

Australian Council of Public Sector Retiree Organisations (ACPSRO)

SUBMISSION TO SUPERANNUATION SYSTEM REVIEW, PHASE 2, OPERATION AND EFFICIENCY

Executive Summary

Issue:

Lack of or restriction on a particular feature creates inefficiency and reduces member's final equity in the superannuation fund. This is especially so in the superannuation funds provided by the Commonwealth to its employees.

Recommendation 1

ACPSRO recommends that all accumulated superannuation funds, especially employer sponsored superannuation funds, be required to provide account-based and transition to retirement pensions.

Recommendation 2

ACPSRO recommends that superannuation funds provide a reasonable number of investment choices with the option to vary their investment options at any time.

Recommendation 3

ACPSRO recommends that employer sponsored superannuation funds be required to accept member contributions either as non-concessional contributions paid direct from the member or as concessional contributions paid through a salary sacrifice arrangement or as a mixture of non-concession or concessional contributions.

Recommendation 4

ACPSRO recommends that legislation be enacted that would allow members of unfunded superannuation schemes to be able to rollover over from those superannuation schemes to another superannuation fund. Alternatively, compel unfunded superannuation schemes to provide an accrual rate on accrued superannuation benefits that is commensurate to the investment returns generated by the Future Fund or other funded superannuation funds.

Australian Council of Public Sector Retiree Organisations (ACPSRO)

SUBMISSION TO SUPERANNUATION SYSTEM REVIEW, PHASE 2, OPERATION AND EFFICIENCY

Arguments and Recommendations

In regard to the operation and efficiency of superannuation funds, ACPSRO is concerned with the limitations in the ability of employer sponsored funds, in particular the superannuation funds provided by the Commonwealth, to allow employees to pick and choose certain features relating to the Australian superannuation system to include in their superannuation funds. The lack of a particular feature or the restriction on a particular feature creates inefficiency in the superannuation fund and may reduce the member's final equity in the superannuation fund at retirement.

Although choice of superannuation fund is available to members, the exercising of choice can also have a detrimental affect. For example, if a Commonwealth employee chooses not to be a member of the Public Sector Superannuation Scheme – accumulation plan (PSSap) and chooses another superannuation fund, the Commonwealth will only pay the minimum employer contribution of 9% of salary into the other superannuation fund. If the member stays with the PSSap, the Commonwealth will pay an employer contribution of 15.4% of salary into that superannuation fund. The extra employer contribution paid into the PSSap is an incentive for the employee not to choose another superannuation fund and stay with the PSSap even though the PSSap does not provide the range of benefit options provided by other superannuation funds. Examples of key benefit options not provided by the PSSap are account-based pensions and transition to retirement pensions.

Our view is that superannuation funds should not be able to decline to offer certain contribution or benefit features that are generally available in other superannuation funds. The lack of certain features causes members to join a second superannuation fund resulting in additional costs to the member.

The following are examples of features that have been excluded from superannuation funds for Commonwealth employees and the resulting inefficiencies this causes.

Lack of account-based pension option for PSSap members

The PSSap is an accumulation superannuation fund. Members are able to pay non-concessional contributions or concessional contributions to the superannuation fund through a salary sacrifice arrangement. The Commonwealth as the employer also contributes employer concessional contributions to the superannuation fund at rate of 15.4% of the member's salary.

The only benefit option provided by the PSSap is a lump sum. The Trustee for the PSSap, ARIA, refuses to provide account-based pensions for its members. The Trustee advises if members wish to take an account-bases pension they have the

Australian Council of Public Sector Retiree Organisations (ACPSRO)

option, on retirement, to rollover their accumulated vested benefits in the PSSap to another superannuation fund that provides account-based pensions.

Account-based pensions are now the most popular retirement benefit product provided by superannuation funds due to the tax-free status of the pension fund and no maximum payment limit. If PSSap members wish to take an account-based pension they must select another superannuation fund to receive the rollover of their accumulated benefits from the PSSap. Having to choose a private superannuation fund causes additional stress and expense for members.

In addition, the PSSap Trustee will not allow transition to retirement pensions. The Trustee will, however, allow contributing members to rollover a portion of their accumulated vested benefits out of the PSSap into another a superannuation fund to commence a transition to retirement pension. This is inefficient as it causes the member to be in two superannuation funds in relation to his or her employment, with the added costs associated with being a member of two superannuation funds.

