

## Employees notified of excess concessional contributions

With individuals now responsible for monitoring their contribution limits, the ATO recently wrote to those who had (apparently) exceeded the concessional cap for 2007/08. The communication was merely a notification, not an assessment, to ensure the new system was operating correctly.

However, under the heading, "I never saw that coming!", AXIS has discovered errors in over 50% of the member notifications. It appears that the administration systems and processes in place have not accurately tracked contribution amounts for many members. For this reason, we've been encouraging clients to carefully check the figures and not assume that they're correct.

Remember, any excess over the concessional contribution cap, which was \$50,000 pa in 2008/09, is subject to 31.5% tax. This money is automatically deducted from a member's account once the assessment is complete. Please feel free to call us, if your employees need assistance in determining the accuracy of a notification.

## Award Modernisation update

As mentioned in a Special Edition of SuperFocus in May 2009 (which can be found on our website –[www.axisfg.com.au/members/publications and resources](http://www.axisfg.com.au/members/publications_and_resources)), the Award Modernisation process is well underway. The process is designed to modernise and consolidate the existing 4,000 plus industrial awards down to 70, with a 1 January 2010 implementation date.

A Full Bench of the Australian Industrial Relations Commission (AIRC) is managing the entire process. And, while Fair Work Australia – the new national workplace relations system – effectively replaced the AIRC on 1 July 2009, for the purposes of completing the Award Modernisation process, the AIRC will continue to run in conjunction with Fair Work Australia.

The new workplace relations system has resulted in the creation of three new bodies:

- Fair Work Australia (commenced 1 July 2009);
- Office of the Fair Work Ombudsman (commenced 1 July 2009); and
- Office of the Fair Work Building Industry Inspectorate (commencing from 1 February 2010).

For more information about Fair Work Australia, visit [www.fwa.gov.au](http://www.fwa.gov.au) You'll find a wealth of information regarding legislation, industrial action, dispute resolution and much more.

The Award Modernisation process has been divided into four stages. At the time of writing, the final decisions relating to Stage 2 had been concluded, as had the final consultations for the exposure drafts of Stage 3. The final date for making Stage 3 and Stage 4 awards are slated for 4 September 2009 and 4 December 2009, respectively. We'll keep you posted as to developments as they arise.

For detailed information about Award Modernisation, including a list of the consolidated awards visit [www.airc.gov.au/awardmod](http://www.airc.gov.au/awardmod) You can even receive email alerts about award modernisation by subscribing to the AIRC's **eSubs** service.

## Super losses impact workforce management

As an employer-sponsored benefit, superannuation was introduced to help everyone better prepare for their retirement. However, as it only became compulsory in 1992, many older people are not as financially ready as they might have been.

In economic terms, superannuation was introduced towards the end of the last recession. The only other period of negative growth before this current downturn occurred between 2001 and early 2003. The "Great Recession", as the current financial crisis is now known, has seen many people's account balances severely dented. However, the hardest hit has been pre-retirees and retirees. Reduced balances have seen many pre-retirees forced to delay their retirement and some retirees re-entering the workforce. One of the questions often asked by pre-retirees is, "How long will it take to get back to where I was financially?"

Records for this year's returns show that balanced or default investment portfolios within all superannuation products have ranged from -7.6% to -17.8%. Industry funds have been on record as outperforming master trusts. According to Chant West, an independent research house, this could be attributed to industry funds' greater exposure to alternative assets, such as direct property and infrastructure, which succumbed less to price falls.

Events such as this ultimately affect planning around an employer's workforce, including the issue of how you allow for the transfer of intellectual property from the departing employee to another younger employee who has many years of work remaining.

In terms of managing your workforce, the movement in investment markets is another variable of potential employee exits into retirement. With the increase in retirement age to 67, this will only further complicate employer versus employee planning.

### Unlisted assets come undone

Most super funds have experienced major falls in performance for the 2008/09 year, due to share market losses resulting from international events. However, spare a thought for members in super funds with high exposure to unlisted property and unlisted infrastructure.

While both of these sectors, totalling over \$130 billion, succumbed less to market volatility relative to their listed counterparts last year, forecasts for the 2009/10 year aren't pretty. With the super industry managing over \$1 trillion in retirement money, the predicted downturn in performance of these assets could potentially translate into billions of dollars lost.

The major problem with unlisted assets is that they are overvalued and highly illiquid, with large amounts of debt. We're all aware of the debt refinancing issues that have hit listed assets – and those are assets considered to be extremely transparent, generally liquid with well-funded balance sheets.

In a survey to 24 super funds and consultants, JP Morgan assessed the attitudes to valuations, debt and liquidity. The report concluded that a major crisis of confidence would hit the unlisted wholesale property sector this year, with the average respondent expecting a 26% drop in capital values from its December 2007 peak.

