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

AXIS FINANCIAL GROUP

SuperFocus

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AXIS SuperFocus - October 2008

Industry lobbying positive for temporary super changes

After much industry lobbying and outrage, the Rudd Government has back–flipped on its widely condemned proposals targeting super and temporary workers in Australia.

As at 30 June 2007, the amount of unclaimed super was a staggering $5.6 billion, with up to around 20% of this figure attributable to temporary residents. In an effort to resolve this problem, the Government proposed to divert all super earned by temporary residents on working class visa 457 annually to the ATO, without any interest, while the person lived in Australia. If the money was unclaimed within five years of the person's departure, their entire super would be forfeited.

Fortunately, harsh criticism by the industry, citing discrimination and inequity, has resulted in the following amendments:

- Contributions will continue to be paid to temporary residents' super funds and not direct to the ATO;
- Unclaimed super will only be transferred once the member has left the country and not annually; and
- Departed temporary residents will be able to claim back their super at any time and not be restricted to the five year rule.

The legislation is slated to become effective prior to year end.

New 3–in–1 financial complaints service

In an effort to streamline consumer financial complaints, the Government recently launched the new Financial Ombudsman Service in Melbourne.

The new one–stop–shop complaints service replaces the three biggest complaint schemes within the financial services – the Banking and Financial Ombudsman, the Insurance Ombudsman and the Financial Industry Complaints Service (FICS).

For the next two years, the new service will operate using the rules and procedures of the three redundant schemes, until a single set of rules is implemented in 2010. One of the main issues under consideration is an increase in the value of transactions that can be mediated by the new Ombudsman.

While the recent Productivity Commission Report on consumer laws conceded that monetary ceilings needed to be revised in a timely and co–ordinated way, not all industry participants agree. The Securities and Derivatives Industry Association argues that further increases could exacerbate problems in obtaining insurance cover and allow significant disputes to be settled outside of the courts at no cost to consumers.

An estimated 200,000 plus complaints and enquiries are expected this financial year, which will be channelled through one hotline number. Yikes!

Award default funds under scrutiny

With adequacy of retirement savings continuing to be a thorn in the Government's side, Superannuation Minister, Nick Sherry, has called for more appropriate selection criteria for default funds in industrial awards.

Despite the implementation of Super Choice, less than 15% of workers covered by industrial awards exercise their right. The upshot is that the majority have their contributions paid to a default fund that was chosen by their unions and employers potentially decades earlier.

Sherry argues that this is problematic since many of these default funds consistently underperform the industry average, effectively erasing close to $100,000 (16%) from a person's final payout. The Minister is pushing the Australian Industrial Relations Commission to use long term performance as the key selection indicator for an award default fund. This is likely to set a cat amongst the pigeons with retail funds, the biggest underperformers over the past year. We'll keep you updated on developments.

Early access to super at record highs

An increasing number of people have been forced to access their super early due to financial difficulties.

According to APRA, the number of claims it's approved on compassionate grounds has risen by a whopping 140% over the five years to 2007. This equates to 16,348 claims in 2007, up from 6,788 in 2002.

The main reason cited by more than 9,000 applicants was the inability to meet mortgage payments due to increased interest rates.

APRA approved $175.4 million for early release in 2007, up from $37.8 million in 2002. Astoundingly, an additional $30.4 million was released in 1Q08 alone, which equates to the total amount approved for the whole of 2001.

The worrying part of all this is the ongoing issue of retirement adequacy. With reliance on our social security system already onerous, these alarming figures only augment the problems faced by our Government and the industry.

SuperFocus

Super overhaul targets fees and costs

As part of a sweeping review of the operation, structure and cost of Australia's superannuation system, the Government is targeting commission–based advice and product distribution, with the aim to reduce fees and charges.

Superannuation Minister, Nick Sherry, is pushing for alternatives to commission–based remuneration for financial advisers. Integral to his argument is the conflict of interests that arise due to the distribution of financial products through dealer groups, which are usually owned by the same providers offering the products.

Comparing Australia's super system with that of the UK, Switzerland and Sweden, Sherry criticises our system as too expensive, with average annual running costs of about 1.25% pa of funds under management. Sherry is encouraging industry to move to costs of less than 1% pa. Other areas under scrutiny are dollar disclosure and fuller disclosure of product costs, an automatic consolidation system for lost super and reducing the cost of financial advice.

The overhaul will occur simultaneously with the Henry Tax Review, which is examining the adequacy of super and considering a lift in the SGC from 9% pa.

National control for consumer credit

In a move applauded by industry and consumer groups, the Federal Government has agreed to become the single regulator for all forms of consumer credit.

While the exact model of how this singular control will work is to be finalised over the coming year, the agreement is a coup by those lobbying for this simplification. The new model means that no individual state will be in charge of any aspect of financial services regulation. This is welcome news given the increasing inconsistency between state laws.

ASIC is expected to be given the reins as the new regulator.

SG calculation pushing up employer costs

Although its objective was one of standardisation, the new calculation for SG payments that kicked in on 1 July 2008, has caused major headaches for employers.

The new basis for SG calculation of using Ordinary Time Earnings has resulted in rises in employer costs, particularly in the mining, resources and agriculture sectors. For the first time, employers have had to factor in bonuses, commissions and other allowances in the calculation of their compulsory SG obligations.

While this has meant that thousands of employees have received higher super contributions, advisory firm, Mercer claims that the new legislation will result in an increase of about 10% in wages costs for employers. The question for employers is whether to absorb the extra costs or pass them on to their employees in the form of lower payouts.

A potential double whammy for employers is if the Henry Tax Review recommends an increase in compulsory SG Contributions to 15% pa.

Bubble bursts for infrastructure sector

The listed infrastructure sector is no longer the darling of the Australian sharemarket. Hit first by the global credit crisis and then rising oil prices, investors have sold out heavily, citing too much debt, overseas exposure and not enough transparency within the sector.

As the most geared sector in the world, it's likely that the short term outlook for the sector will be dominated by further asset sales, distribution cuts, equity raisings and a restructure overhaul. Concerns are at such fever pitch, that many investors are questioning whether some of the infrastructure funds should be privatised or broken up, rather than remaining on the Australian Stock Exchange.

In the year to June 2007, the infrastructure index, which lists about 20 infrastructure stocks, underperformed the S&P/ASX 200 Index by 20%. Considering the fragile state currently being experienced by the markets, any exposure to this sector is bound to have left numerous investors wincing. Lucky for investors that markets behave in cycles and infrastructure will no doubt again reach popular status in coming years.

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

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