9 August 2006

Mr John Lonsdale
General Manager
Superannuation, Retirement and Savings Division
The Treasury
Langton Crescent
PARKES ACT 2600

Dear Mr Lonsdale

PLAN TO SIMPLIFY AND STREAMLINE SUPERANNUATION (THE PLAN)

Asteron, the financial services arm of the Promina Group, supports the Government's Plan for positive reform of superannuation. We are confident the Plan will boost the retirement savings of Australians and help with education and financial literacy in relation to superannuation.

The Government's Plan is a major step towards simplification for clients in retirement. However, to maximise benefits to all clients, simplification should also focus on the administration and reporting of superannuation funds. This is where the drafting of legislation to achieve practical and simple outcomes will be important.

In reviewing the Plan, Asteron has identified several issues that do not yet appear to have been fully addressed, which could still create complexity and inequitable outcomes for many clients.

The attached submission highlights some suggestions where further detail is required to achieve simplification and equity. We have also separately highlighted in another submission specific issues relating to the new minimum pension standards.

If Treasury would like to discuss any of the issues raised in this submission, please contact Louise Biti, Head of Technical Services on 02 8275 3472 or louise_biti@asteron.com.au

Yours sincerely
John Crosswell
Chief Operating Officer
Retail

SUBMISSION TO TREASURY

PLAN TO SIMPLIFY AND STREAMLINE SUPERANNUATION

Who is Asteron?

Asteron has a long history of operating in Australasia, with roots tracing back to 1833 in Australia and to 1878 in New Zealand. Formerly Royal & SunAlliance Financial Services, the company changed its name to Asteron on 1 July 2003.

Today Asteron's key business activities include life insurance, superannuation, retirement incomes and financial planning.

As at December 2005, almost one million customers across Australia and New Zealand entrust Asteron with approximately $9.1 billion in funds under administration and almost $28.7 billion in funds under supervision. Asteron has around 1,200 staff in 22 offices throughout Australia and New Zealand.

Asteron is owned by the Promina Group, a portfolio of specialised and focused insurance and selected financial service businesses including well-known brands such as AAMI, Vero, Shannons, Tyndall and Australian Pensioners Insurance Agency (APIA).

The Promina Group listed on the Australian and New Zealand stock exchanges in May 2003. It is one of the top 50 companies in Australia and top 20 in New Zealand by market capitalisation. As a member of this family Asteron enjoys substantial financial stability and security, and can draw on over 170 years of experience in financial services.

Administration simplification

Asteron supports the work that has been done by industry organisations such as the Investment and Financial Services Association (IFSA) and the Financial Planning Association (FPA) in developing submissions on the Government's *Plan to Simplify and Streamline Superannuation* (the Plan). We also commend the Government's initiative to simplify superannuation. The plan announced simplifies the understanding for clients in retirement, but to ensure that true simplification and efficiency is achieved it is also important to implement measures for the simplification of fund administration and reporting.

Without simplification in these areas, many issues will remain complex and could be misunderstood by clients. This will also contribute to operating costs, which in turn impact directly on the returns to members of superannuation funds.

Asteron particularly wants to highlight several areas it considers are important for Treasury to work with the industry in the development of the legislation and procedures as these areas can help to support the Government's objectives to simplify superannuation, with positive outcomes for members.

The new rules for superannuation will require a significant amount of business re-engineering and systems development by superannuation providers. This will involve significant costs and resources. Given the planned implementation date of 1 July 2007, it is important to provide some level of certainty and direction as early as possible to allow this work to commence. We understand that the Government's aim is to release draft legislation before Christmas. We appreciate the amount of effort that is required from Government and industry to meet this deadline, and are happy to offer our support where applicable, but feel it is a target that should continue.

Suggestions for administration efficiency

In this section we discuss several issues raised in the Plan, where we believe consideration to administration processes is important.

Section 82AAT notices – the new rules for deductible contribution limits should be matched with changes to the administration rules for section 82AAT notices to achieve efficiency and facilitate the monitoring of excess contributions. Asteron recommends allowing a limited and defined time period for members to submit a notice. A time limit is important not only for reporting deductible contributions and payment of the correct tax, but also for reporting used by the ATO for the assessment of co-contributions. The connection to co-contribution arises because personal contributions are accepted as undeducted contributions until a section 82AAT notice is received and accepted by the Trustee. Once a section 82AAT notice is submitted, no variations should be allowed.

Identification of excess undeducted contributions – based on experiences with superannuation surcharge reporting, long delays can occur between the date a contribution is made and the date that the ATO notifies the trustee of a required action. To avoid continued problems, government should work with industry to identify more efficient reporting mechanisms, perhaps involving sending notification of actions directly to clients to facilitate. Consideration also needs to be given to mechanisms for recovery in situations where an income stream has commenced or the client has died and payments made to beneficiaries or the estate. An efficient mechanism will reduce collection costs, but also provide greater certainty to clients, particularly in the years leading up to their retirement. In conjunction with this measure, simplification and equity for clients may be achieved by using a benchmark rate to calculate the interest related to excess contributions, rather than attempting to identify the actual earning rate.