As a result of the forecast downturn within the financial services industry of these assets, a "secondary" market has been created to offload unlisted property and infrastructure assets. It's been reported that some super funds have asked their asset consultants to sell their exposures at a 20% discount on the secondary market. Perhaps even more worrying, is the report that some unlisted funds have asked asset consultants to find a buyer for their assets, also at a 20% discount.

With industry funds and retail master trusts holding the highest exposure of unlisted assets, many members will potentially be impacted if the forecasts become reality. If you have a super fund with exposure to these assets, please contact us as soon as possible, to obtain appropriate financial advice.

### Super tenders, super savings

AXIS Financial Group has managed a number of superannuation tenders during the past twelve months. While some have been solely for group insurance policies, others have been for an entire corporate plan. In one tender, the aim was to amalgamate seven separate corporate plans into one. As part of this project, we adopted the view that any employee previously exercising choice might also wish to again consider joining a newly established corporate default plan.

As with any supplier, tendering for superannuation providers should be run regularly, to ensure that the employer-sponsored benefit presents the best combination of price, investment choice and administration for all employees. The results in terms of reduced fees and also the provision of additional benefits can be astounding and highly beneficial for employers and employees.

In one instance where an employer was paying insurance premiums for a workforce of 1,000 plus, AXIS obtained a reduction in annual premiums of 16% with a three year rate guarantee. This resulted in a significant six-figure saving for the employer.

For another large employer, where the intention was to amalgamate a number of corporate default funds, AXIS helped to save employees \$300,000 in fees and even more in insurance premiums.

When you discover situations where companies or individuals are paying numerous and outwardly high fees, without sometimes receiving the services they're paying for, it's worthwhile reviewing what can be done. With super, the adage of "the bigger, the better" is especially relevant, with price competitiveness currently very strong.

### Fixing the wrong problem

Anyone in business for more than a year understands the phrase, "if it ain't broke, don't fix it". When it comes to political opinion, sometimes it seems everything is broken and needs to be changed.

Media reports reflecting political opinion about the activity of financial planners over the past few years would imply the whole profession should be castigated and many jailed. The accusation seems to be that financial planners have all behaved like Storm Financial or are driven to earn excessive commissions by investing clients' money unwisely in managed investment schemes, such as TimberCorp and Great Southern.

An alternative point of view expressed by the same politicians is that the Australian financial system is the envy of the world, which seems slightly contradictory of other comments!

So what has been achieved since the introduction of compulsory superannuation in 1992:

- Australians have accumulated over \$1 trillion in assets, with expectations that this will continue to increase.
- Financial services companies, including banks, have created and even aggressively developed new financial products, enhancing everyone's access to investment markets on a worldwide scale.
- Investors are now more sophisticated in judging the relative merits of different superannuation products, service offerings and also investment strategies.
- The market is highly regulated and broadly well controlled. As part of their super wealth creation strategy, many Australians choose a financial adviser based upon benefits delivered and are in regular contact with them.
- Successive Federal Governments have made superannuation more attractive for everyone, particularly from a tax point of view.

The Federal Government initiative of compulsory super and all-of-industries' response to this initiative as an employer-sponsored benefit are to be applauded. The control systems put in place to record contributions, integrate with the ATO

and provide access to global investment markets is all part of the achievement. To again quote the politicians, "Australian financial systems are the envy of the world and have enabled us to ride the current recession better than most".

### The new age – working until 67

In the 2009 Federal Budget, the Government announced a gradual age increase to 67 years for accessing the Age Pension. While this presents many positives, one potential headache for corporate Australia is the additional cost of managing their workforce through to retirement until age 67.

Some employer and employee groups have already spoken out against such a move for particular segments of the Australian workforce. Specifically, commentators are saying that this progressive increase in retirement age will impact workers' compensation claims – particularly where there is a significant manual component involved in duties. Others are saying that employers will have to consider the physical requirements of any job and then evaluate if an employee can actually meet that requirement.

This change may also result in a review of policy conditions by insurers and a consequent impact on premiums. Thinking about it logically, any change to retirement age will be assessed first by product designers. Actuaries will then recalculate the probability of a claim, which is likely to have a knock-on effect on premium rates.

As the change is not slated to commence until July 2017, including a staggered introduction of plus six months for every two years from then, it may be some time before the consequences of this change become apparent.

#### References used in compiling this document:

- Unlisted sector risky as listed, without rights fixes, 29 July 2009, [www.theaustralian.news.com.au](http://www.theaustralian.news.com.au)
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- [www.fwa.gov.au](http://www.fwa.gov.au)

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Feel free to contact your adviser with any questions about this bulletin

T: 08 9426 5800 F: 08 9426 5850  
 Freecall: 1800 111 299 E: [mail@axisfg.com.au](mailto:mail@axisfg.com.au)

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