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www.supersystemreview.gov.au

A three-phased consultation



Foreword



www.SuperSystemReview.gov.au

25 August 2009

This is the first output of the Super System Review, announced by the Government on 29 May 2009, being an explanation of the scope, procedures and timetable to be followed.

We have chosen to divide the work into three phases:

- Phase One: Governance
- Phase Two: Operation and Efficiency
- Phase Three: Structure (including SMSFs)

"Why three?" some will ask and, "Why in this order?" "Where are SMSFs?" "Why are they last?"

The answer to such questions is that there is no perfect way to approach such a large topic with so many facets. On the question of SMSFs; although we have decided to deal with SMSF issues in the third phase, the Review proposes to devote attention and resources to SMSFs commensurate with the number of SMSF members, their share of superannuation savings and the complexity of the SMSF issues that arise during the Review. The Review Panel is conscious that over 30 per cent of the value of Australia's superannuation savings is currently in SMSFs.

We will be seeking to maximise the amount of information available on the Review's website – www.supersystemreview.gov.au and I invite you to subscribe for email updates relating to the Review which you can do on the website.

This is a challenging and exciting process and I invite everyone with an interest in long term saving and investing for retirement (which we call superannuation) to engage with the Review.

Yours sincerely

Jeremy Cooper
Chair

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1 INTRODUCTION

Compulsory superannuation contributions, the age pension and voluntary savings are the three pillars of Australia's retirement income system. While the age pension ensures a basic level of security, the goal of superannuation is to provide higher incomes for most Australians in retirement.

The Government supports this goal through a regulatory framework that includes compulsory superannuation contributions for most employees through the Superannuation Guarantee (**SG**) arrangements, substantial taxation concessions for compulsory and voluntary contributions, prudential regulation and through disclosure requirements.

Over the past 35 years, the average Australian superannuation fund has delivered real returns of around 4 per cent over and above inflation. By the end of March 2009, total estimated superannuation assets stood at \$1.03 trillion.¹

The value of the assets involved, and the compulsory nature of superannuation contributions, underscore the importance of superannuation for all Australians. The core elements of the Australian superannuation system are strong and well regulated. Nevertheless, it is timely to examine the current operational features of our superannuation system to ensure that it continues to operate efficiently and sustainably.

2 THE SUPER SYSTEM REVIEW

Against this backdrop, the Government [announced](#)² on 29 May 2009, a comprehensive review of Australia's superannuation system: the Super System Review (**Review**).

The Review has broad terms of reference which are set out in section 7 and also available on the Review website.³ It has been charged with examining and analysing the governance, efficiency, structure and operation of Australia's superannuation system. The Review is focused on achieving outcomes that are in the best interests of members and which maximise retirement incomes for Australians.

The Chair of the Review is Jeremy Cooper, a former Deputy Chairman of the Australian Securities and Investments Commission (**ASIC**). Jeremy is supported by a Panel of seven part-time members: Mr Kevin Casey, Mr Greg Evans, Mr Sandy Grant, Dr David Gruen, Ms Meg Heffron, Mr Ian Martin and Mr Brian Wilson. Short [biographies](#) for each of the Panellists are on the Review website.⁴

3 SCOPE OF THE REVIEW

There are four broad sets of factors that determine retirement income:

¹ APRA *Statistics: Quarterly Superannuation Performance* March 2009 <http://www.apra.gov.au/Statistics/Quarterly-Superannuation-Performance.cfm>

² <http://ministers.treasury.gov.au/DisplayDocs.aspx?doc=pressreleases/2009/066.htm&pageID=003&min=njs&Year=&DocType=0>

³ http://www.supersystemreview.gov.au/content/terms_of_reference.aspx

⁴ http://www.supersystemreview.gov.au/content/the_review_panel.aspx

3.1 The performance of investment markets and economic cycles

These factors are important, but are not central to the work of the Review. They have clearly impacted Australian superannuation in recent times and need to be taken into account in considering the design and operation of the system at a macro level, and also at fund operation and investment product design level. For the purposes of the Review, however, they are background issues.

