

HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

**REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL
INSTITUTIONS
SUPERANNUATION SECTOR**

Prime Super

PS114QW: Do you use an internal clearing house to receive the superannuation payments from employers, or their payroll representatives, before they are allocated to an individual member's account and/or fund?

If so:

- a. What is the name of the clearing house?
- b. Why do you use a clearing house?
- c. How much does it cost annually to use the clearing house?
- d. How much does it cost annually to each member to use the clearing house?
- e. What happens to interest accrued from funds held in the clearing house?
- f. What happens to non-interest income and/or capital gains accrued from funds held in the clearing house?

Answer:

Prime Super does not have an internal clearing house to receive the superannuation payments from employers, or their payroll representatives, before they are allocated to an individual member's account and/or fund.

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REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS SUPERANNUATION SECTOR

Prime Super

PS115QW: Do you use an external clearing house to receive the superannuation payments from employers, or their payroll representatives, before they are allocated to an individual member's account and/or fund?

If so:

- a. What is the name of the clearing house?
- b. Who owns the clearing house?
- c. Why do you use an external clearing house?
- d. How much does it cost annually to use the external clearing house?
- e. How much does it cost annually to each member to use the external clearing house?
- f. What happens to non-interest income and/or capital gains accrued from funds held in the external clearing house?

Answer:

a. What is the name of the clearing house?

Prime Super outsources key functions to material service providers. The administration function of the Fund is outsourced to Australian Administration Services Pty Ltd ("AAS"), a wholly owned entity of Link Limited.

A component of the outsourced services arrangement with AAS is the provision of clearing house functionality. AAS has a contractual relationship with a clearing house service provider, and Prime Super has a contractual relationship with AAS that includes the provision of clearing house functionality.

The clearing house that is used by Prime Super via the contractual relationship with AAS is Super Clearing House Online (SCH Online).

b. Who owns the clearing house?

SCH Online is owned by The Superannuation Clearing House Pty Limited, a corporate authorised representative of the product issuer, Pacific Custodians Pty Limited.

c. Why do you use an external clearing house?

Prime Super has outsourced the function of a clearing house on the basis that the activity associated with the receipt of contributions from members and employers is functionally part of the administration services that have been outsourced to AAS.

From an efficiency and effectiveness basis as well as considering costs and risk management the process logically should form a component of the overall administration service that has been outsourced. There is little benefit in Prime Super undertaking this process directly and separately from the outsourced administration function. There is increased business risk if the clearing house is separated from core administration functionality.

d. How much does it cost annually to use the external clearing house?

The annual cost of the external clearing house is \$80,969.

The service is available to all employers that contribute to the Fund (over 35,000 employers).

e. How much does it cost annually to each member to use the external clearing house?

There is no direct cost to employers or members for the use of the external clearing house.

The cost of the service is funded from the operating costs of the fund. That is, the costs form a part of the overall operating budget of the Fund. The members of Prime Super are levied an administration fee, these fees cover the cost of all aspects of running the business.

f. What happens to non-interest income and/or capital gains accrued from funds held in the external clearing house?

The turnaround of cash flowing through the clearing house means an average hold time in the clearing house bank account of one day.

To the best of our knowledge there is no non-interest and/or capital gain accrued from funds held in this account.

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Prime Super

PS116QW:

If you use an internal clearing house please outline when money is received into the clearing house:

- a. On average, how long does it stay in the clearing house before it:
 - i. is allocated to a member's account and/or fund?
 - ii. is allocated to purchase units for a member's account and/or fund?
 - iii. appears in a member's account and/or fund statement and/or online record?
- b. What is the longest time that it has stayed in the clearing house before it:
 - i. is allocated to a member's account and/or fund?
 - ii. is allocated to purchase units for a member's account and/or fund?
 - iii. appears in a member's account and/or fund statement and/or online record?
- c. What is the shortest time that it has stayed in the clearing house before it:
 - i. is allocated to a member's account and/or fund?
 - ii. is allocated to purchase units for a member's account and/or fund?
 - iii. appears in a member's account and/or fund statement and/or online record?
- d. For interest accrued from holding funds in the clearing house for the member, is it then subsequently allocated to:
 - i. the individual member's account and/or fund?
 - ii. a different account and/or fund? If so, what is its name?
- e. For non-interest income and/or capital gains accrued from holding funds in the clearing house for the member, is it then subsequently allocated to:
 - i. the individual member's account and/or fund?
 - ii. a different account and/or fund? If so, what is its name?

