

CORPORATE SUPER ASSOCIATION

2 May 2008

The Hon. Nick Sherry
Minister for Superannuation and Corporate Law
Suite M1 46
Parliament House
Canberra ACT 2600

Dear Senator Sherry

SUBMISSION ON THE ROLE OF SELF-MANAGED FUNDS IN PROVIDING FOR AUSTRALIANS' RETIREMENT

1. Background

The Corporate Superannuation Association represents 23 major not-for-profit corporate superannuation funds and their corporate sponsors. These funds are most of the largest funds in the corporate fund sector. The assets of Association members amount to approximately \$34 billion, representing about 46% of total corporate superannuation sector assets in Australia. In general, the funds are sponsored by corporate employer sponsors with membership restricted to employees from the same holding company group, but we also include in our membership a few multi-employer funds with similar employer involvement and focus to our stand alone member funds.

We welcome the opportunity to provide comment on the role of self-managed funds in providing for the retirement needs of Australians.

2. Comments

We believe that self-managed funds play a role in providing for retirement savings for those who have a combination of sufficient means and personal investment expertise.

However, we have serious reservations about the recent proliferation of these vehicles such that many Australians with low savings, and little in the way of investment expertise, have become exposed to the particular risks associated with such self-managed small investment vehicles.

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We believe that the proliferation of these vehicles has occurred at least in part as a result of promotion of the vehicles by commission and fee driven agents, to Australians who would be better served by using collective superannuation investment vehicles. Another driver for the recent increase in SMSF has been distrust of large financial institutions and the costs associated with investment in their vehicles. Some SMSF entrants have hoped to save costs and better the investment performance of these entities. However, we are concerned that they may not meet their own expectations regarding investment performance and cost savings.

SMSF assets

If we examine the assets of SMSF, we note that according to statistics provided by the ATO at <http://www.ato.gov.au/super/content.asp?doc=/content/00100435.htm&page=6&H6> in 2005/06, the latest year for which data is provided, 9.4% of SMSF had assets less than \$50,000, over 30% had assets under \$200,000, and over 58% had assets under \$500,000. There was little exposure to overseas assets, and extensive exposure to Australian equities, properties, and cash. The opportunities for wide portfolio diversification which are available to large funds are not generally available to SMSF, unless they use managed investments, in which case a question arises as to whether they would incur lower costs in a larger vehicle with economies of scale in running costs.

Investment risk and costs

As we understand it, the decisions about SMSF investments are made either by the trustee/member (little expertise) or in conjunction with a planner, planner group or investment house (often with vested interests in promoting specific investments). Opportunities for diversification (unless participating in a pooled vehicle) are low with the typical level of assets. Costs, per member, are higher than with a larger fund, given the cost of accounting, taking investment advice, etc. Risks and exposure are high, given the complexity of compliance requirements. Given the complexity of the compliance rules, and the recent promotion of schemes to assist in gearing assets and providing finance, there is the risk that SMSF trustee may enter into arrangements which expose the fund to loss of compliance and/or investment loss. Despite best attempts to improve the financial literacy of the population at large and to engage them with their super and their choices, the result has been increased interest, but hardly a nation of financial experts or of expert trustees.

Collective investment benefits

Superannuation has traditionally been a collective investment vehicle, where investment economies of scale apply to bring higher returns than can be accessed by smaller groups of investors. In addition, the fiduciary role of the trustee has assisted in providing low cost

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administration. We would point out that larger funds present the benefits of reduced costs per member and the benefits of pooled investment – scale and expertise. In particular we would point out that larger corporate not for profit superannuation funds present a model in which members can access the benefit of expert investment and low fees. Statistics prepared by the regulators support our contention that our funds offer superior investment returns coupled with minimum fees. The lack of any requirement to support any particular investment houses and the absence of commission based fees are key in providing these superior returns and low costs.

3. Recommendation

We urge that the Federal Government take action to halt the hazardous move of many unsophisticated investors into the small fund area and the consequent threat to retirement savings of these average Australians.

We believe that self-managed funds can continue to play a role in the investment portfolios of those personal investors who are not classified under the Corporations Act as retail investors for the purposes of advice on investment based financial products. However, for others, the retail investors, we do not believe that these funds are appropriate vehicles to which to entrust their key retirement savings.

We would support a simple bar to entry for SMSFs in the form of a minimum asset level on establishment of a fund. We would support \$250,000 as a threshold. This coincides with the threshold for retail client advice under the Corporations Act section 761G. Persons willing to commit \$250,000 should be willing to accept the hazards of their actions and should have access to appropriate levels of advice, and are not considered in need of the level of consumer protection applicable to those investing under that limit.

Please let me know if you require further information from our organisation. I can be reached on 03 9613 8872, by e-mail to corsuper@netspace.net.au, or at the postal address below.

Yours sincerely



Mark N Cerché
Chairman
Corporate Superannuation Association