



**The Institute of  
Chartered Accountants  
in Australia**

25 July 2003

The Secretary  
Senate Select Committee on Superannuation  
Parliament House  
Canberra ACT 2600

Dear Stephen,

**RE: Inquiry into Portability of Superannuation**

This submission is made by The Institute of Chartered Accountants in Australia ("The Institute"). The Institute is one of Australia's peak professional bodies and our members represent many of Australia's peak business and finance professionals. These members act as advisors and key decision-makers in all facets of the superannuation industry.

The submission below represents the views of the Institute and has been prepared based on input from a variety of members in their capacity as trustees, service providers and fund members of funds of all sizes.

**A. The extent of which portability of superannuation benefits already exists.**

Portability currently exists where a person:

- changes employment;
- receives a benefit due to a split arising from a divorce / separation; and
- is a member of a retail product.

Restrictions may occur where the person is employed in a particular industry which is covered by an award which dictates the fund to which an employer must contribute. In these instances the member must have left the industry for a particular time before portability is allowed. This is a trust deed restriction.

Restrictions may also occur where the person is a member of an unfunded defined benefit fund. This is a trust deed / legislation restriction as is the case with some public sector schemes. This restriction is not overcome by the proposed regulations.

**B. The role of current and likely future, barriers to portability including exit fees.**

The introduction of the proposed portability legislation is likely to see the development of a new generation of products which have lower entry fees and recoup the start up costs in other ways. The impact on exit fees is unclear as these have proven to be an effective way of making money stay within a fund, and therefore some providers may wish to continue these practices.

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The legislation will not change existing arrangements which are subject to contracts written prior to the introduction of this legislation.

The aim of portability is to reduce the number of accounts per member. Arguably, the existing portability rules already address this need. One of the key impediments is a lack of understanding by some members that accounts can be consolidated and how this can occur. This is best addressed by education. Education should cover the merits of consolidation and how to consolidate. For example:

- Investors/ members may not be aware they are not insured automatically on joining a new fund and that this is linked to the receipt of ongoing contributions. Insurance costs need to be looked at carefully as it is likely that any increase in portability will increase insurance costs for some members.
- Investors/ members need to be aware of the costs of transferring their superannuation entitlements not only in regard to exit and entry fees involved, but also in the timing of transferring/ realising investments as there may be a lost opportunity if a member is not fully invested during any transaction period.

In general terms we are extremely concerned that increased portability will cause more problems and costs to members than it solves. We are particularly concerned about insurance benefits, coverage and costs.

**C. The desirability and practicality of the portability regime contained in the draft regulations, particularly in the context of the existing structures of the superannuation and financial planning industries.**

The legislative changes proposed envisage portability as a stand alone option. We are concerned that portability without choice will lead to a pseudo-choice mechanism. This will occur as members choose to transfer accrued benefits frequently while the employer continues to make contributions to the existing fund. Multiple exits such as this will increase administration costs for ongoing members of the fund.

We recommend that portability and choice being treated as a package of measures.

**D. Additional consumer protection measures**

As noted earlier in this submission the introduction of these regulations should be accompanied by education.

**Specific comments on the regulations.**

In our opinion, the draft regulation meets the objectives identified by the government in regards to this measure. However, we note that the proposed SIS regulation 6.30(2)(d) should be amended to take into consideration commutations in accordance with regulation 1.05 of SIS.

Should you wish to discuss this further please do not hesitate to contact me on (02) 9322 7676 or Susan Orchard on (03) 9502 4371.

Yours sincerely



**Richard Rassi**  
**Chairman – National Superannuation Taskforce**