3.2 Taxation arrangements and structural settings like the preservation age

The taxation arrangements and preservation ages applying to superannuation are outside the scope of the Review. Those issues are currently being considered by the review of Australia's Future Tax System (**AFTS review**). In part, the AFTS review is considering the retirement income system and such issues as the level of superannuation contributions, their taxation and retirement income products that insure against longevity risk in retirement. A copy of the AFTS review's advance report is available at www.taxreview.treasury.gov.au. The AFTS review will provide its final report to the Treasurer by the end of 2009.

A key conclusion of the AFTS review so far has been to maintain the level of SG contribution required to be made by employers at 9 per cent. Questions relating to the adequacy of that level of contribution and of the retirement benefits ultimately created by it are outside the scope of this Review.

3.3 The functioning of the superannuation system itself, particularly its efficiency

The functioning of the superannuation system is squarely within the terms of reference of the Super System Review. A key element of the Review is to consider the effectiveness and efficiency of the system in providing retirement income to members. Critical factors influencing system performance are regulatory arrangements, industry structure, competition, market forces, fees and charges and technology, all of which will be considered by the Review.

3.4 Individual factors, such as investment choices and engagement

The Review will examine the microeconomic aspects of the system, including the availability and design of choices in superannuation and the information, advice and incentives that facilitate engagement in superannuation to examine whether active choices make a positive difference to retirement outcomes.

3.5 Other issues outside the scope of the Review

Also outside the scope of the Review are the lost member accounts and clearing house proposals that are the subject of existing Government policy proposals.⁵

⁵ On 14 November 2008, the then Minister for Superannuation and Corporate Law, Senator the Hon Nick Sherry, announced the release of a two-part discussion paper on the implementation of the Government's superannuation clearing house measure and possible initiatives to reduce the number of lost super accounts. The announcement and discussion paper can be found at: <http://mincl.treasury.gov.au/DisplayDocs.aspx?doc=presreleases/2008/078.htm&pageID=003&min=njs&Year=&DocType=> and <http://www.treasury.gov.au/contentitem.asp?NavId=037&ContentID=1442>.

4 THREE-PHASED CONSULTATION PROCESS

The Review will be divided into three phases of consultation under the following themes:

- Phase One – Governance
- Phase Two – Operation and Efficiency
- Phase Three – Structure (including SMSFs)

4.1 Explanation of the Phases

Phase One – Governance

'Governance' refers to the ideas, laws, processes and systems by which organisations are operated, regulated and controlled for the benefit of their relevant stakeholders. By way of very general illustration, the sorts of issues that the Review will consider in this phase include, but are not limited to, the issues listed in diagram 1. Governance is also important in the self-managed super fund (**SMSF**) sector, but the issues are very different. We propose dealing with governance and other issues relating to SMSFs in Phase Three - Structure. However, stakeholders wishing to make submissions about SMSF governance in Phase One are welcome to do so.

