Committee Secretary
Parliamentary Joint Committee on Corporations and Financial Services
Department of the Senate
PO Box 6100
Parliament House
Canberra ACT 2600

16 August 2006

By email: corporations.joint@aph.gov.au

Dear Sir/Madam

I am writing to make a submission to the Committee's inquiry into the structure and operation of the *Superannuation Industry (Supervision) Act 1993* and the superannuation industry.

Term of Reference 7: The reasons for growth in self managed superannuation funds

This growth in self-managed super funds is a double-edged sword. While on the one hand it is encouraging that more Australians are choosing to take control of their superannuation investments, poor self-management practices and the high cost of compliance have considerable potential to erode superannuation returns. Put simply, many self-managed superannuants would be better off leaving their money in a professionally-managed retail or industry fund.

Self-managed superannuation funds are most suitable for investors with significant superannuation holdings and who have a reasonable degree of financial understanding.

While it would not be practically possible nor desirable to create an eligiblity requirement for self-managed super on the basis of financial literacy, it would not be impractical to impose a minimum asset vaue for the establishment of a self-managed super fund. While the creation of a mimimum investment requirement could never prevent people from making "unwise" decisions to go into self-managed super, it would prevent some of the more egregiously poor decisions to do so.

For these reasons, I submit that there should be a minimum investment of $150,000 required for the establishment of a self-managed superannuation fund – and that this figure should be indexed annually.

Term of Reference 11: Whether promotional advertising should be a cost to a fund and, therefore, to its members

This term of reference relates to the decision by industry funds to advertise the benefits of those funds following the implementation of superannuation choice legislation.

Industry funds should continue to be entitled to promote the benefits of industry fund membership. In my view, industry funds have both a right and a responsibility to promote the benefits of their lower-fee model both to retain existing members and recruit new members. If industry funds were not permitted to do so, it would place them at a serious disadvantage to retail funds which are advertised liberally and without restriction.

Whether or not advertising represents a cost to the “members” of a fund is a moot point.

Retail fund managers earn significant management fees from their funds under management. These management fees represent a cost to the members of the fund. Those fees contribute to the revenue of the retail fund manager, from which the fund manager pays expenses – including advertising and promotional expenses.

There is an old saying: “If you don’t know who’s paying for something, it’s probably you.” Whether you are a member of an industry fund or a retail fund, one way or the other, you are paying for the advertising and promotion of that fund. Industry fund members pay for it directly; retail fund members pay for it through higher management fees.

For these reasons, I submit that industry funds should continue to be entitled to pay for promotional and advertising expenses from members’ funds. To not allow them to do so would ultimately lead to the long-term decline of industry funds, which year in and year out have demonstrated both excellent value and highly competitive returns to their members.

Term of Reference 15: Any other relevant matter

In my view, there is scope for improved transparency in relation to the value of investments held in some accumuation funds. For example, AGEST does not provide members with the facility to obtain daily updates on the value of their investment. Instead, it publishes on its website the monthly returns for each of its investment options and credits investment earnings to members’ superannuation balances at the end of every financial year.

It would be preferable from a transparency point of view for funds to make available updates on balances of accumulation funds on at least a weekly basis. Doing so would also reduce the incidence of disputes in relation to value of investment should a member wish to exit.

Thank you for the opportunity to make this submission.

Yours sincerely,
Andrew Dempster