

# **The Superannuation Market in Australia**

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# 1. Introduction

The title of this paper admittedly is a touch pretentious, and not totally accurate. It is a touch pretentious because it is not possible to neatly encapsulate the market for superannuation in one brief paper. The sector is far too complicated and multi-faceted for that.

This complexity leads to the Australian superannuation system being made up of a number of markets, rather than being one big market. Amongst the main types of markets there is the market for superannuation funds, the market for superannuation member accounts and associated contributions, and the market for investment products for superannuation funds.

This paper will examine a range of aspects of the markets for superannuation. It will attempt to split out the bits that are more different than the same. However, this can be hard to do in some aspects because we do not know enough about the markets and/or the available data are not up to the task.

Many of the available aggregates do not always differentiate between quite different products within a sector. For instance, retail covers products ranging from life office policies underlying a 'virtual fund' in a life office, to annuities to master trusts, to Eligible Rollover Funds which get their business as discards from other funds. Corporate schemes with an Approved Trustee seem to be included in at least some statistical measures with other public offer funds which are actually open to the public.

Some of the dividing lines between sectors also are a little arbitrary, and will increasingly become more so. Many industry funds are becoming public offer and more or less retail in nature, and some retail funds consider that they should be regarded as an industry fund, particularly if this would be helpful in a choice of fund context. The divide between public sector, industry and corporate funds is also unclear with privatised and part-privatised former public utilities, and schemes which operate in the university sector. Lists of funds by category are not consistent between sources, particularly when self-identification is relied on. For instance, some funds are treated differently in each of *Superfunds* surveys, Rainmaker and ASSIRT surveys, and official APRA analysis.

These shifting sands and ambiguities need to be kept in mind when interpreting the available information on superannuation in Australia.

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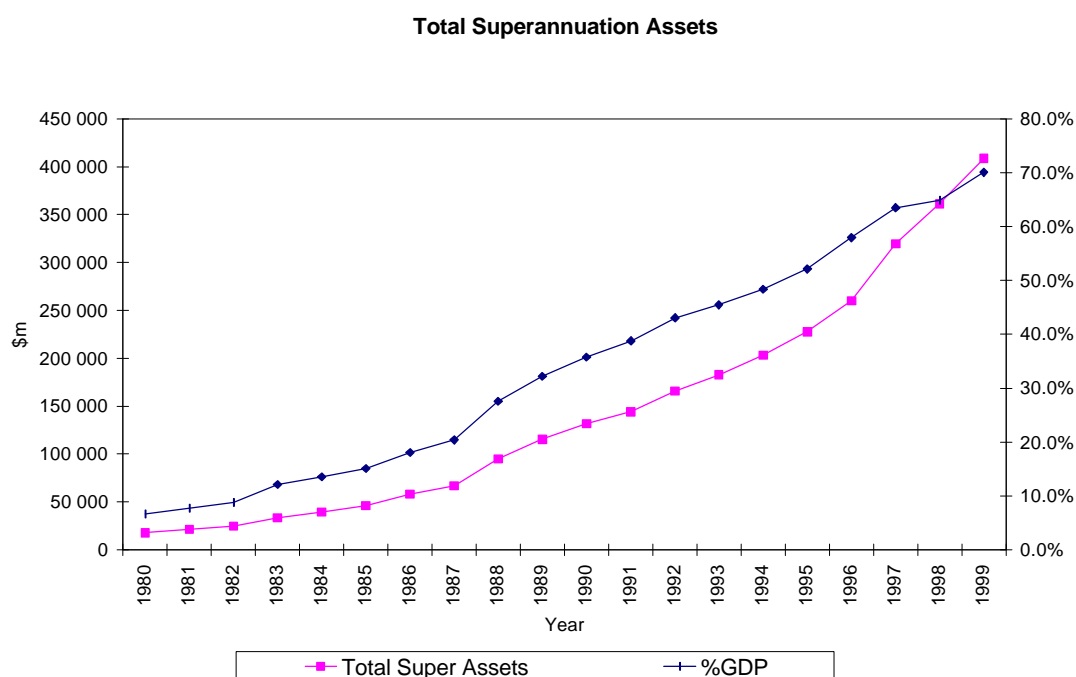
## 2. The aggregate size of the superannuation market

### 2.1 Superannuation assets

On the face of it estimating the current amount of superannuation assets should be the “no brain” research question, at least for the period since the establishment of the ISC and publication of the quarterly ISC (now APRA) statistical Bulletins. The standard practice is to get the most recent Bulletin and look up the number. If you want to construct a series, you get some back issues.

History (that is, as long ago as the 1980s) is a bit trickier because you have to rely on old ABS figures and cobble various series together. However, this task gives you a chart along the lines of Chart 1, and a table along the lines of Table A1 in the Appendix to this paper. The overall result is a reasonably smoothly increasing series, both in absolute terms and as a percentage of GDP. This is a finding that has some intuitive appeal.

**Chart 1**



While this simple approach has its attractions, it is not without defects. Careful reading of the footnotes to the APRA tables indicates that some caution is needed in interpreting the numbers. First off, the latest APRA estimates are derived from a survey of funds, not an enumeration of all funds. Revisions are common for preceding quarters, and the preceding year, once annual return data become available. This tends to have the greatest relative impact on components of the estimates such as earnings or contributions, but there also can

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be revisions to aggregate assets as well. The moral of the story is that if you want to be precise about your numbers you need to rip out and discard the tables from old Bulletins and only make use of the articles. Getting the revised series from the helpful people at APRA is the only way to achieve precision (and this was what was done for Table A1).

It also should be remembered that the APRA numbers relate only to the funded part of superannuation. This is admittedly a very important consideration when the question of assets available for investment is considered, but from a retirement income point of view the unfunded bit is important as well. This is especially so given that as at September 1998 the ABS has estimated unfunded superannuation liabilities in the public sector at \$128.7 billion. Inclusion of this figure would increase the estimated size of the superannuation sector by nearly 35 per cent.

Another area where some caution is needed with the APRA numbers is the item 'balance of statutory funds'. This is a considerable item, at around \$50 billion and it is a volatile one, increasing by over 20 per cent between June 1996 and June 1997, and falling by around 10 per cent between September 1998 and December 1998. \$5 billion is a lot of money, even if you say it quickly.

A proportion of the amount 'balance of statutory funds' is accounted for by retirement income stream products regulated solely under the Life Act. However, the bulk appears to be made up of life office reserves and other less explainable amounts in life company accounts.

I will not claim to be any sort of expert at deciphering life office accounts, or how statutory funds work. This is a topic not much understood (or even discussed) by others apart from life office actuaries. It might all be quite straightforward, but for outsiders it is a bit like the secret ceremonies of the freemasons. Unfortunately, you might need three or four years of actuarial studies and some on-the-job training in a life office rather than a secret handshake to discover the secrets of the statutory fund.

I am not alone in having this problem. According to IFSA (IFSA, 1999) in their submission to the Review of Business Taxation, Treasury has been looking at the taxation of life offices for the last decade and still does not properly understand how life office business is structured. Both IFSA, 1999 and the Institute of Actuaries, 1999 give some clues to how statutory funds work. In particular, their alternative proposals by implication give some indications of the practices that Treasury wants to suppress, but the submissions could not be regarded as a full and complete account of how statutory funds work in practice and how all the amounts in them are distributed.

