

Update on the Henry and Cooper Reviews

There seems to be an abundance of changes undergoing consultative processes and high powered reviews by the Federal Government. Two such reviews are the Henry Tax Review on Australian tax reform and the Cooper Review, which is examining the financial services industry.

The latest round on the Henry Review looks likely to be an election grabber, with the Federal Government proposing a 10 year tax reform program. In terms of super, the talk around town is that its concessional status favours higher income earners and that tighter limitations are required so that more of the tax perks filter down to lower income earners. However, with the final report due in December, we'll have to wait and see what else is proposed.

In terms of the Cooper Review, Phase 2 – Operation and Efficiency, is well underway. This phase is seeking comments on various topics including technology, default funds, regulation, inactive accounts, participants (eg members, employers, fund managers), costs and miscellaneous topics such as death benefits and the sole purpose test. Submissions are due 14 December 2009 and we'll report some of the industry feedback when they're released.

New APRA performance ranking data

APRA has been busy doing the right things in the past few months. The latest effort by the regulator relates to a new working paper, "Investment Performance Ranking of Superannuation Firms".

The objective of the paper is to help investors make more informed decisions when selecting their super fund in a new and more reliable way. The approach the two APRA researchers have adopted is certainly new. Whether it's reliable or not remains to be seen.

The paper examines performance from a member's point of view, but from a more technical standpoint, by reviewing different methodologies for assessing fund performance and risk. However, instead of comparing individual funds or portfolios, they compare the performance of the investment management company or their portfolios. In short, the focus is on the effectiveness and governance of the organisation rather than the individual fund.

The data used by the two researchers to compile their rankings is the quarterly asset allocation of the super fund, which they conclude is a major driver of investment performance. Their review also proposes the development of a new measure – Risk Adjusted Value Added (RAVA).

The paper makes for an interesting read, even though the views and conclusions expressed in it, are only those of the two researchers and not APRA's. If you're interested in the paper, you can download it at www.apra.gov.au

FPA formalises "no-commission" policy

After considerable review with the financial advisory industry, the Financial Planning Association (FPA) has formalised a change in their adviser remuneration policy.

The decision advocates the move away from commission-based fees to direct fees and only affects FPA members. However, the FPA is urging the entire financial services industry to also adopt this standard.

Absent from their new policy are risk products and corporate super products, for which the FPA has established working groups. The working groups have until next year to determine appropriate remuneration principles for these significant areas of the marketplace.

While the FPA reasons that this move will offer clients more transparency, many financial advisers are up in arms over the decision, referring to the already implemented disclosure regulations. When ASIC introduced disclosure several years ago, advisers were required to provide clients with a Statement of Advice, prior to the provision of client advice, which clearly details their remuneration.

FPA members will be required to transition away from commission-based remuneration by 2012.

Employer subsidised fees and premiums

Employers continue to battle the retainership of valued employees, with the stakes continually rising. It's no longer good enough to provide access to onsite or discounted gym facilities, movie tickets, flexi-days or time off in lieu.

As an increasing number of employers realise the rising star of super as a real employee benefit, the trend for medium to large-sized companies is to subsidise fees and/or insurance premiums. While this can be a significant overhead for employers, it's not always a cost that's set in stone as to how it's expended. A lot depends upon how the benefit is organised and this is where AXIS can assist.

For example, AXIS has established contracts where, for an annual fee, we ensure an insurance platform is implemented relevant to the client's needs. This not only involves the review of the marketplace and implementation of the insurance, it also extends to the communications to the employees, applicable premium re-negotiation, automatic acceptance, claims and salary reviews. Relevant milestones are agreed upon between the employer and AXIS, which ensures the process continues to be a significant value add and an overall satisfying result.

Above all, AXIS remains focused on being flexible to our clients' needs. Naturally, we operate according to best practice in every instance. However, the options available to clients are usually customised to what works best for their organisation and employee needs.

Terminal illness claims

On the topic of insurance, it's important to remember the difference between making a claim for disablement such as total and permanent disablement and claiming for terminal illness.

The latter is basically an untaxed death benefit which is paid to the terminally ill individual to assist with medical care. It is, therefore, managed differently to a death or disablement claim, which is paid following the individual's death or disablement.

If you need to make a claim, it's extremely **important that you contact AXIS first**. We have a small, dedicated claims department, which means the individual will always be dealing with the same administrator and adviser. Our team has a great deal of experience in claims management and can liaise with the insurer on behalf of the individual, thereby relieving any undue stress on the part of the claimant.

ASIC provides class order relief on projections

To assist Australians better prepare for their retirement, ASIC is encouraging super funds to include retirement projections with their member statements. ASIC believes that providing projection tools and calculators will incentivise Australians to engage with their super and take steps to improve their retirement savings.

To protect super funds from the licensing provisions, ASIC is proposing to give class order relief from the Corporations Act. The relief will also be extended to trustees authorised to provide personal advice under the disclosure requirements.

According to ASFA and other industry participants, it's unlikely many funds will apply for the relief. Instead, super funds are using ASIC's Consultation Paper 122, to provide the necessary guidelines as to what constitutes factual information and general and personal advice. A copy of the Consultation Paper and associated Regulatory Guide 200 can be found at www.asic.gov.au ASIC is seeking comments by 11 December 2009.

ATO employer letter on concessional caps

In our October SuperFocus, we mentioned that the ATO had engaged ASFA to assist them in the distribution of a letter to trustees reminding them of the new concessional caps for 2009/10. In recent weeks, the ATO has also issued an employer version of this letter for distribution to employees. If you're interested in viewing the letter, please contact us on super@axisfg.com.au to receive a copy.

However, as your servicing adviser, **we recommend that you contact us directly** if you have employees who may be impacted by the reduced concessional cap. We can identify whether the employee is likely to breach their limit and communicate with them directly. This will ensure they are aware of the new legislation and have any other queries answered personally.

References:

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- www.superreview.com.au
- www.asic.gov.au
- www.apra.gov.au
- www.superannuation.asn.au
- www.news.com.au
- www.theaustralian.com.au
- *evoTV Daily News, 27 October 2009*

www.axisfg.com.au

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