracy;
- Advisory fees need to be paid on a fee-for-service basis, rather than in the form of commission – i.e. it is critical that there is clear separation between product recommendation and financial advice;
- There needs to be a consistent and enforced methodology for calculating superannuation fund investment performance, both in terms of the fees and costs deducted and the tax treatment.

Comparing superannuation funds on a like-with-like basis

- Investment returns should be measured on a consistent post tax and post fee basis. There should be standard rules around which fees should be deducted from the investment return (eg. only investment fees as defined on a consistent, mandatory basis).
- In order that fund members can be clear about what they are choosing, and so that investments can be fairly compared, investment options within superannuation funds must be measured and disclosed on a compulsory standardised basis in terms of their risk/return profile.
- If investment options continue to be categorised in the current way, there needs to be a compulsory standardised way of categorising assets into “growth” and “defensive”. There is also a need for compulsory rules for placing investment options into the categories of “growth”, “balanced” etc.
- New league tables should be established with input from a cross-industry board of industry representatives who would proactively review both the process and the material on a regularly scheduled basis. In terms of these league tables:
 - The information, including investment returns, should be collected and provided for the key investment option(s) within each super product. For example, where an industry or corporate fund has a default option, that option could be shown. If assets are spread over 2 or 3 main options, they could all be shown. For a retail fund with numerous investment options, their (say) 3 largest, or suite of default, diversified options could be shown.
 - Returns should be shown on an after-tax basis where applicable – not all funds do this at present (eg. wraps or platform products, where tax is shown on an individual level not the fund level). We recognise the difficulty experienced by platforms in relation to after-

tax reporting as tax is calculated at an individual level, however ASFA's position is that trustees should report returns on an after-tax basis where applicable.

- Asset allocations/ranges should be provided for each key investment option shown.
- In addition to annual returns, results should be shown on both a 5-year and 10-year rolling time horizon in order to counter short-termism. Also, the results should be published once a year rather than every quarter, otherwise there is a danger of adding more complexity and cost to the system (particularly if funds have to continuously provide information) for little benefit to members.
- The results should be published in a timely manner – eg. research houses generally publish results by the end of the month following the relevant quarter-end. If the information continues to be published quarterly, their results should be released closer to this timeframe. However, as stated in the previous bullet point, ASFA's view is that the results should be published once per year rather than quarterly. But regardless of the frequency, the results should certainly be published no later than one quarter after the end of the applicable period, in order for the information to be relevant.
- The information published should ideally cover more aspects of the fund beyond investment returns such as fees, services offered, insurance offerings and an overall "value" rating.
- Given the extent of the above suggestions, we recommend that the published information should be accompanied by a brief summary, with references to the more detailed information.
- The comparative information should be freely and publicly available.
- Superannuation trustees have information which will allow them to benchmark the efficiency of their operations compared with other similar funds.

Investments

- ASFA does not support lifecycle or glide path fund structures being mandated as the default investment option. Trustees should neither be compelled to nor prohibited from the introduction of such a model.
- There should not be a prescribed maximum placed on the number of investment options offered by a superannuation fund, including within a default fund. These considerations are part of a trustee's fiduciary duty and should be left to the trustee to determine – no further prescription is required in this regard.

There should not be a single national default fund

- ASFA believes there should not be a single national default fund.

Consideration regarding a national ERF

- ASFA recommends that consideration of a national ERF is deferred until the full implementation of the government's departed temporary resident and small balance transfer measures.
- In the meantime a charter should be introduced for ERFs specifically setting out the function of an ERF including the requirement that the ERF operator should be actively trying to reunite the monies in the ERF accounts with the account owners. SIS changes may be required in order to make this a clear obligation for the operator of the ERF.