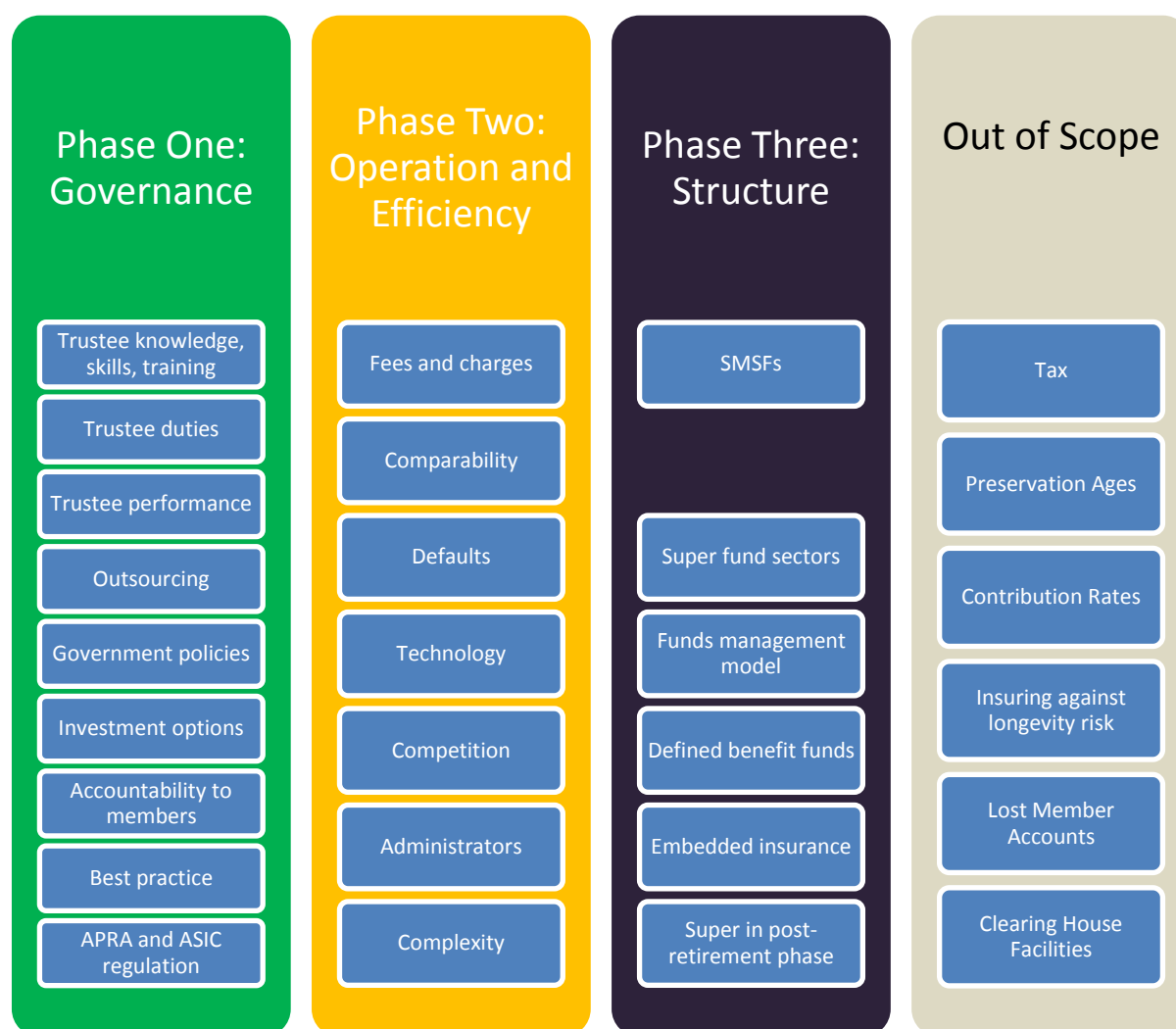
Phase Two – Operation and Efficiency

'Operation and Efficiency' refers to the way the superannuation funds, service providers, fund members and others conduct the transactions necessary to operate the system. By way of very general illustration, the sorts of issues that the Review will consider in this phase include, but are not limited to, the issues listed in diagram 1.

Phase Three – Structure (including SMSFs)

'Structure' refers to the shape of superannuation products and the way superannuation is provided across the various industry sectors, including the range of investments and other services provided, methods of product distribution and the outcomes the different models achieve. The Structure phase will also examine issues affecting SMSFs. By way of very general illustration, the sorts of issues that the Review will consider in this phase include, but are not limited to, the issues listed in diagram 1.

Diagram 1: Indicative Breakdown of Phases of the Review



Each phase will be treated as a separate consultation, giving stakeholders time to work through issues and the opportunity to select which phases are of interest to them. Many stakeholders will wish to make submissions on all three phases, but they will have more time to do so. A timetable for the Review is set out in section 6 of this paper.

4.2 Format of each Phase

At the start of each phase, the Review Panel will publish an issues paper relating to that phase with a view to helping stakeholders frame their submissions at the appropriate conceptual level. The issues papers are not intended to be exhaustive, nor in any way limit submissions to the issues raised. In publishing issues papers, the Review Panel will be seeking to reflect some of the issues of interest to it, but also reflecting issues that it believes are of general interest.

The issues papers will not be a forecast of the views of the Review Panel, nor will they put forward recommendations for reform. Reaching conclusions on issues and formulating recommendations are tasks for the Review Panel following the consultation process and its own deliberations on the issues arising. A document setting out the Review Panel's preliminary

recommendations will be issued after each consultation phase. The preliminary recommendations will then be fine-tuned and merged into a final report to be delivered to the Government by 30 June 2010.

5 MAKING A SUBMISSION

There is no set structure for submissions and participants may comment on any matter they consider relevant to the topic. This could range from a short letter outlining your views on the topic to a more substantial document covering a range of issues. Where possible, you should provide data and/or documentation to support your views.