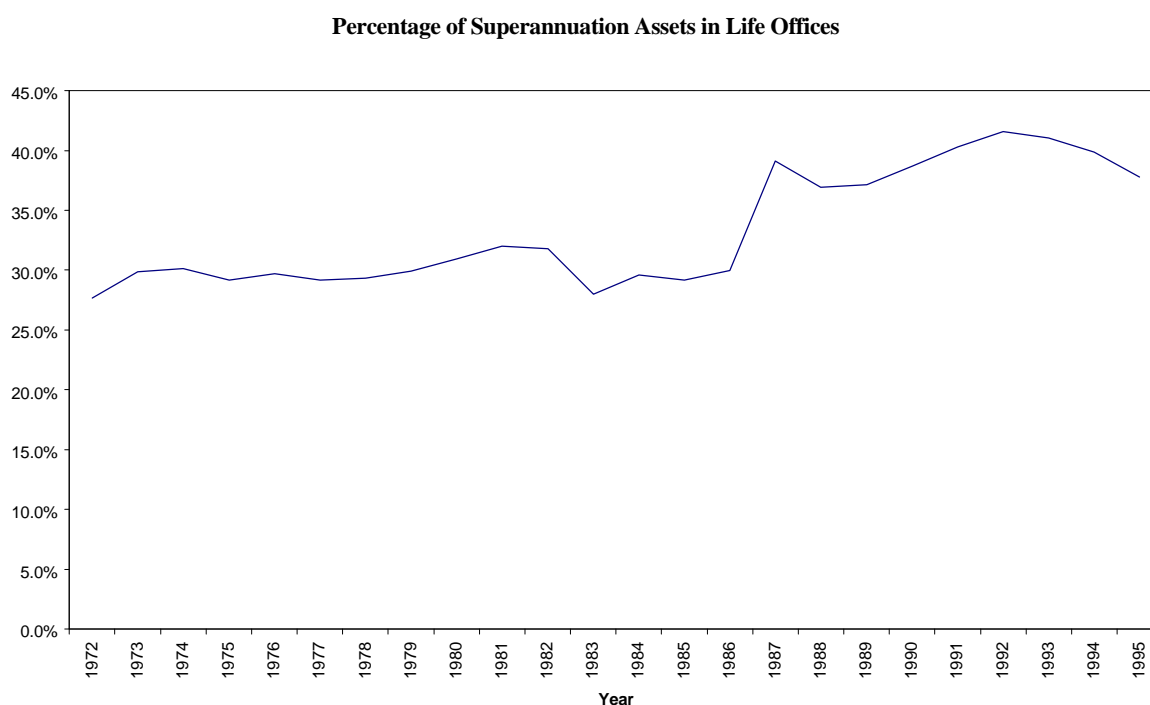
However, Treasury thinks it knows enough about life offices to form the view that tax planning and tax arbitrage apparently goes on. This view might of course be misinformed and based on misconceptions of less than clear life office accounts. However, there are some suspicious signs. Statutory funds have a mingling of various retail and wholesale risk and investment products, policyholder and shareholder funds, and a variety of tax rates. While I am sure that life offices pay no more or less tax than is required by the current law, Treasury may have some grounds for their view that less tax is being paid than would be if life companies were taxed like companies and that shareholders in particular end up paying less than they should. The establishment of life offices by some of the newer, very smart participants in the financial services market has tended to confirm such suspicions. A large

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amount of products are sold through retail distribution networks apart from life offices, but much of the resulting wholesale investment still goes through life office statutory funds.

Whatever the reasons, the percentage of superannuation assets in life offices, both in the form of retail direct investments and through the provision of wholesale investment products to other superannuation funds, is now markedly higher than it was in the 1970s (Chart 2). This structural shift in how superannuation assets are invested also may have been given a kick along by the introduction of contribution and earnings taxation in 1988, with a consequent incentive to make use of lower tax options. There was not much of a motive for tax arbitrage transactions by super funds when they were tax exempt themselves. If the Review of Business Tax proposals for life companies are adopted there might be a shift to very little new and even existing superannuation money being invested through statutory funds. Capital gains tax and stamp duty considerations along with technical difficulties in transferring individual accounts might impede the transfer of funds though. Clearly, tax considerations can dominate more fundamental product characteristics.

**Chart 2**



How might tax arbitrage currently work in life companies? It is not for me to give lessons on this, but a possible answer is that categories of business that are lightly taxed or not taxed at all are often very fully funded if not overfunded, and no franking credit or tax preference is ever allowed to go to waste. While a lack of franking credits available to life office shareholders might wash out some of these effects, at least for domestic shareholders, the position is different for foreign shareholders who are not eligible to use franking credits. There also seem to be ways and means of getting value to shareholders, including through the market value of shares as opposed to dividends. There also was the practice of giving the more successful life office sales agents low interest loans, but this seems to have fallen into disuse with wealth transfers from life company funds being redirected following demutualisation.

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Turning back to the matter of estimating superannuation assets, both tax planning and customary actuarial conservatism can lead to the building up of reserves that exceed those which will ever be required or made use of in meeting claims or smoothing returns. It is possible that a significant proportion of the \$50 billion in the balance of statutory funds item will never make its way to holders of superannuation accounts. However, a notable exception to this is when reserves are liberated for the benefit of policyholders through a process of demutualisation. It is likely as well that some of these tax benefits are used to cross subsidise some investment or superannuation products offered by life companies.

However, there is much more to superannuation asset growth than merely tax planning by funds. What is remarkable about Chart 1 is the strength and the duration of the growth in superannuation assets. Award superannuation was not that large or widespread in the late 1980s, but asset growth nevertheless steamed along at an impressive rate. Earnings growth and voluntary member and employer contributions appear to be the reasons. What is even more remarkable is that the growth has been so strong despite the introduction of markedly increased taxation of benefit payments in 1983 and of employer contributions and fund earnings in 1988.

From 1992-93 onwards it is more reasonable to cite SG obligations as the driving force in the growth of the Australian superannuation. As noted in Clare, 1999 the taxation of contributions, including the surcharge, appears to have put a damper on voluntary or negotiated employer contributions. SG obligations and earnings growth appear to be behind much of the growth in assets in the 1990s. Earnings in particular have consistently been stronger than growth in nominal GDP. There also has been growth due to retirement income planning activities which have involved payment out of superannuation benefits as a lump sum and the immediate reinvestment as a one-off member contribution.

## **2.2 Forecasts and projections of superannuation assets**

Projecting various outcomes into the future is hard to do, as the experts in this field such as the modellers from the Treasury Retirement Income Modelling Group, and Ann Harding's team at NATSEM would be the first to admit. Superannuation outcomes and market structures are influenced by a host of factors. Even if you can isolate these out and build them into a model then you are usually still stuck with a model which tells you how today's arrangements might translate into the future on the basis of certain assumptions. However, some of the less sophisticated forecasts that are out and about manage to abstract from all of these complications by doing the electronic equivalent of getting the ruler out and drawing a line from the last known reference point.

