Submission & Comments for a "Fair Go"
to the Federal Budget (May 2006)
towards implementation of the
"Plan to Simplify & Streamline Superannuation"

Government Co-contribution, Transition to Retirement, Super Choice, Spouse Contribution, Spouse Contribution Splits already introduced are great.

Simpler Super will no doubt improve the financial position of a Super Fund member, but continuing ongoing educational and strategic investment advice pertaining to investment mix choice is vitally important but:

How does a Super member choose the investment mix without some sort of strategic investment advice?

Investment asset class - range of any single 12 continuous month (annualised) return as represented by the various economic market indices including automatic re-investment over the last 20 years ending June 30, 2006.

Asset Class	Best	Worst
Cash	**19.1%**	**4.6%**
Australian Fixed Interest	**25.7%**	**-6.2%**
Aust Listed Property	**53.3%**	**-18.6%**
Australian Shares	**86.1%**	**-28.4%**
International Shares	**93.1%**	**-33.4%**

Also past performance history shows that some of these asset classes have experienced an overall negative return lasting a full five continuous years whereas the diversified funds have experienced an overall negative return for just under three full continuous years.

Past performance is not a reliable indicator of future performance but it it sure is a good educational tool.

Now let us see what happened with respect to Super Funds.

<u>Super Fund performance</u> – actual range for the financial year ended **June 30, 2006.**

<u>Asset Class</u>	**<u>Best</u>**	**<u>Worst</u>**
Cash	**5.8%**	**3.2%**
Australian Property	**17.8%**	**9.4%**
Australian Shares	**26.1%**	**10.6%**
International Shares	**26.2%**	**11.5%**
Diversified - Balanced	**18.4%**	**11.4%**
Diversified - Growth	**19.5%**	**12.2%**

ASIC in the most recent surveillance and analysis on Super Switching Advice after the implementation of Super Choice concluded that there were two main areas of concern:

"a possible financial - conflict of interest" and the
"a reasonable basis for advice - test" failure.

There is a very simple and easy way to address these two areas of concern which needs to be considered and the first part of this submission deals with the **"How?"**

Part 1.

Superannuation is compulsory for some 9 million employees where the employer has to contribute 9% p.a. under the Superannuation Guarantee **"SG"** for all employees earning from $450 p.m. and are required to pay contributions up to an upper earning limit of $140,960 p.a. for the current 2006-2007 financial year.

The upper earning limit of $140,960 is indexed annually at the start of each financial year.

Employer contribution above the maximum SG level as specified is generally negotiated either under a work place agreement or under an employee salary sacrifice agreement.

Further low income earners earning below $28,000 p.a. might also get an employer to deduct $20 per week from their take home pay and contribute it on their behalf so that they can get the maximum Government Co-contribution to their Super account of $1,500 p.a.

The simplest way to fix the concerns raised by ASIC can be ensured by considering the following:

1. All Superannuation Funds that accept the **compulsory 9% p.a. employer (Super Guarantee) contributions** must provide the minimum death cover as laid out by age range and level of insurance as specified for the employer selected default Super Fund under the Super Choice legislation. This cover needs to be provided under "Evidence for Health Concession".

2. The **maximum death cover** that can be provided as an **optional extra** subject to qualification within Super should not exceed 7 times the Upper earning limit under the SG.

   In 2006 – 2007 it would be **7 X $140,960 = $986,720.**

3. Superannuation Funds can provide as an **optional** extra "**Total & Permanent Disability**" Lump Sum cover. However, the definition of "Total & Permanent Disability" used must meet the Super Fund condition of release for both employees and those who are individuals – and the self employed.

Currently, the "**invalidity**" condition of release is only available to employees.

4. Superannuation Funds can provide as an **optional** extra "**Temporary Salary Continuance**" up to a maximum of two years.

5. All Superannuation Funds need to provide an on-line daily facility so a member can check their Super balance.

   The ATO needs to consider a more pro-active role to audit the formula used by the Funds to provide this information and verify that the Government is getting the right amount of taxation revenue and the Super Fund member balance is accurate.

With respect to the perceived **"financial - conflict of interest"** issue raised by ASIC I believe strongly and suggest that all Super Fund **"Fees & Charges"** be **capped** as suggested below:

6. **Entry/Contribution Fee** **Nil**
   as Superannuation for employees earning more than $450 per month is compulsory.

7. **Member Fee** **$5.00 per month**
   This fee could be indexed annually every July 1.

