

Broaden your horizons and boost your pension?

It's often said that travel is a great way to broaden your horizons. However, few people realise that living overseas can provide more than precious Kodak moments. It can also provide financial assistance upon retirement. So, how is this possible?

Australia has bipartisan social security agreements with 25 (and counting) other countries. These countries include the US, Canada, Europe, Japan and New Zealand, to name just a few. Due to these agreements, if you or your spouse have lived or worked overseas or you have citizenship with one of these 25 countries, you may qualify for an Australian and a foreign pension. This includes the Age, Disability Support and Carer Payment pensions. In effect, as long as you've been covered by the relevant country's social security system, you're eligible to apply for a part pension.

The level of foreign pension you receive is income and assets tested and dependent on other factors. So, regardless of your duration overseas, it's worthwhile putting in a claim form with Centrelink, as it could supplement your own pension on retirement.

For more information about foreign pensions and to download a claim form, visit www.centrelink.gov.au From the home page, click on International, then Social Security Agreements.

New tax deductibility rates for TPD insurance

Just a reminder to super funds that the new rates for claiming a tax deduction on TPD insurance premiums kick in from 1 July 2011. The rates have been simplified as follows:

Policy type	Deductible portion of premium
Any occupation insurance	100%
Any occupation insurance with loss of limb add-on	90%
Own occupation insurance	60%
Own occupation insurance with loss of limb add-on	50%
Inability to perform activities of daily living insurance	60%
Inability to perform activities of daily living insurance with loss of limb add-on	50%

Use of the new percentages is optional. Therefore, you can still use an actuary to calculate your fund's deductions if you prefer. For more information about the new rates and to view the Government's Consultation Paper, visit www.treasury.gov.au/contentitem.asp?NavId=&ContentID=2072

TFN legislation now effective

Super funds can now offer more assistance to members wanting to merge their super, with the passing of the Tax Laws Amendment (2011 Measures No 2) Bill. The Bill amends the SIS Act to allow trustees of super funds to:

- use a member's TFN to find lost accounts – effective 1 July 2011; and
- to help in the consolidation of multiple accounts – effective 1 January 2012.

Members biggest losers under MySuper

The planned introduction of MySuper in 2013 continues to arouse heated debate. Notably, it seems to defy one of Stronger Super's main objectives – to offer a low cost, standardised default option or product. Added to this is the fact that super funds must act in the best interests of members. In other words, they can't make changes to the fund that would leave members worse off.

According to independent research firm, Chant West, that's what will happen under MySuper. In fact, about 750,000 members (ie 6% of the workforce) will be paying higher fees post MySuper than they are now. This research focuses on the retail master trust sector for corporate plans, which is likely to be impacted the most.

Master trusts have proven a highly popular choice among employers looking to outsource their employees' super. Employers can choose from an array of optional extras, while engaging professionals to manage their legislative obligations. An added bonus is that the larger your super fund's asset base, the greater your ability to negotiate lower fees. And, this is where the problem lies for many members.

Under MySuper, there will only be one uniform price, which automatically removes the price differential that larger plans can obtain for their members. Here's a snapshot of Chant West's analysis:

Employers can choose from an array of optional extras, while engaging professionals to manage their legislative obligations. An added bonus is that the larger your super fund's asset base, the greater your ability to negotiate lower fees. And, this is where the problem lies for many members.

Under MySuper, there will only be one uniform price, which automatically removes the price differential that larger plans can obtain for their members. The table below is a snapshot of Chant West's analysis:

As you can see, only members at the lowest end of the scale will be better off under MySuper. The majority will be penalised if the Government's proposals proceed as is.

From AXIS' point of view, these findings support our initial concerns – that a uniform pricing will do more harm than good. As a non-aligned financial adviser, we've saved our clients hundreds of thousands in member fees and insurance premiums, through our knowledge of the corporate super marketplace. In effect, our clients generally pay less than the market average.

Some of these savings are then directed by our clients to secure AXIS' comprehensive financial advisory services.

