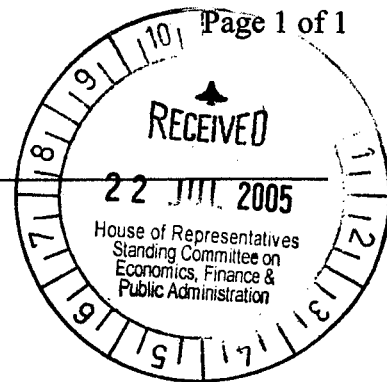
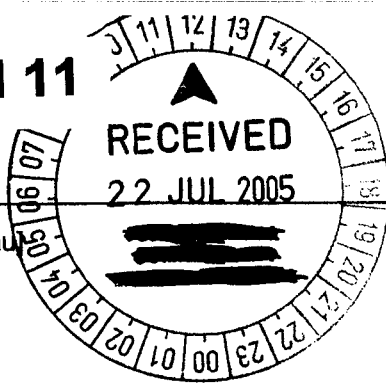


# SUBMISSION 11

**Bryant, Sharon (REPS)**

**From:** Ross Ellis [Ross@trustcorp.org.au]  
**Sent:** Friday, 22 July 2005 11:54 AM  
**To:** Committee, EFPA (REPS)  
**Subject:** SUPERANNUATION INQUIRY



Please find attached our submission to the Inquiry into Improving the Superannuation Savings of People Under Age 40.

Regards,  
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House of representatives Standing Committee on Economics, Finance and Public Administration
Submission No: <u>11</u>
Date Received: <u>22/7/05</u>
Secretary: <u>RS</u>



**SUBMISSION 11**

House of Representatives Standing Committee on  
Economics, Finance and Public Administration

Submission No: 11

Date Received: 22 / 7 / 05

Secretary: Sus

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# Trustee Corporations Association of Australia

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**Improving the  
Superannuation Savings  
of People Under Age 40**

**Submission to House of  
Representatives Standing  
Committee on Economics,  
Finance & Public Administration**

**July 2005**

## **Introduction**

The Trustee Corporations Association of Australia (TCA) is the peak representative body for the statutory trustee corporations industry in Australia.

The TCA's 16 members comprise all of the 8 Public Trustees and most of the private trustee corporations operating across the country (see attachment).

Trustee corporations, established and regulated under specific State and Territory legislation, have been prudently managing Australians' financial and personal affairs since the late 1800s.

Today, TCA members provide a comprehensive range of services, including estate planning and superannuation, to millions of individual, family, and corporate clients, involving almost \$330 billion of assets.

## **Executive summary**

The TCA strongly supports efforts to improve the superannuation savings of people under 40, as a level of financial resources over and above the Age Pension will be required in order to enjoy a reasonably comfortable standard of living in retirement.

We believe that increased superannuation savings (both compulsory and voluntary) is a key element in addressing the long-term consequences of an ageing population.

This submission does not address the broad issues of the taxation of superannuation, the adequacy of the superannuation guarantee arrangements, or choice / portability of superannuation, as we believe these areas will be covered by submissions from other industry bodies etc.

Rather, our focus is on:

- improving people's awareness of the importance of 'starting early' to build an adequate nest egg for retirement, and
- the merits of establishing appropriate superannuation arrangements as part of effective estate planning.

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## **Comments**

### **(a) Improving awareness**

We believe that greater awareness among younger people of the significant impact that 'starting early' will have on the adequacy of a person's ultimate retirement income is a key aspect of increasing the superannuation savings of the under 40 segment of the population.

Improving the level of financial literacy of the general public is a crucial first step in achieving that heightened awareness.

We are not suggesting that everyone can or should aim to become a financial expert. However, more people should be able to understand key financial concepts – such as the relationship between risk and return, the importance of diversification, and the power of compound interest – and know where to go for further information and assistance.

We therefore strongly support the Government's recent establishment of the Financial Literacy Foundation, with the aim of assisting Australians to make more informed financial decisions and better manage their money.

We believe that the nature and importance of superannuation should feature prominently in financial awareness programs.

Also, we would suggest that a vital element of the Foundation's efforts should be to encourage more attention being given at the school level to basic financial understanding, irrespective of the career path that a student may be following.

### **(b) Effective estate planning**

Giving early attention to appropriate superannuation arrangements should be part of a person's broader estate planning strategy.

An effective estate plan should encompass:

#### **(i) Preparation of a valid Will**

The preparation of a valid Will which clearly expresses the person's wishes in respect of their estate is an essential element of estate planning.

This important action should reflect careful consideration of several factors:

- o an appropriate person to be appointed to act as executor, having regard to the responsibilities involved in that role,

- the amount and nature of assets involved, eg type of investments held, including superannuation (see below),
- the personal situation of intended beneficiaries, eg children with special needs, and
- the merits of setting up a testamentary trust, particularly if minors are likely to survive the testator.

A person should regularly review their Will to assess whether it needs to be updated to take account of changed personal circumstances.

(ii) Merits of a Enduring Power of Attorney

Consideration also should be given to creating an enduring power of attorney, whereby an appropriate third party is appointed to make financial (and possibly other) decisions on behalf of a person if they become unable to manage their own affairs.

(iii) Most suitable superannuation arrangements

Options include:

- Retail / industry / corporate funds

These offer a range of superannuation products (such as annuities and allocated pensions), involve little or no personal administration and require only modest minimum balances.