While tempted to do the latter, I will largely be leaving forecasting work to the experts best qualified to do it. That said, while life is full of uncertainties, I am confident to predict on the basis of expert advice that superannuation assets under management will continue to grow strongly to reach a very large number of some billions or trillions of dollars by the year 2020. This optimism about the future of superannuation has been shared by a number of analysts and commentators, and lies behind the interest of a range of domestic and overseas financial institutions and service providers in the superannuation market in Australia.

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Chart 3 with its attached listing of plotting points sets out various forecasts of total superannuation assets that have been prepared over the last five years or so.

Actual assets have tended to outstrip forecast growth, but there are some exceptions to this. Some of the forecasts have not held up very well, even in the relative short term.

The switch from ABS survey numbers to ISC annual return and survey numbers also led to some discontinuities between the asset levels as originally known and forecast and what was later reported by the ISC. However, it would be fair to say that earnings in recent years have tended to be stronger than anticipated by the Treasury. For instance, Table 2 sets out actual tax collections from superannuation funds compared to the forecasts in successive Budget Papers.

**Table 2 - Superannuation Revenue**

Year	Actual Revenue	Estimated Revenue
	\$m	\$m
1996	1 634	2 150
1997	2 595	1 800
1998	2 960	2 490
1999	3 870 (p)	2 950

Another lesson to be learned from the forecasts in Chart 3 is that numbers after the decimal point might be generated by a spreadsheet, but the degree of accuracy is such that fewer significant numbers should be published. However, the decimal points do lend some accuracy and authority to forecasts which are prepared, and there are few economists or financial analysts who go in for rounding even when this is justified on objective grounds. Given that my own home is made of glass I will throw only a few pebbles on this point.

As well, there is the problem of forecasting future growth in the price level. Values in absolute terms are sensitive to even minor changes in the assumed average inflation rate when forecasts are being made some decades into the future. Even forecasts for less than a decade away can be substantially influenced by these inflation effects. The forecast contained in Keating, 1989 which claimed superannuation assets of \$600 billion by 2000 may have been plain wrong, but it is likely that a large part of the error is attributable to inflation turning out lower than anticipated in 1989.

Such problems can be avoided by expressing assets as a percentage of GDP. This has its presentational problems, as most people think they know what a dollar is, even when it refers to something in the year 2020, but they struggle with percentages of GDP. Charts 4 and 5 nevertheless sets out forecasts in these terms.

