

CORPORATE SUPER ASSOCIATION

SUBMISSION TO

THE TREASURY

ON

PORTABILITY OF SUPERANNUATION BENEFITS

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1 Background

1.1 *The Corporate Super Association*

The Corporate Super Association is Australia's representative body for major Not For Profit corporate superannuation funds and their corporate sponsors.

The assets of Association members amount to approximately \$60 billion, representing about 85% of total corporate superannuation sector assets in Australia and some 750,000 individual employee fund members.

1.2 *Abbreviations used in this submission*

The Association	The Corporate Super Association
The Paper	Consultation paper, <i>Portability of Superannuation Benefits</i> , prepared by the Department of the Treasury, Canberra, September 2002.
SIS Act, SIS legislation	Superannuation Industry (Supervision) Act 1993, and related legislation

1.3 *Context of submission*

The Assistant Treasurer on 19th September 2002 issued for public comment a consultation paper on the implementation of portability of existing superannuation balances. Portability of existing balances is seen by the Government as an issue complementary to the Choice of Fund proposals.

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2 General Concerns

- We are concerned about the potentially pernicious effect of portability on Not For Profit employer sponsored funds. Not For Profit corporate funds provide benefits which, in the majority of cases, exceed the minimum requirements under Superannuation Guarantee legislation. We are concerned that the portability proposals will further reduce the willingness of corporate employer sponsors to continue to provide benefits which exceed the minimum level. If corporate sponsors cease to provide this additional support, the Australian workforce and its future retirees will suffer a significant reduction in retirement benefits.¹ This will aggravate the looming problem of how to adequately fund Australia's aging population in retirement.
- We are concerned that ready portability of benefits as proposed may not be the optimal way to ensure that retirement savings work for the maximum benefit of the individual. We are concerned that the costs of universal portability may be considerable and may result in an overall reduction in retirement benefit levels. The costs would include potential transaction fees on exit from and entry to funds. A further considerable cost would be the reduction in investment returns, arising from factors discussed further in section 3 below.
- Although we recognise that it is desirable that superannuation savings for each individual should be consolidated we are concerned that the proposed Portability is superfluous in that the level of portability required to assist consolidation of member balances is already present. Generally, individuals are able to roll over benefits from employer sponsored funds on leaving employment. Retail and industry funds already tend to allow for portability of and consolidation of benefits. We believe that the necessary consolidation could be achieved by raising awareness and encouraging individuals to keep track of their interests. The objective of raising awareness and encouraging individuals to take responsibility for their super could be assisted by internal fund education and by encouraging funds to offer investment choice. The offer of investment choices within the fund, in combination with enhanced member education programs, can provide members with a level of flexibility in conjunction with information to assist in making informed choices about their retirement savings.
- We have some specific concerns with the current portability proposals both as they affect accumulation funds and in respect of any application to defined benefit accounts: these are detailed below.

¹ For further detail see our submission to the Senate Select Committee on the Superannuation Legislation Amendment (Choice of Fund) Bill 2002, accessible at http://www.aph.gov.au/Senate/committee/superannuation_ctte/reports.htm, under "Recent Reports".

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3 Specific Concerns

3.1 *Application to defined benefit funds*

We agree that portability of defined benefits would cause potential hazard to the outstanding advantages and structure of defined benefit funds. These issues are well analysed at section 2.3.1 of the Paper. We note that views are sought regarding access to the value of deferred benefits for individuals who are no longer employed by the sponsoring employer. In many of the defined benefit funds supported by our members, there are well-defined arrangements for determining and paying termination benefits and these are determined under the provisions of the trust deed in each case. In most cases the exit from the fund of members who have ceased employment is a contingency which is taken into account in the funding and investment strategies of the funds and does not pose a significant difficulty. However, in view of the complexity of the funding issues involved we consider that the issue of portability should be a matter for the fund to resolve.

3.2 *Accumulation Funds*

Certain difficulties arise in relation to general portability of accumulation balances. The principal difficulties we see are:

- the effect on investment strategies; and
- the effect on reserving policies.

3.3 *Investment strategies*

Trustees, in formulating fund investment strategies, are required, under section 52 of the SIS Act, to take account of matters which include:

- expected cash flow requirements; and
- the ability to discharge liabilities when they fall due.

As a very broad generalisation, the yield from less liquid investments tends to be higher than that from more liquid asset classes. Hence there is an incentive to minimise the more liquid investments to the extent that is considered prudent. A related issue is the generally higher return over the long term earned from equity interests as opposed to non-equity investments such as bonds and mortgages. As equity interests are subject to changes in value arising from economic conditions and other market factors, many consider equities best viewed as long term investments rather than liquid assets.

Currently most employer sponsored funds would base their investment strategies on a broad assumption that members will remain with the fund while the employment with the sponsor lasts. Statistics on the age and average service profile of the membership will enable the fund's trustees to estimate timing of benefit payments and hence to determine a long-term investment strategy based on anticipated liquidity requirements.

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Ready portability of benefits would alter the liquidity requirements of a fund. In general, the anticipated period of membership would be expected to reduce. In addition, the timing of exits from the fund would be less predictable, hence a higher liquidity reserve would be needed. The average holding period for investments would reduce, and as a result of the shorter average holding period, the return on fund assets could on average be expected to decline. Hence, benefits available for members would also reduce. Thus the price of ready portability of benefits would be a reduction in the retirement savings of all accumulation scheme members.

The higher returns achieved by corporate funds, arising from reasons which include their current ability to take a longer view because of the greater stability of their membership, is illustrated in figures provided in a recent speech by Charles Littrell of APRA².

3.4 Reserving Policies

Some funds seek to reduce fluctuations in crediting rates from year to year by use of an investment reserve. Some maintain that smoothing returns promotes fairness between members and some adopt the policy in order to promote the understanding that returns are stable over time.

There is a hazard that where accumulation balances become readily portable, members may time their departure from a fund at the point where reserves have been allocated, making a point of re-entering when reserves have climbed again. This would reduce equity between members or could result in membership fluctuations at critical times. Hence, funds would be forced to abandon the practice of reserving, and lose the potential advantages that reserving may bring.

4 Recommendations

- Not For Profit corporate superannuation funds with defined benefits remain exempted from the proposals, with portability remaining a matter to be determined by funds and their sponsors;
- Corporate funds which provide benefits which exceed the minimum support required under the Superannuation Guarantee legislation should be exempted. This will assist in providing some much needed incentive for these funds to continue;
- Corporate Not For Profit super funds should introduce at the earliest opportunity a regime of appropriate Investment Choice and enhanced Member Education in order to help minimise the risks of greater Consumer Choice whilst increasing Consumer Choice itself in an ethical cost effective and transparent manner.

² Accessible at <http://www.apra.gov.au/Speeches/loader.cfm?url=/commonspot/security/getfile.cfm&PageID=5218>