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

Dear Sir/Madam

Please accept this as my submission to the Committee.

I am a self funded retiree who qualified as an accountant and spent twenty-five years of my working life as a Managing Director and Chief Executive Officer of publicly listed companies. As a result, I believe that I have the experience and skills to manage a personal superannuation fund and comment to your inquiry.

My wife and I have had a self managed superannuation fund for a number of years which has been successful and is now paying annuities to both of us.

I note the following points from your terms of reference:

Item 1 "Whether uniform capital requirements should apply to trustees".

The suggestion of uniform capital requirements seems to imply that there is to be a move towards corporate trustees remunerated out of the fund. This would certainly be strongly resisted by private superannuation funds where member trustee generally carry out the duties free of charge. It is unlikely to be any more welcome in relation to company funds where a board of trustees, including employee members, generally carries out those duties. All trustees must act in the interest of their members and they would normally decide what level of outside advice they require. Fees in favour of mandatory corporate trustees are hardly in line with this principle.

Item 2 "Whether all trustees should be required to be public companies".

The trustee of our fund is a private company with all fund members as directors. It is arranged in this way for administrative simplicity in relation to documentation and bank accounts, thus reducing paperwork in the event of a member joining or leaving the scheme.

Our self managed fund includes my wife and I together with our son who transferred his rollover funds in to avoid the very significant fees charged by the large managers. He is very satisfied with the returns achieved to date and the low accounting/auditing fee involved which was less than 0.1% of the funds under management last year. This compares very favorably with the large managers whose fee structure is initially often far from transparent.
Public Companies tend to have expensive offices with even more expensive people and overheads, all of which is paid for out of the pockets of those saving for retirement or already retired.
I trust that you will take this into account and the many people with self managed funds, who are doing a good job of looking after themselves under the current arrangements. They, like us, will no doubt wish to continue to manage their own affairs without the aid of expensive industry managers or trustees who wish to get their hands on a percentage of this vast national pool of funds.

In regard to larger company funds with a thousand members or more, it was my experience that a board of trustees including members of the fund did an excellent job of supervising their own retirement funds.

Item 4 "The role of advice in superannuation".

Depending on the skills available amongst the trustees, funds will draw on advice of some sort such as accounting, actuarial and investment, to a greater or lesser degree. We are fortunate to have a good range of skills amongst our trustees including a Chartered Accountant, a Senior Manager of one of the big four banks with degrees in property and finance and myself, trained as an accountant, with many years of experience in senior management. In addition we have access to industry research and the general and specialist media.

We have not found the advice of Financial Planners very useful and certainly not cost effective. It is difficult to see how they can provide independent guidance when they are remunerated through commissions on the financial products they are advising the fund to invest in.

Item 7 "The reasons for the growth in self managed superannuation funds."

The self managed fund allows member trustees to take advantage of the significant tax concessions in both the accumulation and annuity phase of the fund. At the same time by investing directly in shares, property etc., fees charged by fund managers are avoided. This can provide a substantial improvement to the final value of the fund.

Self managed funds are more flexible and able to change between asset classes quickly and at little cost as economic conditions change. The sums are small in relation to the market as a whole and the purchase and sale does not have an impact on the market price.

Big funds may find this difficult due to large sales and purchases moving the market price. As a result they may prefer to merely redirect new funds coming into their control rather than sell large existing holdings.

Self managed funds are able to sell investments on which they have made significant capital gains with only a 15% tax charge at worst. Investments held in individual names may attract up to 46.5% tax including the Medicare levy, often making the sale and transfer of the funds to an otherwise better investment, uneconomic.

Item 8 "The demise of defined benefit funds and the use of the accumulation funds as the industry standard fund".

I had experience with defined benefit funds over many years of my working life. They were often funded by the employee contributing 5% of salary and the company contributing the balance, say 10%. They were excellent for a person on a career path who may expect to be promoted and receive above average increases in earnings. This was particularly the case when earnings rose sharply towards the end of a career. In this case the benefits could be expected to be at a level requiring more than the average total contribution of 15%.
In the case of someone who was employed in the same earnings bracket throughout their working life their retirement benefit could be expected to be at a level requiring less than the average contribution of 15%. In other words the average person was not receiving the same proportion of the contributions as the high flyers in this type of fund.
For this reason when superannuation became more widespread and there was greater community interest, defined benefit funds became hard to "sell" to the average worker and union, due to a perceived lack of equity between members.

They required more actuarial work, some aspects were hard for the average person to understand, and were more costly in relation to administration.

From the employer point of view the move towards accumulation funds transferred the risk in the final retirement sum from the employer to the employee as there is no defined benefit only a defined contribution.

The introduction of tax on superannuation contributions and income had an immediate upward impact on the level of contributions required to fund the established level of benefit promised, making it less attractive to the employer.

The accumulation fund has simplicity on its side, stands up to close scrutiny, has a fixed percentage of contribution and passes the fairness test.

Item 9 "Cost of compliance".

These costs are reasonable for a fund of our size but soon become significant for smaller funds.

The requirement for actuarial certificates is unnecessary. Our first certificate cost in excess of $1200 for no more than fifteen minutes work and was only valid for one year. Our accountant has now found a more reasonable provider but if this is to be a continuing requirement then a ATO web site should be set up to remove the professional actuaries from the loop.
For our fund all that is required to ascertain the maximum and minimum annuity each year, is a set of approved tables, your age, gender and the amount in your fund. Hardly a difficult task and one well suited to an official web site where a printout could be taken for your records and to confirm to the Tax Department that the correct amounts are being drawn.

The current requirements for audit certificates are not unreasonable but should not be made more onerous for self managed funds as these costs quickly become significant when further professionals are involved and you are hardly likely to defraud yourself.

There is one area which slows up the lodgment of tax returns and that is the treatment of listed trusts. All tax payers are required to accrue distributions up to the 30th of June each year even though they are not received until as late as September of the following tax year. While this is no doubt technically correct it delays the completion of tax information until the last data is received in September by which time the accounting profession is buried in tax returns and you are unlikely to get your accounts, audit certificate and tax return prepared before February.
All this could be avoided by allowing trust distributions received after the year end to be included in the following years return. It would have little effect on Government Revenue as the quarterly activity statements would pick up the tax at least as quickly as the current system. It would not effect the calculation of the value of members total assets at year end as the value of the listed trust units at year end includes the distribution yet to be made.

Conclusion

The main thrust of my submission is to keep DIY regulation as simple as possible so that the self managed fund is cost effective and accessible for people who feel able to manage their own affairs.
There is an existing system to take care of those people who are not equipped to handle their own fund and feel that industry management is advisable and cost effective.
I do not believe that there is any case for the introduction of industry wide mandatory corporate trustees or managers.

I trust this is of interest to your inquiry and that you will take my remarks into consideration. If there is any area where you require clarification of my comments please do not hesitate to contact me.

Yours faithfully

Howard Grant