Chart 3

Superannuation Asset Level Estimates

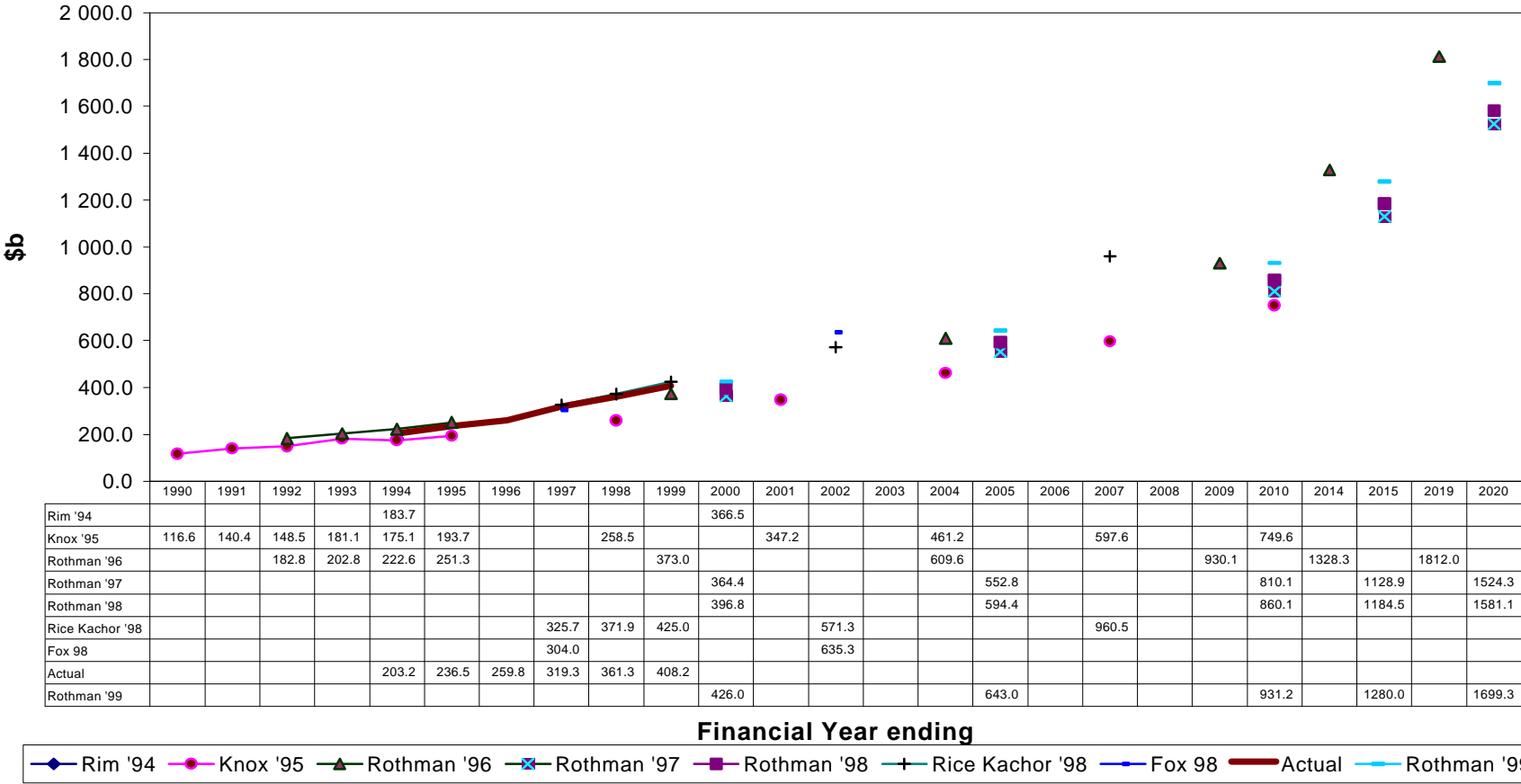




Chart 4

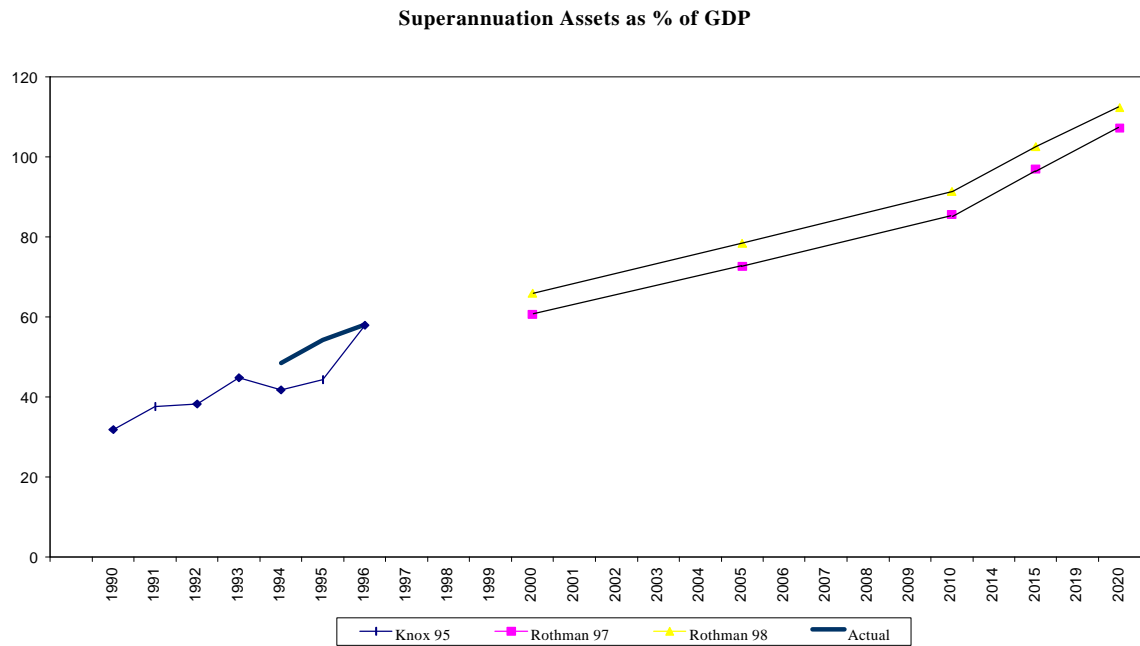
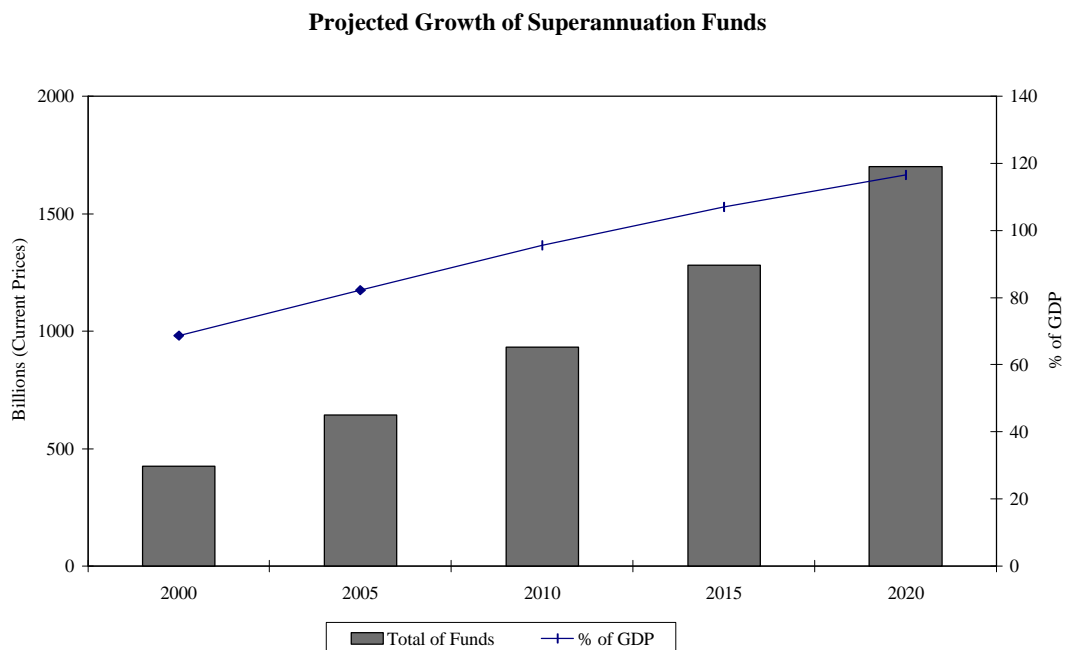


Chart 5



Superannuation assets in the Rothman, 1998 scenario are forecast to increase from around 66 per cent of GDP to 112 per cent of GDP. While at some stage in the future it could be expected that assets will plateau at some level of GDP as the population

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structure ages and when the SG system is fully mature, but this does not happen until after any reasonable forecast period. Even some unreasonable forecast periods, such as for the second half of next century, do not show any such plateau.

## **2.3 Superannuation as part of household wealth**

With superannuation assets growing faster than GDP and faster than other forms of household wealth, superannuation is forming an increasing proportion of household wealth. Table 3 sets out some estimates and projections.

The increasing proportion of wealth accounted for by superannuation is clear from the table, even when no allowance is made for the value to households of unfunded public sector defined benefit schemes. The table is based on the assumption that superannuation assets will increase in line with the forecasts in Rothman, 1998 but that the value of housing and other assets will increase by no more than the increase in the nominal value of GDP. This is not an unreasonable assumption for housing. In the case of other financial assets they are not large enough for differences in growth assumptions to have much impact. The aggregate value of shareholdings may increase faster than GDP, but if this is the case the growth rate of superannuation assets is likely to be high as well.

**Table 3 – Superannuation assets as a percentage of total wealth**

<b>Year</b>	<b>% of Wealth</b>
2000	22.4
2005	24.9
2010	27.9
2015	30.3
2020	32.2

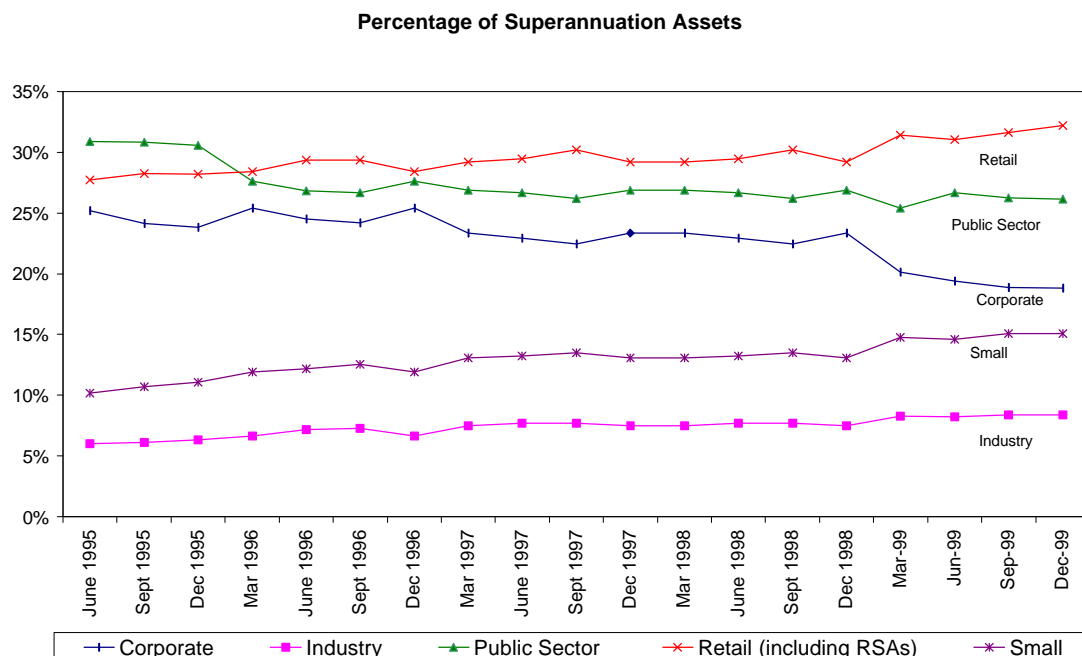
### 3. The sectoral composition of the superannuation market

#### 3.1 Composition by type of fund

Some very marked shifts have occurred in the composition of the superannuation sector. Common perceptions are that there has been a drop in the number and importance of corporate schemes, some fading of public sector schemes, and marked increases in the importance of retail and industry funds.