- Self managed superannuation fund (SMSF)

This type of fund, also referred to as a 'do-it-yourself' (DIY) fund, must have less than 5 members, and all members must also be trustees of the fund, and therefore directly responsible for its proper operation and compliance with retirement income policy. These funds are overseen by the ATO (annual fee \$45).

While a SMSF may allow greater investment flexibility than some other funds, subject to complying with the underlying 'purpose' test, this option will not suit everyone. A certain minimum amount - generally put at about \$200,000 - is required to make a SMSF worthwhile. Also, the members / trustees must have the time and ability to properly operate the fund, monitor investments etc (certain functions, but not ultimate responsibility, can be outsourced).

o Small APRA Fund (SAF)

Many people choose to save for retirement using a SAF which, like an SMSF, must have less than 5 members. However, SAF members must appoint an Approved Trustee (ie a specialist corporation) to be responsible for the proper operation of the fund.

People opting for this approach avoid the responsibilities and administrative requirements associated with being a trustee, but are generally able to maintain a degree of control over investments, depending on the range of discretion offered by the Approved Trustee.

However, the level of the APRA supervisory levy applied to each SAF (\$500 in 2005/06) may discourage more people from choosing this 'better compliance' environment for their superannuation.

In our view, SAFs bear a disproportionate share of the cost of supervising the superannuation industry, given that APRA's focus in supervising SAFs is very much on the capabilities and performance of the Approved Trustees, and is less intensive than for other prudentially-regulated superannuation funds.

It is important to note that, while APRA has authorised about 40 Approved Trustees to manage the existing 8,000 or so SAFs, the great bulk of that business is handled by 3 corporations (which are members of the TCA).

When determining appropriate superannuation arrangements as part of an estate planning strategy, a person should consider making a Binding Death Nomination, to be lodged with the fund's trustees.

While completing a BDN is not compulsory, it removes uncertainty about who the member wishes to receive the benefit on death and minimises the likelihood of disputes.

The person(s) nominated by a member must be a dependant (or their Legal Personal Representative) at the time of the member's death.

A death benefit ETP within the deceased's Reasonable Benefits Limits (RBL) which is paid directly to dependants of the deceased is exempt from taxation. Any excess over the RBL is taxed at 47 per cent plus the Medicare Levy.

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# TRUSTEE CORPORATIONS ASSOCIATION OF AUSTRALIA

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The Trustee Corporations Association, formed in 1947, is the peak representative body for the trustee corporations industry in Australia. Its main objectives are to:

- represent and advance the interests of member statutory trustee corporations with government, regulators and the wider public,
- serve as a forum for discussion on matters of mutual interest to members,
- provide an education program and set professional standards for officers of statutory trustee corporations, and
- provide centralised services for members, including complaints handling and maintenance of industry data.

The Association represents 16 organisations, comprising all 8 Public Trust Offices and the great majority of the 10 private statutory trustee corporations.

The Association operates out of premises in Sydney. It is controlled by a National Council, which comprises the Chief Executive Officer of each member institution, and an Executive Committee, made up of a small group of those persons.

## Member products and services

In the 1870s, Governments first enacted legislation to extend the role of executor or administrator of a deceased estate, traditionally taken on by a natural person, to licensed trustee corporations. This was to benefit the public by providing greater expertise and resources than are available from an individual, together with perpetual succession to a client establishing a long-term trust.

Within the next decade, most of the trustee corporations now authorised under relevant State and Territory law were established. Today, trustee corporations provide a wide range of wealth management products and services to individual, family and corporate clients. These include:

- Traditional personal wealth management

### Wealth protection and transfer

- estate planning
- preparing wills
- executor of deceased estates
- trustee of personal trusts, including testamentary trusts
- administering client assets under Powers of Attorney

### Protecting vulnerable members of the community

- acting as financial manager or guardian, usually under Court order, for persons unable to look after their own affairs, including minors and the intellectually-disabled

### Administering charitable trusts and foundations

- including for medical research, galleries, museums, and education scholarships

- **Other personal business**
  - trustee or administrator for small superannuation funds
  - providing tax advice and preparing tax returns
  - financial planning
- **Funds management**
  - offering most types of unit trusts and common funds
- **Corporate activities**
  - registry operations
  - custodial services
  - trustee for debenture and convertible note issues
  - responsible entity services
  - securitisation facilities
  - compliance monitoring
  - trustee or administrator for retail superannuation funds

### **Industry statistics**

In aggregate, trustee corporations have about \$330 billion of assets under administration, and capital resources of about \$1 billion.

They employ almost 3,400 staff in over 80 offices located in all States and Territories of Australia.

Almost 2 million Australians have their wills recorded with trustee corporations.

Each year trustee corporations:

- write about 70,000 wills and powers of attorney
- administer about 11,000 deceased estates
- administer assets under agency arrangements or Court orders for about 45,000 people
- prepare about 50,000 tax returns

### **TCA Members**

- ANZ Executors & Trustee Company Ltd
- Australian Executor Trustees Ltd
- Equity Trustees Ltd
- National Australia Trustees Ltd
- Perpetual Trustees Australia Ltd
- Public Trustee for the ACT
- Public Trustee New South Wales
- Public Trustee for the Northern Territory
- The Public Trustee of Queensland
- Public Trustee South Australia
- The Public Trustee Tasmania
- Public Trustee Western Australia
- Sandhurst Trustees Ltd
- State Trustees Ltd
- Tasmanian Perpetual Trustees Ltd
- Trust Company of Australia Ltd