We ask that submissions follow these guidelines:

- Each submission should be accompanied by a cover sheet as set out in the appendix to this paper (also available on the Review website www.supersystemreview.gov.au). This is so we have your contact details. You do not need to repeat your contact details in the actual submission.
- While submissions may be lodged electronically or by post, electronic lodgement is preferred. For accessibility reasons, please submit responses sent via email in a Word or RTF format. An additional PDF version may also be submitted.
- If making a paper submission, please send it printed in black ink on A4 paper.
- If your submission is more than five pages, please include a summary upfront.
- Make sure you read the information about public posting and privacy below.

Public posting and privacy

All submissions will be treated as public documents. They will be published on the Review website, including any personal information of the authors, unless you tell us that you want the submission to be treated as wholly or partly confidential or the Review thinks that the submission should be kept confidential.

If you do not want your submission to be made public, please ensure you indicate this in the relevant section of the coversheet and on the front page of your submission.

Send your submission

Post:

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 GPO Box 9827
 MELBOURNE VIC 3001

Email:

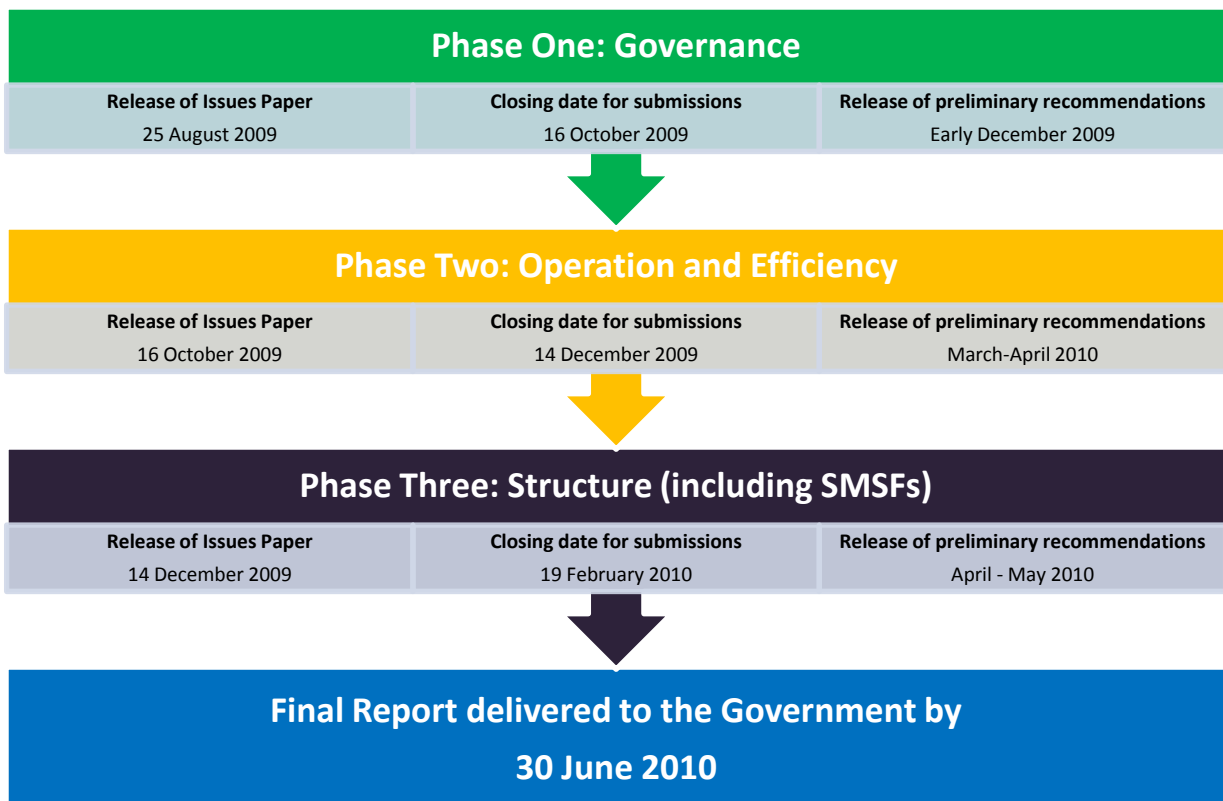
info@supersystemreview.gov.au

Fax:

