Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Supplementary Budget Estimates

21 – 22 October 2009

Question: sbt 24

Topic: Superannuation Fund Fees on Retrenchment

Hansard Page: Written

Senator EGGLESTON asked:

The impact of super switching fees on retrenchment workers particularly, came to the fore in March 2009 when there was a prospect of rising unemployment.

The issue was workers being adversely affected when most vulnerable with the imposition of additional fees upon expulsion from wholesale funds set up by their employers.

1. What was APRA's response to the then Minister Sherry's call for a report on how widespread the practice is?

2. When was it provided?

3. How has the government responded?

Answer:

1. In response to the Minister's request, the Australian Prudential Regulatory Authority (APRA) investigated the incidence of fee increases by superannuation funds that transfer employer-sponsored members to a different division of their fund upon cessation of employment.

   Funds transferring a member to a different division notify the member of any changes to fees and insurance premiums. The member can contact their fund to discuss the issue or change to another fund.

   To investigate this issue APRA forwarded a questionnaire to all public offer and extended public offer trustees, seeking responses on behalf of funds under their trusteeship. A small selection of non-public offer trustees of corporate funds were also included. The questionnaire was issued to 103 trustees and 279 funds.

   The following key observations emerged from APRA's analysis:

- Approximately 363,630 members were reported to have been automatically transferred from the corporate division to the personal division since 1 July 2008. Excluding any insurance costs, approximately 115,000 superannuation fund members experienced an increase in costs, and approximately 67,700 members experienced decreases in the fees applied to their account.

- There is no trend of increased fees for those members automatically switched from a corporate to personal division. Over half of all funds surveyed did not engage in the practice of automatically transferring members between divisions. Many of those members who were automatically transferred to a different division incurred the same or reduced fees.

- Forty-five per cent of the respondents reported having different divisions or membership categories for personal and corporate members and automatically switched affected members.

- Fifty-two funds (18 per cent of those forwarded the questionnaire) reported increases in fees upon transfer when insurance premiums were included. Excluding insurance premiums, only 43 funds (15 per cent of those forwarded the questionnaire) reported increases in fees upon transfer from the corporate to the personal division.

- Excluding insurance, 62 funds (52 per cent) reported no difference between their pricing in the corporate and personal division. 15 funds had lower costs in the personal division. Reasons cited for this included that the personal division was less complex than the corporate division (e.g. dormant members, no contribution charges).

- Excluding insurance, retail funds are most likely to have higher costs between divisions, and 98,900 members who have been automatically transferred from retail funds since 1 July 2008 are now experiencing significant increases in costs.

- Excluding insurance, it is evident that corporate funds often increase fees between divisions. On average, total costs increase by 39 per cent, or $108 per year. Feedback suggests this typically relates to employer negotiated discounts.

- Fee increases do not necessarily mean higher fees in absolute terms. Responses indicate that overall, the highest fees being incurred by members occur in funds where there is no increase between fees charged in the corporate and the personal division. Funds reporting the highest (top 10) fees for a $50,000 member balance, do not report any increases in fees for members upon their transfer to the personal division, but nonetheless, these members do incur total costs that are higher than other relevant respondents. Similar results are evident for a $500,000 member balance.

- The average cost (excluding any insurance costs) reported on a $50,000 balance across all fund sectors was $816 in the corporate division and $902 in the personal division. In contrast, the highest cost reported (exclusive of insurance costs) was $3,025 in the corporate division and $2,921 in the personal division.

- The average cost (excluding any insurance costs) reported on a $500,000 balance across all fund sectors was $6,788 in the corporate division and $7,596 in the personal division. In contrast, the highest cost reported (exclusive of insurance costs) in both the personal and corporate division was $22,362.

- Including insurance costs, there was an overall increase in fees of 9 per cent. This generally reflects the fact that 40 per cent of funds remove or reduce the insurance benefit upon transfer.

- APRA requested copies of any correspondence provided to members at the point of transfer. Correspondence packs were received from 73 of the 120 relevant funds. APRA is liaising with the Australian Securities and Investments Commission (ASIC) in relation to disclosure and will continue its analysis of the correspondence received in conjunction with ASIC.

2. APRA provided their report to the former Minister for Superannuation and Corporate Law, Senator the Hon Nick Sherry on 29 May 2009.

3. The issue is being considered by the Super System Review in its paper, *Phase two: operation and efficiency*, released on 16 October 2009. The review will be providing preliminary recommendations in regard to operation and efficiency issues to the Government in March-April 2010. The review's final report is due to the Government by 30 June 2010.