

CORPORATE SUPER ASSOCIATION

Manager, Voluntary Savings and General Rules
Superannuation, Retirement and Savings Division
The Treasury
Langton Crescent
PARKES ACT 2600

Dear Sir

PORTABILITY OF SUPERANNUATION

I refer to your request dated 5 February 2003 for further comment on specific aspects of superannuation portability proposals.

The Corporate Superannuation Association would like to make the following comments regarding the second matter for comment mentioned in the e-mail message of 5 February.

We would support the proposal to allow portability in defined benefit funds in respect of an accumulation interest held by a member, but subject to the following important qualifications:

- a) Under the terms of some trust deeds or other governing rules a capital guarantee may apply to an accumulation interest in a defined benefit fund. If it is open to a member to use the protection of a capital guarantee for a period when returns are uncertain, and then to move to another fund where the return is market based when market conditions improve, there is scope for adverse selection to be exercised against the fund offering the capital guarantee.
- b) Some funds seek to reduce fluctuations in crediting rates on accumulation balances from year to year by use of an investment reserve. The objectives are to promote fairness between members and/ or 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.

Accordingly we would recommend that portability be removed for accumulation balances which are subject to a capital guarantee or to smoothing of investment returns (whether or not these balances are linked to a defined benefit).

Yours faithfully

Elizabeth Goddard
Head of Research
Corporate Superannuation Association

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