Work test for undeducted contributions – as per current legislation, a person age 65 or older will continue to be subject to a work test to be eligible to contribute to superannuation. Where averaging is used to bring forward future year's contribution limits, the work test should only apply in the year that the contribution is made. This is in line with current rules and will provide considerable simplification and certainty for clients.

Untaxed superannuation funds – given that employer ETPs will not be able to be rolled over from 1 July 2007, rollovers will only include an untaxed component if payment is made from an untaxed superannuation fund. To facilitate the collection of taxation and simplify administration, untaxed superannuation funds should be required to deduct 15% tax from untaxed contributions before rolling them over to another superannuation fund.

Timeframes for rollovers – uniform standards for processing rollovers will provide greater efficiency and control for clients. However, in many cases, clients do not provide sufficient information to allow the current provider to process a rollover request. This can cause time delays. Working with industry, a checklist of information required from clients can be developed. Only once all the vital information is received should the fund be subject to a 30 day timeframe to effect the rollover or transfer. If information received is incomplete, a timeframe such as 30 days, should be set for the fund to contact the client to request the missing information, with details of exactly what is required. This will increase the efficiency and avoid unnecessary delays, and provides a practical solution.

New minimum payments for allocated pensions – currently industry and clients need to deal with two sets of pension valuation factors (PVFs). The new minimum payments introduce a third set to recognise three types of allocated pensions, adding significant complexity. Asteron recommends allowing fund providers to adopt the new minimums for all existing allocated pensions to provide all clients with a common minimum payment regardless of date commenced. Without this change, clients would be faced with a decision to commute an existing income stream and rollover to a new one to access the new minimums. This creates unnecessary cost and administration. Similarly, the 10% maximum for transition to retirement pensions should apply to all pensions regardless of date commenced (subject to fund approval).

Calculation of minimum payments – under current legislation, the minimum and maximum payments for an allocated pension are based on account balance at commencement and then each 1 July. The Plan suggests a change to a percentage of average account balances. This would significantly complicate the administration and make it more difficult for clients to plan retirement incomes. Given that the payments are set at reasonably low levels Asteron recommends restricting the calculation for minimum payments to the balance as at commencement and 1 July each year. This system is easy for clients to understand and reduces the uncertainty for social security reporting.

Removal of RBLs – given the announcement of proposals to abolish RBLs from 1 July 2007, clients are deferring plans for retirement or accessing superannuation until commencement of the new rules. It is recommended to bring forward the abolition of RBLs to 1 July 2006 to simplify administration and reporting. Given the current actions by clients, this is not expected to have a significant impact on government revenue in this year.

Taxation of death benefits – the new tax rules will create an anomaly, allowing superannuation benefits to be tax-free during a person's lifetime, but to become taxable at the point of death if they do not have any financial dependants. This may create an incentive for clients to start the dispersal of their estate while they are still alive, rather than using the funds to support themselves. It also does not allow simplification of administration systems. The tax-free nature of superannuation after age 60 removes the need to identify the tax components, but these components still need to be tracked in case death benefits are taxable. Asteron recommends that all death benefits be tax-free, thereby removing administrative complexity and arbitrage decisions for clients. This creates a more equitable fee structure for clients.

Calculation of pre-83 component – while this will create simplification in the long-run, it will obviously create a significant amount of work for each fund to calculate. Therefore, discussions with industry are required to determine an appropriate date or range of dates to facilitate this calculation. Busy reporting periods should be avoided where possible. A suggestion could be to set a particular date and allow a period of 3-6 months for all funds to complete this calculation.

TFN collection – it is proposed that superannuation funds will be unable to accept undeducted contributions unless a tax file number is provided. To simplify processes, Asteron recommends that a TFN should be collected or held on file for contributions of any type. Consideration should also be given to employer funds. Employees belonging to a corporate fund may request via their employer payroll service to have personal UDC contributions made to their employer superannuation fund. This should require the employer to supply the member's TFN with that contribution.

Taxation of insurance benefits – Australians are significantly underinsured. Using life insurance inside superannuation can help to make insurance more affordable for many people. However, this creates some significant tax penalties at claim time, particularly for total and permanent disability or death claims paid under terminal illness. Two changes are recommended by Asteron to provide simplification and avoid arbitrage situations for clients:

- Benefits released under terminal illness, although received by the member in the final stages of their life, should be subject to the same tax rules as death benefits – ie. they should be tax-free. This allows people to ensure their families are looked after before their death and can help with the costs of medical treatment and care.
- Calculation of an invalidity component paid under total and permanent disability should be allowed for people employed as a sole trader or in a partnership or who are engaged in home duties. This allows equity across all people who are disabled.

Foreign super fund transfers – people who migrate to Australia or residents with periods of employment overseas should be encouraged to transfer their foreign superannuation benefits to an Australian superannuation fund. For genuine situations of accumulation in a foreign super fund, the transferred amount should be excluded from the cap on undeducted and deductible contributions. However, anti-avoidance measures should be implemented to avoid inappropriate use of this measure.

Conclusion

Asteron appreciates the consultation process implemented by the Government and the opportunity it has created to have some input into the practical implications arising from the proposals.

We believe the proposals will benefit clients and so are keen to ensure the administration processes enable us to provide the services efficiently. We look forward to seeing the final outcome of the Plan to simplify super and