

SuperFocus is our monthly employer update on changes within super and how they might impact your company and employees.



SuperFocus

Australian Financial Services Licence 233680
ABN 21 092 889 579

Level 11 London House 216 St Georges Tce Perth WA 6000 PO Box 7259 Cloisters Square Perth WA 6850
Tel: 08 9426 5800 Fax: 08 9426 5850 Freecall: 1800 111 299 Email: mail@axisfg.com.au Web site: www.axisfg.com.au

AXIS SuperFocus - November 2008

Governments unite to combat world recession

When the US is in strife, don't we all pay the price? The cataclysmic fallout from the sub-prime debacle, credit crunch crisis and slowing US economy has prompted united action from world governments fearful of global recession.

At the November Group of 20 (G20) meeting, governments agreed to cut interest rates and increase spending, as part of a six point plan to restore financial stability and support economic growth.

Forecasts are fairly dismal, with the International Monetary Fund predicting economic contraction by the UK, Japan and Europe next year – their first simultaneous recession since World War II. With slower growth dampening inflationary pressures, central banks in these countries and the US have already slashed interest rates.

However, not all countries are witnessing lower inflationary signs, with dramatic currency devaluations impacting the cost of imports. Countries such as Brazil and Mexico, with heavy currency depreciation, are having to closely monitor economic development to ensure swift action is taken as soon as is viable and necessary.

China remains a key player in the cushioning of world recession, accounting for 27% of global economic growth last year. In efforts to assist, China has proposed a \$US 586 billion stimulus package aimed at low-rent housing, rural infrastructure, roads, railways and airports. If China can maintain domestic demand, it will go some way to restoring global stability.

Retirees hit by market downturn

While a lot of people are feeling the pinch at the moment with the recent market downturn, Australian retirees are arguably feeling the squeeze a bit more than most.

Negative returns have eaten into many retirees' super savings, forcing them to seek additional financial assistance to maintain their lifestyle. In addition to this, the latest Westpac/ASFA Retirement Standard reveals that the cost for a couple living "comfortably" in retirement rose for the June quarter. Costs rose by 1.2% from the March quarter, meaning that a comfortable retirement would currently mean spending \$50,086 pa.

The main cause of rising costs were transportation (due to increased petrol prices), health services, food and recreation, which are the major areas of expense for retirees.

While some have applied for the Government Age Pension or a part pension, others have sought employment to help supplement their savings. One recruitment firm believes this may be the start of a trend, citing a number of retirees job hunting to cushion the blow on their nest eggs.

The Government has commented that the impact of the share market downturn on retirees' savings will be addressed in the 2009 Federal Budget. Let's hope our retirees can hold out another five months!

Eeny, meeny, miney...no

What is it about choice? If we don't have it, we want it. When we're given it, we don't use it. Or so it seems, according to Industry Super Network (ISN), a professional body representing industry super funds.

ISN recently criticised the outgoing Howard Government's super reforms, claiming that many were ineffective and that financial advisory fees and commissions were reducing fund returns.

ISN reports that nine out of ten people who have Super Choice don't use it. In fact, less than 4% of people actively choose their fund and this is mostly due to a job change. ISN states that the issue lies in the fact that members remain disengaged from their super due to their age, personal circumstances and low account balances.

On top of this, ISN calculates that more than \$1 billion is paid to advisers in commissions on compulsory super contributions, purely because members don't exercise their choice and remain in the default fund.

As a protective solution for members not making a choice, ISN proposes a "safety net", whereby:

- the default fund would have a cap on fees;
- include a clearing house facility;
- would not be subject to advisory fees; and
- would be unable to switch a member out of the default into a more expensive retail option should the member leave the employer.



Temporary residents – legislation gets go-ahead

In our October SuperFocus, we mentioned the positive changes to the super proposals for temporary residents departing Australia.

Since that issue, the Senate Standing Committee on Economics has recommended that the Senate pass the two Bills – *Temporary Residents Superannuation Legislation Amendment Bill 2008* and the *Superannuation (Departing Australia Superannuation Payments Tax) Amendment Bill 2008*, with systems capability for administering this change slated for 30 April 2009.

With only five short months for funds to communicate these changes to members and implement systems upgrades, ASFA has lobbied hard for the date to be deferred, with no success.

Funds with significant numbers of temporary resident employees who may be leaving next year, need to prepare for large outgoing payments when the first payment is due with the Australian Taxation Office. It's also important to communicate to members that their super could be taxed up to 35% for any taxable component and up to 45% for any untaxed component. We'll keep you posted as and when updates are to hand.

Baby boomers ill-prepared for retirement

A survey by Fujitsu Consulting of 6,000 Australians aged between 45 and 64 has found that most baby boomers are unprepared for the financial demands in retirement. Given the current state of the share market, it's little surprise that 87% of respondents claimed they were more worried about their super now than this time last year – particularly given that 69% believe their super will be their main source of income.

However, 57% had no private health insurance, mostly due to this being viewed as too expensive, as well as the Medicare changes legislated in the 2008 Budget.

According to Fujitsu Managing Director, Martin North, of the 5.6 million Australians falling into the 45 – 65 age bracket, less than one million have a "secure future in terms of their superannuation and their health funding."

With declining membership of private health funds expected to continue on the back of the Government's changes to Medicare, there are likely to be significant effects on aged care providers. North advocates the need for clinicians, insurers, private and public hospital administrators and policy makers to unite to help deliver "next generation solutions".

Infrastructure a sound foundation for super funds?

Federal Infrastructure Minister, Anthony Albanese claims that Australians are keen to have their super invested in national building projects. The Minister recently met with numerous super fund heads to discuss investment options, against the backdrop of the current market downturn.

Mr Albanese says that while funds will ultimately decide what's best for their members, members want their money to be invested in infrastructure projects. He added that, infrastructure is a secure medium to long term investment, which makes a good fit for super funds. In addition, these companies provide a social dividend and an individual dividend to the member.

Award Modernisation update

Our October SuperFocus highlighted the Government's Award Modernisation process as part of their overhaul of super. In short, the process is designed to ensure that those employees covered by an award, but not exercising choice, have access to a default fund that is on par with industry standards. In many cases, the Government found that the existing default funds had consistently underperformed industry averages, leaving a huge dent in the final payouts for these employees.

The Australian Industrial Relations Commission (AIRC) has commenced the consolidation and modernisation process across both federal and state awards. In many cases, only one or two default funds have been proposed in each award. The entire process is scheduled to be complete by December 2009, with commencement of the new awards slated for 1 January 2010.

The AIRC has posted draft awards on its website (www.airc.gov.au) and has indicated that it is prepared to include a fund(s) in the new award, if there is agreement between the union and the employer. Any funds wishing to remain as the default should contact the employer and union organisations directly.

ASFA is currently seeking clarification on the status of the previous default fund that may not be named in the new award. Specifically, the extent that these funds can retain existing members and/or accept new members under default arrangements. We'll let you know the outcome as soon as it's confirmed.

If you have any questions regarding the information in this bulletin, please contact your adviser:

Telephone:	08 9426 5800
Fax:	08 9426 5850
Freecall:	1800 111 299
Email:	mail@axisfg.com.au

Disclaimer:

This information is intended to be of a general nature only and is based upon information believed to be reliable and received from sources within the market. No representation is given, warranty made or responsibility is taken as to the accuracy, timeliness or completeness of this information and AXIS Financial Group Pty Ltd will not be liable to the reader in contract tort (including for negligence) or otherwise for any loss or damage as a result to the reader relying on any such information (except in so far as statutory liability cannot be excluded).