While there is some element of truth in such perceptions, the story is not quite that clear cut. As shown by Chart 6, in the 1990s at least there has not been that marked a shift in the market shares of the various types of funds, at least in terms of share of assets. The market share of public sector funds is down in line with the downsizing of both the Commonwealth and State public services and the closure to new members of certain defined benefit funds. The share of assets accounted for by corporate funds is down a little, but not by very much.

Chart 6



Of the categories showing an increase in market share the increases are both moderate and mostly explainable. Industry funds have crept up a little in their market share as the

average balance of accounts increases along with the average duration of membership of these relatively recently established funds. However, there is not much evidence of any marked pickup in market share. The public offer status of some large funds and increased marketing activity by some funds is yet to have a large impact on market share.

Small funds have a more significant share of the market in asset terms, reflecting the relatively large average fund balance for members of small funds. Strong growth in small fund numbers, including their use as part of retirement income planning relating to lump sums, also has pushed along aggregate asset figures.

While the market share of corporate funds has decreased, the decline is not really that large. Despite the perception in some minds that the corporate funds are on an inevitable slide in importance, there are a number of factors which have led and will continue to lead to the market share being sustained at a substantial level. The first is the substantial average balance for members of such funds. Earnings growth alone is enough to bring about growth in asset levels, particularly when double digit earnings rates are achieved. Second, as will be shown later in the paper, there is not that much evidence of corporate funds being closed down. Some funds may be closed to new members, but aggregate numbers remain relatively steady with funds both large and small remaining in operation.

One of the interesting features of the chart is that the retail sector has not increased its share of superannuation assets to any marked degree despite the perception that this is one of the growth areas. Table 4 sets out some relatively recent forecasts for the retail sector which do not appear likely to be fulfilled, at least in the short term. Those responsible for marketing retail funds may have hoped for and assumed the strong growth in the forecasts, but it has been a little harder to come by than assumed.

**Table 4 – Detailed Private Sector forecasts**

Sector	Rice Kachor					Fox		Actual	
	1997	1998	1999	2002	2007	1997	2002	1997	1998
	\$b					\$b		\$b	
Master trust	20.4	27.3	34.9	102.9	186	19.9	74.7		
Personal superannuation	43.9	51.5	60.5	66.3	113	52	130.3		
Whole of Life and Endowment	3.1	2.8	2.5	1.5	0				
Annuities & Pensions	18.9	26.2	34.7	68.5	158.4	16.5	67.9		
<b>Retail Sub-Total</b>	<b>86.3</b>	<b>108</b>	<b>133</b>	<b>239</b>	<b>457</b>	<b>88.4</b>	<b>272.9</b>	<b>77.2</b>	<b>90.8</b>
Industry funds	21.6	28.5	37.4	69.4	136	19	71.1	19.8	24.2
Corporate funds	64.7	69.5	74.8	68.4	99.6	59.6	88.3	61.7	67.2
Public sector funds	74.6	81.8	90	87	133	78	122	71.0	79.9
Small Funds	38.4	42.2	45.9	56	69.1	30.6	35.2	34.5	42.4
Balance	40.2	42.2	44.3	51.3	65.5	28.4	36.2	55.1	56.9
<b>Total</b>	<b>326</b>	<b>372</b>	<b>425</b>	<b>571</b>	<b>961</b>	<b>304</b>	<b>625.7</b>	<b>319.3</b>	<b>361.3</b>

There is continued growth in master trust and personal superannuation. However, in the absence of choice of fund for future contributions by new members and existing members, and with no choice of fund for existing fund balances even within cooee, explosive growth in the retail sector seems to be still a pipe dream. Industry fund assets also appear certain to be less than the forecasts set out in the table. Where these

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forecasts appear to have gone wrong is in their assumptions about overall growth, and the degree to which contributions and fund balances will shift between categories of funds.

As will be discussed later in the paper, corporate schemes are not being wound up at a great rate. Public sector schemes are losing members through redundancies, but many of the associated member balances are ending up in public sector scheme pensions, or as tax paid lump sums outside the superannuation system. Liberating member account balances out of life company statutory funds also is not an easy task, both for life office policy holders and for retail and industry fund competitors. Taking over the life company can be the simplest way of achieving this, but this does not boost the overall retail share.

Low inflation and wages growth also is limiting the growth in nominal contributions. At the high income end contributions are not varying much because many of them are determined by the design of defined benefit schemes. The surcharge is also inhibiting salary sacrifice contributions. At the lower income end the gradual increase in the rate of the Superannuation Guarantee is aiding growth, but the majority of contributions are made on behalf of higher income earners, with many of such contributions in excess of the SG rate. The SG component of contributions has increased, but overall contributions have increased at a lesser rate.

While the flow of new contributions is not insignificant, the market reality is that earnings are becoming more important than contributions in terms of growth in assets. If existing account balances are sticky because of legal, technical, practical and market reasons, these earnings tend to reinforce market shares. For instance, retail funds need to attract a lot of new business to lift their market share of assets given that corporate fund assets consistently increase by 10 per cent or so a year due to fund earnings.

Some of the forecasts for annuities and pensions also seem a bit over the top. There appear to be insufficient superannuation ETPs in prospect to fuel the forecast growth, and it is unlikely that the low returns for products which are social security asset test exempt will attract funds from other forms of saving. The Colonial Group (Corbett 1998) has forecast that sales of income stream products will grow from \$6.0 billion in 1998-99 to \$8.0 billion in 2001-02. They also forecast income stream product funds under management to rise from \$25.1 billion in 1999 to \$43.6 billion in 2002.

Ultimately, the growth of income stream products is dependent on the size of overall benefit with which people enter retirement. Currently, around \$15 billion leaves the superannuation system as ETPs each year. As the system matures the total amount and average amount will increase. However, at present the income streams market tends to be of greatest interest to relatively high net worth individuals. The benefits accumulated by those receiving only compulsory contributions are unlikely to be worth converting to income streams for a decade or two.