People who need to fax a submission should call 03 9280 4476 for instructions

6 TIMETABLE FOR THE REVIEW

Diagram two: Release and submission dates for the Review



7 TERMS OF REFERENCE OF THE SUPER SYSTEM REVIEW

Scope

1. The Review will comprehensively examine and analyse the governance, efficiency, structure and operation of Australia's superannuation system, including both compulsory and voluntary aspects, addressing, but not limited to, the following issues:
 - 1.1 Governance:** examining the legal and regulatory framework of the superannuation system, including issues of trustee knowledge, skills and training; and thoroughly assess the risks involved in the use of debt and leverage and the development of investment options that lead to a weakening of the diversification principle in the superannuation system;
 - 1.2 Efficiency:** ensuring the most efficient operation of the superannuation system for all members, whether active or passive members and whether making compulsory or voluntary contributions, including removing unnecessary complexities from the system and ensuring, in light of its compulsory nature, that it operates in the most cost effective manner and in the best interests of members;
 - 1.3 Structure:** promoting effective competition in the superannuation system that leads to downward pressure on system costs, examining current add-on features of the superannuation system; and, examining other structural legacy features of the system; and
 - 1.4 Operation:** maximising returns to members, including through minimising costs, covering both passive defaulting members, who should receive maximum returns and value for money through soundly regulated default products, and active selecting members, who should not be negatively impacted by conflicts of interest that may inhibit advice being in the best interests of members.
2. The Review to be conducted around the concepts of the best interests of the member and the maximising of retirement incomes for Australians.
3. The Review to be conducted with reference to improving the regulation of the superannuation system, whilst also reducing business costs within the system.
4. The Review will be a systemic examination, including all superannuation fund sectors.
5. In conducting its work, and in determining its recommendations, the Review will have regard to the Communiqué of Principles.⁶
6. The Review will comparatively examine international jurisdictions and will consult with experts as needed from other jurisdictions.
7. The Review is excluded from considering the issues before the Australia's Future Tax System review concerning system inputs such as the level of superannuation contributions, taxation including taxation concessions and other incentives.

⁶ Available at <http://ministers.treasury.gov.au/DisplayDocs.aspx?doc=pressreleases/2009/041.htm&pageID=003&min=njs&Year=&DocType=0>

8. The Review is excluded from considering the development of a superannuation clearing house or the project addressing the consolidation of lost accounts, as these are the subject of separate and already commenced processes.

Composition and Consultation

9. The Review to be led by an expert panel made up of a full-time Chair and five⁷ part-time members, supported by a secretariat drawing on the skills of the key policy and regulatory agencies of the Commonwealth, as well as market expertise. The Review may also draw on external expertise where necessary.
10. The Review will consult the superannuation industry, other stakeholders and the broader public.

Timing

11. The Review will make recommendations to the Government by 30 June 2010 on possible options for reform, including appropriate transitional arrangements. The Review may report on particular issues prior to the finalisation of the final report.

⁷ On 4 August 2009, the Minister for Financial Services, Superannuation and Corporate Law, Chris Bowen MP, announced the appointment of two additional part-time members of the Review Panel.

APPENDIX

SUPER SYSTEM REVIEW SUBMISSION COVER SHEET (This form will not be published with your submission)		
Please complete and attach this form to your submission:		
By email: info@supersystemreview.gov.au By post: Super System Review GPO Box 9827 MELBOURNE VIC 3001		
Name		
Street address		
Suburb/city	State & Postcode	

Principal contact (if organisation)	Phone	
Position	Fax	
Email address	Mobile	

Please indicate if your submission:

<input type="checkbox"/>	contains NO confidential material
<input type="checkbox"/>	contains SOME confidential material (provided separately and clearly marked)
<input type="checkbox"/>	contains confidential material and the WHOLE submission is provided 'IN CONFIDENCE'

Please indicate to which phase your submission relates:

<input type="checkbox"/>	Governance
<input type="checkbox"/>	Operation & Efficiency
<input type="checkbox"/>	Structure

- All submissions will be treated as public documents. They will be published on the Review website, including any personal information of the authors, unless you tell us that you want the submission to be treated as confidential or the Review thinks that the submission should be kept confidential.
- Confidential material should be provided separately and clearly marked 'IN CONFIDENCE'.