Recommendation 1

ACPSRO recommends that all accumulated superannuation funds, especially employer sponsored superannuation funds, be required to provide account-based and transition to retirement pensions.

Investment Choice for Commonwealth Superannuation Scheme (CSS) members

CSS members only have the option of two investment choices, 100 percent default or 100 per cent cash. The default and cash option cannot be mixed. The default option is a mix of investments chosen by the Trustee.

Also, there is a limit placed on exercising an investment option choice to twice a calendar year. Members who have already used their two investment option choices were caught out severely when the market declined as they were prohibited from selecting the cash option. Limiting the number of times members can change their investment option to twice a year can have a detrimental affect on CSS members' accumulated benefits in the CSS superannuation fund especially when there is a sudden decline in the investment market as occurred recently due to the Global Financial Crises. Many CSS members suffered a considerable loss because they were not allowed to switch from the default option to the cash option as they had already changed investment options twice during the calendar year.

Most superannuation funds offer a range of investment options with unlimited switching between investment options. We do not believe that the number of choices should be large where it could confuse members. Our view is that a reasonable number of investments choices should be available, say 10 choices, which would include Australian shares, international shares, property, cash, bonds and fixed interest or investment profiles such as balanced, conservative, or aggressive. We also believe that the member should be able to mix the investment choices.

Recommendation 2

ACPSRO recommends that superannuation funds provide a reasonable number of investment choices with the option to vary their investment options at any time.

Australian Council of Public Sector Retiree Organisations (ACPSRO)

Salary sacrifice as concessional superannuation contributions

As a general rule most superannuation funds accept salary sacrifice superannuation contributions as concessional contributions. This includes defined benefit superannuation funds where the member is required to pay a certain amount of net superannuation contributions. If the net member superannuation contributions required to be paid to a defined benefit fund is through a salary sacrifice arrangement then the amount the member is required to contribute is grossed up to cover the amount of contribution tax required to be paid.

The CSS and the Public Sector Superannuation Scheme (PSSdb) will not accept member contributions through a salary sacrifice arrangement. If members wish to salary sacrifice to superannuation they are required to join a second superannuation fund. This is inconvenient for members, is inefficient and adds additional cost to the member by being required to maintain more than one superannuation fund membership for the one employment.

Recommendation 3

ACPSRO recommends that employer sponsored superannuation funds be required to accept member contributions either as non-concessional contributions paid direct from the member or as concessional contributions paid through a salary sacrifice arrangement or as a mixture of non-concession or concessional contributions.

Locked up superannuation entitlements – inability to rollover to another superannuation fund

Members of the PSSdb and the Military Superannuation Benefits Scheme (MSBS) leaving Commonwealth employment or Australian Defence Force (ADF) service before reaching retirement age cannot rollover the employer component of their benefit to another superannuation fund. This is because the employer component is unfunded and the Government believes that if it allows this component to be rolled out of the PSSdb or the MSBS it would be bringing forward Government expenditure.

While the employer component is locked up in the PSSdb and MSBS it only accrues by the percentage increase of the CPI. This causes members' accumulated superannuation benefits to erode from the time of leaving Commonwealth employment or ADF service until reaching retirement age.

This causes considerable distress for PSSdb and MSBS members as their benefit can be locked up in the PSSdb and MSBS for a considerable time with no real earnings accruing to their superannuation benefits. This is a very inefficient way to hold members' superannuation entitlements.

It is noted that funds to pay future benefits from Commonwealth unfunded superannuation schemes, such as those locked up in the PSSdb and MSBS, where members have left Commonwealth employment or ADF service, are held in the Future Fund and are accruing at market investment returns. It seems odd that

Australian Council of Public Sector Retiree Organisations (ACPSRO)

members are only entitled to accruals on their superannuation entitlements based on the percentage increase in the CPI, which provides a real return of zero percent to their accrued benefit.

Recommendation 4

ACPSRO recommends that legislation be enacted that would allow members of unfunded superannuation schemes to be able to rollover over from those superannuation schemes to another superannuation fund. Alternatively, compel unfunded superannuation schemes to provide an accrual rate on accrued superannuation benefits that is commensurate to the investment returns generated by the Future Fund or other funded superannuation funds.

Australian Council of Public Sector Retiree Organisations (ACPSRO)