Answer:

Prime Super does not use an internal clearing house.

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Prime Super

PS117QW:

If you use an external clearing house please outline when money is received into the clearing house:

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 - ii. a different account and/or fund? If so, what is its name?

Answer:

If you use an external clearing house please outline when money is received into the clearing house:

Correctly paid monies are typically held in the clearing house overnight and disbursed the next day. If the user has paid incorrectly or there are data integrity issues, the monies will be refunded to the user's settlement account if the data or payment issues cannot be resolved within 10 days.

When the monies are received by Prime Super, they will be allocated to the member's account within the below timeframes. Regardless of the time taken to allocate, the payment effective date will be the date that Prime Super receives the payment.

- Average: 1 Day
- Fastest: Same Day
- Longest: Within 3 Days

a. On average, how long does it stay in the clearing house before it:
i. is allocated to a member's account and/or fund?

One day.

ii. is allocated to purchase units for a member's account and/or fund?

One day.

iii. appears in a member's account and/or fund statement and/or online record?

Two days.

b. What is the longest time that it has stayed in the clearing house before it:
i. is allocated to a member's account and/or fund?

Ten days.

ii. is allocated to purchase units for a member's account and/or fund?

Eleven days.

iii. appears in a member's account and/or fund statement and/or online record?

Twelve days.

c. What is the shortest time that it has stayed in the clearing house before it:
i. is allocated to a member's account and/or fund?

Same day transfer.

ii. is allocated to purchase units for a member's account and/or fund?

Same day transfer.

iii. appears in a member's account and/or fund statement and/or online record?

Same day transfer.

d. For interest accrued from holding funds in the clearing house for the member, is it then subsequently allocated to:

i. the individual member's account and/or fund?

As noted above no interest is allocated to Prime Super on monies held in the holding account

ii. a different account and/or fund? If so, what is its name?

Any incidental interest earned on the bank account during clearing is retained by The Superannuation Clearing House.

e. For non-interest income and/or capital gains accrued from holding funds in the clearing house for the member, is it then subsequently allocated to:

i. the individual member's account and/or fund?

To the best of Prime Super's knowledge there is no non-interest income and/or capital gain accrued on the clearing house holding account.

ii. a different account and/or fund? If so, what is its name?

To the best of Prime Super's knowledge there is no non-interest income and/or capital gain accrued on the clearing house holding account.

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SUPERANNUATION SECTOR**

Prime Super

PS118QW: During the first half of 2020 there were significant market movements because of the economic response to the COVID-19 pandemic. Please complete the following table outlining the total payouts and losses in foreign exchange hedging.

Month in 2020	Payouts for FOREX hedges (\$)	Losses for FOREX hedges (\$)
January		
February		
March		
April		
May		
June		

Answer:

Prime Super has established a foreign currency hedging process that spreads risk out over a rolling twelve month period. That is, the value of any Forex exchange contracts that mature each month is approximately one twelfth of the entire value of the hedges in place at any one time. This process allows for better management of the cashflow of the Fund.

During the period in question the following gains and losses occurred:

Month in 2020	Payouts for FOREX hedges (\$)	Losses for FOREX hedges (\$)
January		1,488,767.56
February		1,951,546.61
March		8,678,183.58
April		6,286,423.74
May		3,466,875.82
June		61,630.37

Movements in the Australian dollar over the period in question resulted in losses being incurred.

Prime Super has over \$5.2 billion in Funds under management and has positive net member cashflow of over \$100 million per annum. In addition, further cash is generated from assets held by the Fund. The losses incurred on the FOREX contracts are immaterial for the Fund as a whole.

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PS119QW:

Assuming a young Australian whose birthday was 1 July 1989, got their first job on 1 July 2005, opened a default superannuation account on 1 July 2005, made the average contribution of a person in that age bracket, using the default product offer made at that time and made no additional contributions, received the average growth, paid all fees, insurances and deductibles, please complete the following table.