8. **Fund (Platform) Administration Fee** **0.7% p.a.**

9. **Investment Asset Management Fees (@ wholesale rates)**

   a. **Cash** **0.1% p.a.**
   b. **Fixed Interest Aust/International** **0.3% p.a.**
   c. **Australian/International Shares** **0.3% p.a.**
   d. **Listed Australian Property** **0.3% p.a.**
   e. **Diversified Funds** comprising a – d **0.3% p.a.**
   f. **Specialist Funds –** geared, etc **0.5% p.a.**

   Investment Performance Fees **Nil**

   With Super Choice the rewards will accrue to the Asset Manager who provides consistent and reasonable returns.

10. **Distribution & Super Product "specific limited – investment strategic advice" Fee - paid for by the Super Fund Manager.** **0.4% p.a.**

    If entry/contribution fee for compulsory Super is removed then this 0.4% p.a. fee is relatively low and ties the distribution – investment strategic advice provider to the continuing overall investor education and financial well being of the Super member.

    With "Super Choice" if the member is unhappy, for any reason what-so-ever, the member can quite easily change Super Fund providers.

    This 0.4% p.a. relatively, low fee should stop the churning of Super member accounts as the need to provide **"specific limited – strategic investment product advice"** will still have to be met.

Full holistic and the rather expensive financial plans would therefore not be required for Super when it is provided as a single product to a Super Fund member.

NOTE: a. When this **distribution advice fee** is paid for by the Fund Manager it is a tax deduction for the Fund Manager and the member gets a 15% tax offset benefit. The fee is effectively reduced.

b. Whereas the perceived no conflict of interest **"Fee for Advice/Service"** that is negotiated between the representative and the Super member, strictly speaking, can not be paid from the Fund and it is not tax deductible to the member. Super does not create a taxable income to the Super member in the accumulation stage. The Super member is therefore required to pay it from after tax – income and it is therefore much more costly than when the Fund pays it.

c. Further, in the most recent "Enforceable Undertaking" that ASIC has agreed to with respect to Super switching the Fund Manager and the in-house distribution advice subsidiary are bearing the cost of the remedial rectification. An extremely valuable benefit to any effected Super Fund member.

11. **Other transaction and operational Fees** involved in buying/selling assets, government taxes and duties – at actual cost but must be reflected in the Super member - daily balance values and reported in the annual member statements.

12. **Fees on small account balances** below $1,000 protected as per current rules.

13. **Exit Fee** **1.0%**
    Only applicable for members with less than three years continuous fund membership other than a payment due to meeting a condition of release.

All Super Fund providers will need to clearly state how much they are reducing the respective capped fee suggested above so the Super Fund member can see the fee saving (if any) for themselves.

The above suggestions for consideration should more than adequately address the concerns raised by ASIC.

Super members, if they so choose would always be free to pay a "Fee for Advice/Service" and obtain full holistic financial planning advice as an extra if they thought it was so warranted knowing that a tax deduction for the fee so paid was not available.

It should be remembered that the results of any advice may take many years to materialise and therefore it is in the Super Fund member interest to have access to an affordable continuing on-going educational and investment strategic advice relationship. The cost at 0.4% p.a. is low.

Part 2.

Now let us concentrate on some **other areas** that I feel Simpler Super needs to address and that **warrants consideration**:

<u>Eligibility to Contribute</u>:

I submit that **expatriates**, living overseas holding an **Australian Passport** and having an **ATO Tax File Number, under age 65** also be allowed to contribute up to the maximum **"Undeducted Contribution"** limit each financial year so that they too can provide for their retirement in a tax efficient manner on return to Australia.

<u>Amount of acceptable contribution</u>:

Other than the Small Business CGT to Super rollover exemption, the maximum contribution permissible by an employer or a self employed person needs to be restricted to the sum of the:

"Maximum Deductible Contribution ($50,000) + the allowable "Undeducted Contribution ($150,000)" = $200,000.

Otherwise people with very large salaries and/or annual bonus payments through salary sacrifice and individuals that are self employed would be able to contribute well in excess of this $200,000 limit and gain a very unfair benefit.

"Maximum" Undeducted Contributions = 3 X "Maximum Deductible Contribution".

Payment of Benefits to a financially dependent beneficiary:

I suggest for consideration that a financially dependent beneficiary be given the choice of:

Opting for **all/part** of the **benefit** to be paid as an **income stream** with the same tax advantages as that provided under the transition to retirement rules (irrespective of the attained age of the beneficiary).

In a lot of cases a financially dependent beneficiary after paying off debts requires income support rather than a lump sum payment.

Indexation of all **Contribution** limits, **Minimum Death Cover** and the **Monthly Fund Member Fee** would need to be indexed **annually commencing July 1, 2008** and every year thereafter so that the values are not eroded due to inflation.