Apart from choice of fund considerations, a partial answer to the apparent gap between reality and expectations can be gleaned from Chart 7 which sets out market shares in terms of percentage of total superannuation accounts. As old accounts are paid out in benefits and new accounts mature the trends in this chart are likely to flow into shares of

assets in the future. Growth in the future is usually supported by lower than average account balances now with the recruitment of new contributors.

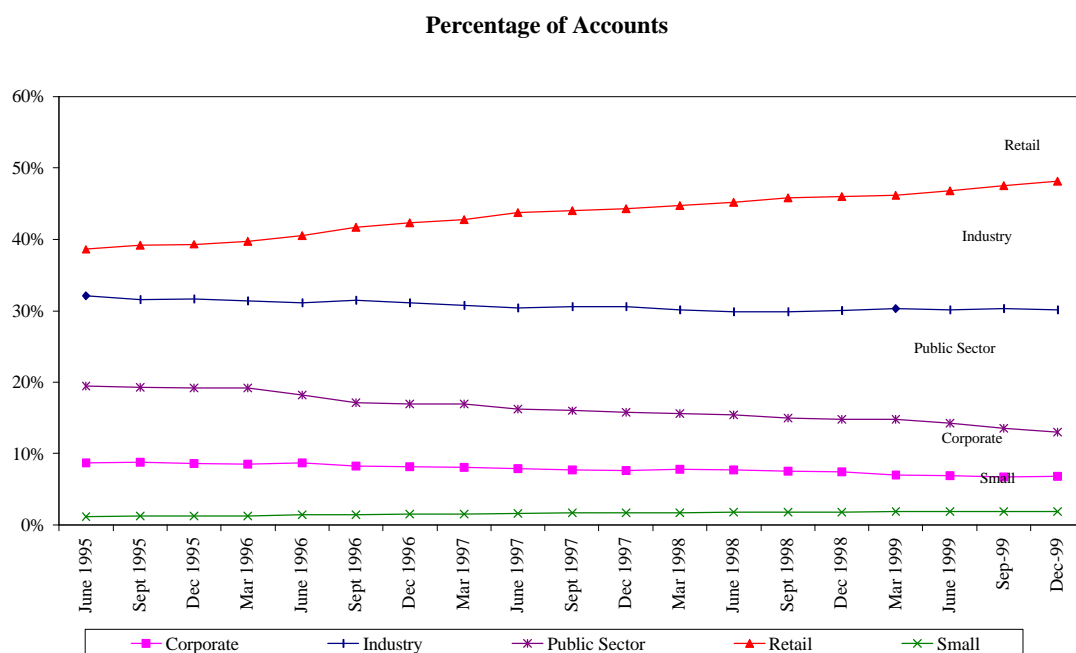
However, some of these accounts are not tremendous business in retail terms, with a considerable number actually discard accounts from other funds. More specifically, the number of member accounts in Eligible Rollover Funds has increased from 142,000 in June 1995 to more than 1.6 million in June 1998. With an average account balance of around \$800 the modest profit comes from the large number of accounts and lack of activity rather than any retail value added.

The introduction of Retirement Savings Accounts in 1997 has also added to the number of retail superannuation accounts, with RSA accounts going from nil to a current 250,000 or so. With average account balances of around \$2,200 this is not high profit territory either.

All that said, clearly the retail sector is increasing its importance in terms of share of members. There has been a slight decline in the share of industry funds, but respectable growth in absolute terms. This might be of some concern to them, and considerations of this sought could be behind the increased emphasis on marketing by some industry funds.

The steady decline in the membership share of public sector funds, however, may not be a large concern for their public sector masters. Governments in Australia have been steadily cutting back the number of their employees, and some have been closing public sector funds to new employees.

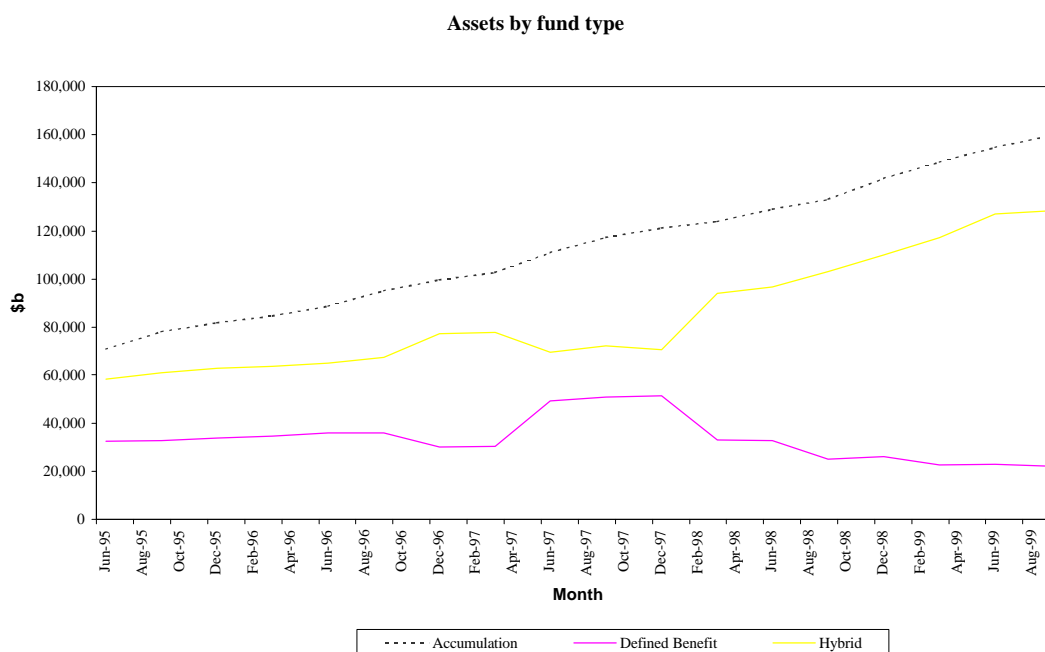
**Chart 7**



## 3.2 Composition by benefit type

Just has been the case with corporate schemes, the death of defined benefit schemes in Australia has been somewhat exaggerated. As shown by Chart 8, it was only this year that assets in accumulation only schemes began to exceed those in which there is some element of defined benefit. If the unfunded obligations of public sector schemes were included, of which a large part relates to future defined benefit obligations, defined benefit schemes would clearly have a much larger market share than accumulation schemes.

Chart 8



It is likely that assets associated with accumulation schemes will continue to be larger than those in defined benefit schemes. This will be the case even if some governments move to meet part of the emerging cost of their public sector schemes.

That said, defined benefit schemes will be an important part of the market and will be with us for decades to come. It is also interesting to note that while there may be a shift away from defined benefit schemes in the pre-retirement period, there is an increasing market for retirement income stream products. According to ARISA, as at June 1998 there was over \$23 billion in assets associated with allocated pensions and assorted terms certain and life annuities. Defined benefit schemes may be too costly for employers and not have enough flexibility for employees in the savings accumulation period prior to retirement, but they are likely to come back into their own in the form of lump sum funded pension and annuity products in retirement.

