

20 April 2016

Angela MacRae and Karen Chester  
Commissioners  
Superannuation  
Productivity Commission  
Locked Bag 2, Collins Street East  
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Dear Ms MacRae and Ms Chester

**RE: PRODUCTIVITY COMMISSION ISSUES PAPER – SUPERANNUATION EFFICIENCY AND COMPETITIVENESS**

Thank you for the opportunity to contribute to the above Issues Paper. This submission outlines our comments in relation to potential criteria to assess the efficiency of our superannuation system.

By way of background, Dixon Advisory provides administration and advice services to 8,000 self managed superannuation fund (SMSF) trustees with a combined asset base in excess of \$5 billion. It is for this reason that our submission focuses in particular on SMSFs.

SMSFs are an important sector in the superannuation industry. In the five years to 2014-15 the number of SMSFs have increased by 27 per cent to 557,000, with total assets worth \$590 billion<sup>1</sup>. Today, SMSFs account for 29 per cent of the \$2 trillion dollar total in superannuation assets<sup>2</sup>.

The 2010 Super System Review confirmed that the SMSF sector is largely a successful and well-functioning part of Australia's superannuation system<sup>3</sup>. Further, data from the Super System Review's 'A Statistical Summary of Self-Managed Superannuation Funds' confirm that the SMSF sector has continued to respond to changing economic circumstances, evident from positive shifts in SMSF numbers, total assets and member account balances over the five years to 2013<sup>4</sup>.

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<sup>1</sup> Australian Taxation Office, 2015, 'ATO releases latest SMSF statistics', viewed on 19 April 2016, <<https://www.ato.gov.au/Media-centre/Media-releases/ATO-releases-latest-SMSF-statistics/>>

<sup>2</sup> Australian Taxation Office, 2015, 'ATO releases latest SMSF statistics', viewed on 19 April 2016, <<https://www.ato.gov.au/Media-centre/Media-releases/ATO-releases-latest-SMSF-statistics/>>

<sup>3</sup> The Australian Government The Treasury, 2010, *Super System Review*, Canberra, p. 221

<sup>4</sup> Australian Taxation Office, 2014, "Self-managed superannuation funds: A statistical overview 2012-2013", viewed 20 April 2016, <[https://www.ato.gov.au/About-ATO/Research-and-statistics/In-detail/Super-statistics/SMSF/Self-managed-superannuation-funds--A-statistical-overview-2012-2013/?page=3#Executive\\_summary](https://www.ato.gov.au/About-ATO/Research-and-statistics/In-detail/Super-statistics/SMSF/Self-managed-superannuation-funds--A-statistical-overview-2012-2013/?page=3#Executive_summary)>

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The terms of reference of the Super System Review in 2010 encompassed a review into the efficiency of Australia's superannuation system. We note that some reforms from the Super System Review have been implemented whilst others have not – with all reforms from the Review expected to be finalised by 1 July 2017. Change as a result of these reforms will require time to mature post implementation, and may not be identifiable in data collected for a number of years. We therefore ask that the Productivity Commission takes this into consideration upon its review in 2017 into the competitiveness and efficiency of the superannuation system.

### **Operational efficiency**

The manner in which information regarding SMSF expenses is collected can give rise to inconsistencies when comparing operational efficiency<sup>5</sup> within the SMSF sector and comparisons across different superannuation fund types (i.e. APRA regulated compared to SMSF).

Information regarding SMSF expenses is still principally collected through disclosure in the SMSF annual return. The issues with using this data include:

- The annual return is primarily focused on collecting information to correctly assess the amount of income tax payable rather than for other reporting purposes. If used for other purposes, this would create distortions in data collection and could lead to improper conclusions.
- The definition of each label of the annual return (e.g. management and administration expenses, investment expenses, other amounts) does not guarantee standardised reporting within the SMSF segment and may or may not align with reporting in the non-SMSF sector.
- Expenses relating to generating investment returns can be difficult to fully identify, particularly where managed funds or other investment entities are used.

Accordingly, until standardised definitions are utilised across the superannuation industry, tax and accounting standards, comparison of data needs to be undertaken with extreme caution, particularly with regard to investment structures and internal and external management fees.

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<sup>5</sup> Productivity Commission, 2016, *Productivity Commission Issues Paper - Superannuation efficiency and competitiveness: Table 2*, Victoria, p. 21

## **Allocative efficiency**

In principal the analysis of allocative efficiency within the Superannuation system is vital. It is our experience one of the significant benefits members of SMSFs receive is a high level of allocative efficiency due to the alignment of the members with the trustees. This occurs in part because the SMSF Trustee and Member are generally the same people, as well as the flexibility of SMSFs to adapt to investment markets, legislative change and technological advancements in administration and reporting.

However, benchmarking allocative efficiency at an industry level is highly problematic as no one situation is the same for every individual or superannuation member. If optimal behaviour on the part of members is to be achieved - such that outcomes are aligned with the preferences of the members, then the value obtained by one individual from the superannuation system cannot be readily compared to another. As an example, the amount spent on insurance premiums to manage risks will provide different value to individuals depending on their individual circumstances (for example including whether the member has health issues or is supporting a family).

### a) Measuring optimal product choice and provision

Further certain reported expenses in the SMSF annual return, such as 'insurance premiums – members' cannot be used to compare the relative value flowing to fund members from use of these funds as there is no corresponding reporting to link the fee to the adequacy/quality of the insurance policy. Therefore even if the policy benefits are substantially more suitable, this cannot be reliably assessed. This same issue would apply to APRA regulated funds which do not record the need for insurance.

### b) Measuring optimal investment allocation and optimal withdrawal

Conclusions regarding an individual's 'optimal investment allocation' and 'optimal withdrawal' cannot be drawn solely from assessing asset allocation within, or retirement incomes flowing from, the superannuation system. For example a superannuation member who also holds an investment property is likely to have a different need for a withdrawal from their superannuation account to another member. This may be different again to an individual who holds cash outside of super, or another member who holds no other investments. Given the restrictive nature of superannuation contribution caps, over time individuals will be forced to plan for and accumulate retirement savings outside of the superannuation system. Therefore, superannuation is only one part of the broader picture.

Further, assessing 'optimal withdrawal' against 'adequacy of retirement income' is particularly problematic seeing as an adequate retirement capital is impossible to define into a single figure. This is because adequacy relates not only the needs and requirements of each individual but must also reflect the state of the global economy and other policy settings such as Government support for healthcare, aged care and other services.

Accordingly, we recommend that rather than focusing on collecting flawed benchmarking information, efforts should be directed to ensuring the system actually delivers allocative efficiency e.g. increasing engagement with superannuation through improved financial literacy, increasing simplicity and predictability of superannuation system through efficient review and regulatory change.

Once again we thank you for allowing the opportunity to provide comments on this important issue – the efficiency of the superannuation system. If you have any questions regarding Dixon Advisory's submission, please do not hesitate to contact me

Kind regards

Nerida Cole  
Managing Director – Head of Financial Advisory