This is an area that recent research highlights is extremely important to Australia's retirement adequacy issues.

Our advisory services include regular onsite visits, personal wealth creation advice and tailored member information sessions. We strongly believe that for the MySuper product to be competitive with our clients' current offering, it requires review of the uniform pricing model.

Award Modernisation update

As the MySuper review continues, we thought it timely to provide an update on where the Award Modernisation process is currently at.

A summary of the process so far

In March 2008, the Government commenced its streamlining and modernisation of Australia's 4,300 awards. By 1 January 2010, Fair Work Australia – the industrial umpire for the Modernisation process – had reviewed over 1,500 awards and created 122 industry and occupation awards.

The modernisation of enterprise awards is next on the list, with applications to be lodged by 31 December 2013.

Corporate Super Fee Estimates Before and After MySuper			
Size of Plan	Fee Now (%)	Fee Post MySuper (%)	Better Off (Worse Off) (%)
Small / Medium Plans			
\$100,000	1.90	1.65	0.25
\$1 million	1.60	1.65	(0.05)
\$10 million	1.20	1.65	(0.45)
Weighted Average	1.40	1.65	(0.25)
Large Plans			
\$10 million	1.20	1.10	0.10
\$50 million	0.90	1.10	(0.20)
\$200 million	0.70	1.10	(0.40)
\$1 billion	0.60	1.10	(0.60)
Weighted Average	0.90	1.10	(0.20)

Source: Chant West, Multi-Manager Quarterly, March 2011.

Finally, award-based transitional instruments will be terminated as soon as practicable.

In response to the Cooper Review, the SG Act will be amended so that only a MySuper product/offering can be nominated as a default fund. This will apply to all employees covered by a modern award or enterprise agreement.

In 2012, Fair Work Australia will conduct a review to:

- determine whether modern awards are achieving their objective; and
- examine whether they are operating effectively.

The Government also indicated that it would ask the Productivity Commission to design a process for the selection of default funds in modern awards by 1 July 2013.

Fair Work Australia will review modern awards every four years, with the first review occurring in 2014.

AXIS' concerns

At the time the Awards Modernisation was announced, AXIS expressed its concerns with the process and its potential impact on members. Of significance, was the lack of apparent methodology for the selection of default funds within the new awards. In particular, we were astonished to learn that Fair Work Australia had rejected the idea of using fund performance as a basis for inclusion. As you can see from the above state of play, the design of a selection process is not due for commencement for two years!

This decision seems highly irresponsible when (1) long term performance is a critical factor in growing retirement savings and (2) sub-par performance of default funds was one of the main reasons for initiating the Modernisation process. Not surprisingly, our concerns

have become reality, prompting industry-wide criticism and a Government Inquiry slated for 2012.

Why the Inquiry?

The promised Inquiry has resulted from the successful application by the Australian Manufacturing Workers Union (AMWU) to add the MTAA Super Fund to six industrial awards. This is despite the Fund recording particularly poor performance in the past few years.

Furthermore, the massive sell-off of infrastructure assets to recoup losses, combined with a reduction in membership has hit the once successful super fund hard. It seems timely, then, that the Fund will now be the recipient of hundreds of thousands of member contributions.

Also causing speculation is the non-disclosure of the applicants. The two AMWU officials who made the application did not declare that they were both trustees of the MTAA Super Fund. This revelation has caused major backlash from industry with cries of conflicts of interest.

With the Government's fight for disclosure and its objectives for a stronger superannuation and financial advisory system, we can only assume that Fair Work Australia will have its work cut out for them. We'll keep you posted as developments occur.

References:

www.centrelink.gov.au

www.treasury.gov.au

www.superannuation.asn.au

The Australian Financial Review

www.axisfg.com.au

Feel free to contact your adviser with
any questions about this edition of Super Focus

Phone 08 9426 5800 Fax 08 9426 5850
Freecall 1800 111 299 Email advice@axisfg.com.au