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**Table 5 Superannuation Market distribution**

<b>Asset Size</b>	<b>No. Funds</b>
\$100,000	522
\$200,000	492
\$300,000	389
\$400,000	283
\$600,000	415
\$800,000	284
\$1,000,000	217
\$2,000,000	615
\$5,000,000	688
\$10,000,000	476
\$15,000,000	266
\$30,000,000	338
\$50,000,000	189
\$75,000,000	116
\$100,000,000	69
\$150,000,000	79
\$200,000,000	57
\$250,000,000	37
\$500,000,000	70
\$1,000,000,000	59
\$5,000,000,000	55
\$10,000,000,000	6
\$20,000,000,000	2



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## 4. Market concentration in retail and wholesale superannuation markets

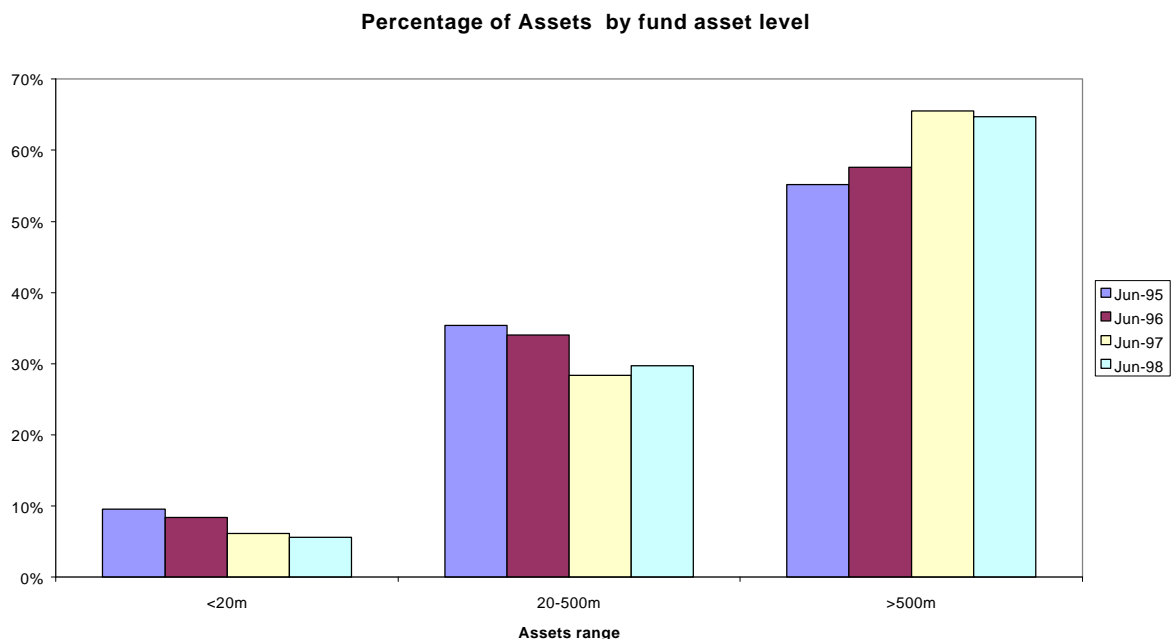
### 4.1 Market concentration of superannuation funds

Compared to most areas of the finance sector in Australia and indeed many other industries the superannuation market in Australia is marked by the range and diversity in suppliers, and the role of relatively minor players.

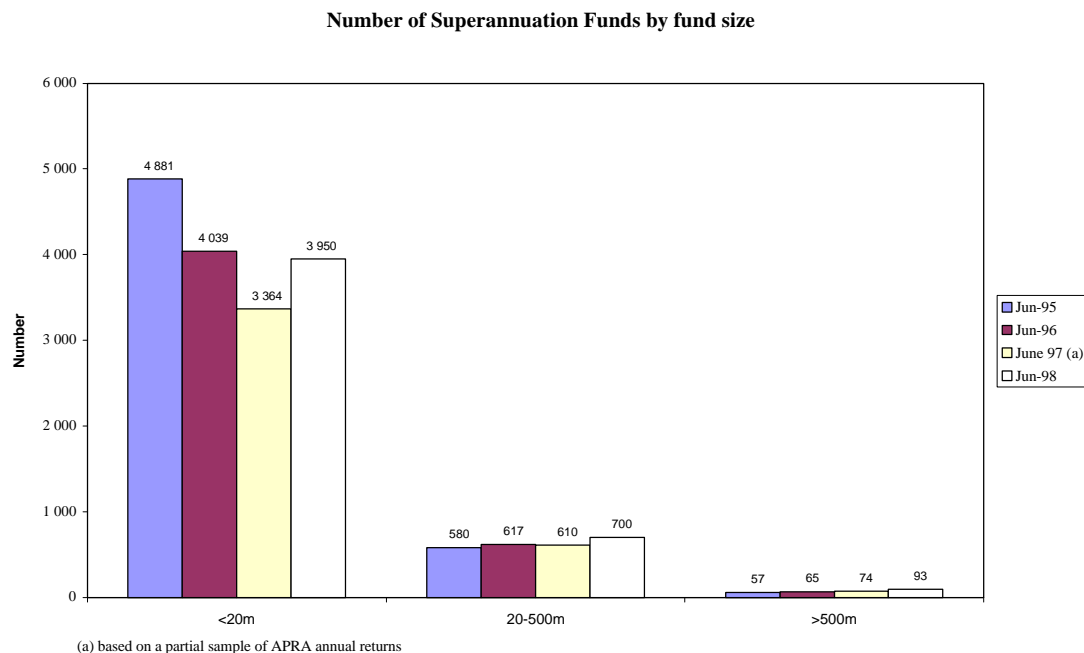
In banking there are only 51 banks in total, with the four major Australian banking entities accounting for around 65 per cent of the market. In contrast in the superannuation sector there are over 4,500 funds with 5 and mostly more members, and another 180,000 or so self managed funds with less than 5 members. There would be more superannuation funds than corner shops.

However, unpublished APRA statistics for non-excluded funds indicate that there is a degree of concentration in the sector. As indicated by Charts 9 and 10, around 65 per cent of total superannuation assets are accounted for by less than 100 funds each of which have more than \$500 million in assets. The 4 largest superannuation funds each have assets in excess of \$5 billion. Major players in the superannuation retail market also usually have responsibility for more than one superannuation fund. The largest players, such as AMP, BT, Lend Lease, Commonwealth Financial Services, Macquarie, Westpac, National Mutual, etc have retail superannuation funds and wholesale superannuation investment management funds of some billions of dollars each, with the largest players having amounts approaching the \$20 billion mark. Even so the largest player has only around 5 per cent of the total market even when a very wide definition of superannuation assets is used.

**Chart 9**



**Chart 10**



Bigger seems to be regarded as better, with the largest funds accounting for an increasing proportion of total assets. Part of this would be explained by funds growing at meeting the \$500 million classification asset hurdle in the charts, but mergers and takeovers of retail fund managers also would be playing a role.

## 4.2 Market concentration of superannuation fund customers

The market for superannuation products is a very large one with the vast bulk of employees, many self employed, a reasonable proportion of the retired, and some spouses either a member of a superannuation fund or an active contributor to such a fund. Between 8 and 9 million Australians with around 19.5 million superannuation accounts form part of the superannuation market in these terms.

