

Submission to the Productivity Commission

**The National Competition Policy
Review of the Superannuation
Industry (Supervision) Act 1993 ("SIS
Act") and certain other superannuation
legislation**

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1 INTRODUCTION

In Australia, as in other industrialised countries, a key aspect of the relationship between employers and employees is the common interest in the provision of retirement income for employees. Towers Perrin believes that it is important to recognise that common interest in considering the structure of the superannuation framework for the community as a whole.

In the past, the partnership between employers and their employees underpinned the use of such terms as *occupational superannuation* and *productivity superannuation*. We believe that these concepts are still relevant today. It is a widely held view that Australians need to save more and should be encouraged to be more self-sufficient in retirement. Towers Perrin believes that many employers are prepared to support and facilitate retirement savings for their employees through occupational superannuation.

It is not in the community interest for corporate superannuation funds to be disadvantaged by the legislative framework. Rather, we believe the result of the Productivity Commission's review should be a legislative framework which allows market forces to decide the roles of the various types of scheme and of superannuation providers, subject to appropriate prudential controls to protect the interests of employees.

Throughout this submission we refer to corporate superannuation funds. By this we mean trust funds operating under SIS and established by an employer for employees of that employer. The trust is operated by a Trustee which has equal representation from the employer and from employees who are fund members. We understand that some employers choose to provide occupational superannuation benefits for some or all of their employees through industry funds or through public offer funds such as Master Trusts. We have not commented on these funds in the context of this review.

2 THE CORPORATE MARKET

Towers Perrin has a strong interest in and knowledge of the corporate superannuation market, as our clients are ultimately major corporations who see superannuation as an integral part of their employment benefits for their employees.

Our clients commonly provided superannuation benefits to their employees long before this was required by legislation or under awards. They often provide benefits at levels well in excess of Superannuation Guarantee or award minimums, and establish superannuation plans for their staff with access to financial education programs, financial planning advice and other 'life style' services.

In many cases the costs of administering these plans are borne or subsidised by the employer as a service to employees.

As our corporate clients' plans cover most of their employees, it is also usual that very significant economies of scale or of scope can be obtained. We obtained data on the administration costs paid by 10 of our largest corporate client plans covering nearly 300,000 employees. From this data we estimated that the average Management Expense Ratio (excluding costs directly attributable to the investment of plan assets) is under 0.20% of plan assets.

This is a much lower level of MER than applies normally in the retail sector, and reflects the spread of overhead costs across a larger asset base, as well as market power in dealing with commercial service providers. It is often achieved despite a higher level of service provided to plan members than is common in the retail sector, for example in relation to voice response access for members; in terms of financial education and communications; and in terms of benefit flexibility. Management of corporate plans also benefits from access to the expertise of corporate management, effectively provided free to trustee boards.

A criticism often levelled at corporate plans is that they provide little choice for members. However, to serve the interests of sponsoring employers, corporate plans need to be constantly attuned with employees' needs and to introduce facilities to meet those needs. The employees are directly represented on the

Trustee Board which also ensures that their interests and needs are considered. As a result we are seeing a constant refinement of services with member investment choice, flexible insurance, flexible contributions and spouse benefits being commonly provided by corporate funds.

3 COMPETITIVE EQUALITY

Towers Perrin does not express an opinion as to whether there should be different legislation for different types of superannuation providers. That would very much depend on the nature of consumers in the particular markets in which the providers operate. For most superannuation funds the “consumer” is a trustee acting on behalf of individual members. The needs of this market may differ from those of the retail market for investment products.

We believe that the primary focus of changes to existing regulation should be towards simplicity in the provision of retirement income, as it is universally agreed that complexity is the major impediment to encouraging retirement savings. The superannuation legislation and taxation framework has been already burdened by many years of policy shifts and grandfathering.

This has led many small to medium sized employers to close down their occupational funds in favour of industry funds or Master Trusts. Smaller funds were not able to cost effectively provide the range of services to employees that larger funds can. Effectively, competitive forces and legislative complexity have led to a rationalisation of the number of superannuation funds in Australia. To further complicate the system by providing biases towards particular providers would be counterproductive for the whole system and for the interests of consumers generally as it would lead to a reduction in competition.

Superannuation funds of any type, including corporate funds, which can operate efficiently and can effectively and securely meet the needs of their members should be allowed to survive and thrive. Such funds should not be driven from the market by legislative complexity or regulatory bias.

4 CONCLUSION

Corporate superannuation funds have been and remain a cost effective and secure means of providing for the retirement incomes of a very large number of Australians. Towers Perrin believes that corporate plans and occupational superannuation will continue to have an important role to play in the retirement incomes framework, for both employers and their employees.

That role should not be determined by biases in the regulatory framework, but by the effectiveness and responsiveness of those plans to changing needs. Only funds which are able to cost effectively meet the needs of employees will continue to be supported by those employees and their employers.

About Towers Perrin

Towers Perrin is a leading international firm of specialist human resource, financial management and superannuation advisers. Towers Perrin is wholly owned by its senior practising consultants. This allows us to offer clients professional and independent advice.

Towers Perrin assists organisations improve performance and manage their investment in people, by advising them on human resource strategy and management, employee benefits, risk and asset management, compensation and communication, as well as overall strategy and organisational effectiveness.

In summary, our mission involves helping employers with the relationship they have with their employees.