Age	Financial Year	Annual average income of fund members from that age bracket in that year (\$)	Average Compulsory superannuation contribution in that year (% of income)	Resulting average annual superannuation contribution made (\$)	All fees, insurances, indirect cost ratios and other deductibles not classified as fees (\$)	Average growth in that year (\$)	Balance at the end of that year (\$)
16	2005/2006	i.e. Someone who was 16 in 2005/2006 financial year	i.e. 9 per cent	i.e. 9 per cent of column 3	i.e. the totals deducted	i.e. growth on the balance reflecting the time reality of growth and when fees are deducted	i.e. The total balance for that account at the end of the financial year once growth and fees have affected

							the balance
17	2006/2007						
18	2007/2008						
19	2008/2009						
20	2009/2010						
21	2010/2011						
22	2011/2012						
23	2012/2013						
24	2013/2014						
25	2014/2015						
26	2015/2016						
27	2016/2017						

Answer:

Prime Super does not collect data on the salary levels of members. In addition, Prime Super has a high number of casual and part time employees, this therefore means the income levels and resulting superannuation contributions calculated based on contribution data are not reflective of an average full time working person making a contribution to a superannuation fund.

It is therefore not possible to determine the average income for members at each age noted by year as requested in the question.

The following data shows the outcome for a 16 year old that joined Prime Super on 1 July 2005 with employer contributions being paid to the Fund. The following assumptions have been made:

- Salary increases at 1 July each year by 3%;
- Superannuation is made on a monthly basis;
- Fees include all administration fees charged by Prime Super and default insurance cover;
- Investment return is the net investment return, that is after all investment costs.

Key points to note from the table:

- Over the fifteen year period a 16 year old has accumulated an account balance of over \$47,000, an amount that is 57% higher than their salary as a 30 year old;
- Investment earnings account for 38% of the account balance for a thirty year old;
- Death and disability insurance has been provided throughout this entire period;
- This table includes two significant financial corrections – the GFC and the COVID-19 lockdown.

Age	Financial Year	Annual average income of fund members from that age bracket in that year (\$)	Average Compulsory superannuation contribution in that year (%) of income	Resulting average annual superannuation contribution made (\$)	All fees, insurances, indirect cost ratios and other deductibles not classified as fees (\$)	Average growth in that year (\$)	Balance at the end of that year (\$)
16	2005/2006	\$20,000	9.00%	\$1,800.00	\$223.60	\$98.53	\$1,674.93
17	2006/2007	\$20,600	9.00%	\$1,854.00	\$231.97	\$377.86	\$3,674.81
18	2007/2008	\$21,218	9.00%	\$1,909.62	\$241.97	-\$312.00	\$5,030.46
19	2008/2009	\$21,855	9.00%	\$1,966.91	\$248.75	-\$919.95	\$5,828.67
20	2009/2010	\$22,510	9.00%	\$2,025.92	\$252.74	\$279.35	\$7,881.20
21	2010/2011	\$23,185	9.00%	\$2,086.69	\$263.01	\$905.68	\$10,610.57
22	2011/2012	\$23,881	9.00%	\$2,149.29	\$276.65	\$88.91	\$12,572.12
23	2012/2013	\$24,597	9.00%	\$2,213.77	\$286.46	\$2,084.51	\$16,583.94
24	2013/2014	\$25,335	9.25%	\$2,343.52	\$306.52	\$2,226.71	\$20,847.66
25	2014/2015	\$26,095	9.50%	\$2,479.07	\$379.84	\$2,373.66	\$25,320.55
26	2015/2016	\$26,878	9.50%	\$2,553.44	\$402.20	\$1,135.04	\$28,606.83
27	2016/2017	\$27,685	9.50%	\$2,630.04	\$418.63	\$3,565.50	\$34,383.74
28	2017/2018	\$28,515	9.50%	\$2,708.95	\$447.52	\$3,341.91	\$39,987.08
29	2018/2019	\$29,371	9.50%	\$2,790.21	\$475.54	\$2,590.04	\$44,891.80
30	2019/2020	\$30,252	9.50%	\$2,873.92	\$500.06	\$221.18	\$47,486.84