For the self-employed, employees given choice of fund, and the retired it is the individual who is part of the market. However, for the bulk of employees and the bulk of superannuation fund members it is the employer who usually determines the superannuation arrangements, albeit with input from employees on an individual and collective basis such as collective agreements with unions and awards.

According to the ATO approximately 530,000 employers have an obligation to make contributions to superannuation, and a reasonably large proportion actually do so. This equates more or less to the total number of businesses in Australia where there is one or more employees.

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Out of a total labour force of around 8.5 million, around 1.5 million are in the public sector. The vast bulk of the latter are in public sector schemes. These 1.5 million are well catered for by the 2.9 million public sector superannuation accounts. Many former public servants, especially those who resigned rather than were retrenched, have preserved benefits in public sector schemes. Apart from generally having more stringent preservation arrangements, governments are reluctant to pay out actual money before they have to. This is starting to change, though, with governments moving to reduce the unfunded liabilities of their superannuation schemes.

Of the 7 million in private sector employment, around 1 million are self-employed. Although small funds (soon to be known as self-managed) have other customers, the self-employed would be heavily represented in the 190,000 small funds with their 350,000 member accounts. The self-employed also are customers of retail funds. A number of industry funds also have obtained public offer status in order to provide for contractors working in various industries.

In 1996-97 there were only 5,900 private sector employers in Australia with more than 100 employees, but these employers accounted for around 40 per cent of private sector employees. 29,100 firms had between 20 and 99 employees, accounting for just over 20 per cent of employees. With just under 4,300 corporate funds there is a reasonably high penetration rate for corporate funds amongst larger private sector employers. There are around 3.5 million employees in firms with more than 20 employees, and there are 1,456,000 member accounts in corporate funds. Again, a proportion of these accounts would relate to former employees.

### **4.3 Whither corporate schemes?**

The death of the corporate superannuation scheme has been much anticipated, particularly by those financial providers who would like to pick over their bones for some new business. However, any evidence of the demise of corporate schemes is scant. As shown earlier in the paper, the share of assets held by corporate funds has held up fairly well, as has the proportion of members. The proportion of members also looks better once allowance is made for the growth in low balance member accounts in Eligible Rollover Funds.

The data available suggest relative stability in the number and structure of corporate funds over the last few years. Certainly back in 1995 and 1996 and even more recently there has been some dropping off in the number of corporate funds, but this has mostly involved very small funds, often with low levels of activity and members. The new SIS requirements appear to have been the prompt for some corporate tidying up.

However, there has been no marked falling away in numbers or assets. There still are a significant number of large and small corporate schemes. According to unpublished APRA figures, in 1997-98 there were around 1,200 corporate schemes with assets less than \$1 million, with aggregate assets of around \$440 million (less than 1 per cent of corporate fund aggregate assets) and aggregate membership of around 31,000 (around 2

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per cent of total corporate fund members). Around 800 of these had assets of less than \$500,000.

These smallest corporate funds also have relatively low average member balances. Corporate funds with aggregate assets of less than \$1 million have an average member balance of around \$14,000 compared to an average of around \$45,000 for all corporate funds.

On the other hand there are some very large corporate funds, with Commonwealth Bank (\$5.4 billion), Qantas (\$3.2 billion), BHP (\$3.0 billion), Westpac (\$2.1 billion), National Australia (\$1.6 billion), Rio Tinto (\$950 million) Orica (\$760 million), Ansett (\$700 million), CSR (\$670 million), Woolworths (\$490 million), News Corporation (\$445 million), NRMA (\$420 million) amongst the larger (all figures are for June or similar in 1998). These top twelve corporate funds account for some 30 per cent of total corporate fund assets. If a few of these folded up there would be a noticeable change in market shares. However, most of the closures of corporate funds have been at the small end of the market.

According to a Rainmaker listing of larger corporate funds, around 140 of the large to medium funds account for some 40 per cent of corporate fund assets (*BRW*, 30 April, 1999). By process of elimination the various figures imply that around about 50 per cent of corporate fund assets are spread across 1,500 or so mid-size corporate funds.

Average account balances also tend to be bigger in the larger corporate funds. For instance, a survey on corporate funds (published in the June 1999 *Superfunds* magazine) had a sample of around 60 mostly relatively large funds by corporate fund standards. These funds accounted for around 11 per cent of total corporate fund members but around 17 per cent of corporate fund assets as at June 1998. The average member balance was around \$70,000, but there was a wide range in average balances (from around \$12,000 for blue collar workers in one manufacturing company to over \$500,000 for Ansett flight engineers).

Getting market share from corporate funds is not necessarily an easy task for retail providers or industry funds. The larger funds are well established, and very professionally run. The companies with such funds have not got to that stage by accident, and they usually maintain their corporate funds for strategic reasons. Big corporates also are unlikely to hand over their superannuation business on the basis of a slick sales spiel by a travelling life insurance agent, or by a financial planner at a golf club or Rotary meeting. They tend instead to use mechanisms such as competitive tendering for contracting out the whole or part of a superannuation administration or investment task.

The more numerous smaller corporate funds might be a more accessible market for other players, but there are challenges here as well. First, there are quite a few small corporate funds on contributions holidays. The cost savings of moving from paying no contribution to paying 7 per cent of wages are not clear to the management of these smaller corporates. Second, the management of smaller corporates are well represented in the smaller funds. They may prefer a small corporate fund for the same reasons that other small business proprietors make use of small (self-managed) funds. Third, it is a

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hard slog picking up little bits of business. If all of the smallest 1,200 corporate funds went to retail or industry providers this would be a shift of around a tenth of one per cent of the total superannuation market, and would expand the retail market by about half of one per cent. Given that many of the larger retail providers were providing investment products and sometimes even administration for these smaller corporate funds, not a lot of profit would be generated for the larger financial institutions by such a shift.

However, for financial planners in relatively small financial planning practices, a very small percentage of the corporate market is valuable in terms of up front commissions and trailers. The April 1999 issue of the FPA's magazine *Financial Planning* has helpful advice on this including *lock companies in now, before the wave of member choice hits*, but it warns about *corporates being more organised in the future and encouraging competitive bids from planners*.

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## Appendix

**Table A1**

<b>Year</b>	<b>Super Assets</b>	<b>Super Assets as a % of GDP</b>
	<b>\$m</b>	<b>%</b>
1972	5 778	2.8
1973	6 694	3.1
1974	7 297	3.2
1975	8 226	3.6
1976	9 764	4.1
1977	11 321	4.6
1978	13 288	5.4
1979	15 377	5.9
1980	17 779	6.7
1981	21 251	7.7
1982	24 869	8.7
1983	33 598	12.1
1984	39 536	13.5
1985	46 325	15.1
1986	58 040	18.1
1987	66 740	20.4
1988	94 932	27.6
1989	115 386	32.2
1990	131 821	35.7
1991	144 117	38.8
1992	165 584	43.1
1993	182 722	45.4
1994	203 161	48.4
1995	227 611	52.1
1996	259 835	57.9
1997	319 350	64.0
1998	361 343	64.9