

ASFA joins forces to launch new index

ASFA has had their hands full of late and not just with super-related issues. The professional body has been partly responsible for the development of a new, world-class Australian index.

In a landmark venture with global index company FTSE, the FTSE ASFA Australia Index Series was launched in early September after two years of market consultation. The new index is the first Australian index to provide super funds, retail and institutional investors with a standard industry after-tax benchmark.

Prior to its development, Australian equity benchmarks were calculated on a pre-tax basis. This often resulted in investment angst among super funds, as some decisions were attractive on a pre-tax basis, but not on an after-tax basis. With the new benchmarks, investors can now obtain a much clearer picture of performance than ever before.

The four new benchmarks in the series cater for all levels of investors by varying the tax rates for:

- Tax exempt investors;
- Super funds;
- Mid tax bracket investors; and
- High tax bracket investors.

Each of the indices is calculated according to the Industry Classification Benchmark (ICB), a global standard developed by the FTSE Group and Dow Jones Indexes. If you'd like to know more about the new indices, visit the ASFA home page at www.superannuation.asn.au

More vigilance needed for default funds

Perhaps Australian super fund members have wised up to the potential calamity of panic selling during volatile markets. New research released by the Australian Institute of Superannuation Trustees (AIST) revealed that, despite the dismal returns of last year, most members remained within their chosen option.

The research conducted on Australia's six largest super funds (in terms of funds under management) showed that the downturn resulting from the Global Financial Crisis had little impact on investor switching. A relatively low 6.5% of super money was transferred in the three years to 30 June 2009.

And, perhaps not surprisingly given the low uptake of Super Choice, those who remained in their chosen option were invested in the default fund.

Whether the choice to remain in their chosen option was intentional or due to apathy or lack of knowledge, the research highlights a crucial point - the importance of having a well-designed default fund. If most members remain in the default fund, it is essential that the default can provide the best retirement outcomes possible. Of significance is providing a suitable investment choice menu – one that not only accommodates all risk profiles, but also offers solid long term performance and a history of sound investment management. Naturally, the default funds recommended to all AXIS clients have been selected on this basis from our review of the marketplace.

ASFA slams Henry Tax Review

The Henry Tax Review has continued to receive criticism about its recommendations revealed in its interim report, "Australia's Future Tax System - The Retirement Income System: Report on Strategic Issues". In particular, ASFA has challenged various conclusions included in the Review, which forms part of the Federal Government's overhaul of the superannuation system.

ASFA believes many of the recommendations detailed in the report are incorrect and potentially damaging to Australia's superannuation framework. ASFA CEO, Pauline Vamos, has been highly vocal and visible in her rhetoric, claiming that the Panel's conclusions have been based on a flawed assumptions model and questionable calculations and statistical data.

Of significance is the recommendation that an increase in contributions from 9% to 12% is unnecessary. According to ASFA, this presupposes that Australians want to retire on only 50% of their pre-retirement income. However, ASFA's research reveals that Australians want to retire on between 65% to 70% of their pre-retirement income.

The deadline for the Review Panel to report its final recommendations to Treasury is December 2009. There will no doubt be developments prior to this date and we'll continue to notify you as and when they arise. For a full copy of the interim Henry Report, visit www.taxreview.treasury.gov.au click on publications and then papers.

The Cooper Review

Running alongside the Henry Tax Review is the Cooper Review. While the former covers super tax issues, the Cooper Review is investigating the following three components of our super system:

- Governance;
- Operation and Efficiency; and
- Structure.

The timetable for each phase is tight and consists of an issues paper identifying areas for conceptual information, 6 – 8 weeks for industry to offer submissions, followed by the release of preliminary recommendations based on industry submissions.

The scoping and issues papers on Governance were released on 25 August 2009 and included matters such as trustee knowledge, board composition and conflicts of outsourcing for industry and public consideration.

Chair of the Review, Jeremy Cooper, is highly qualified to oversee the Panel, having formerly occupied the post of Deputy Chairman of ASIC. From the conceptual issues already raised, it's obvious that the Review will be a process of intense and thorough consultation. The closing date for Governance submissions is 16 October 2009 and we'll update you as to the preliminary recommendations released by the Review Panel.

In terms of dates for Phase 2 and Phase 3, the issues papers will be released on 16 October 2009 and 14 December 2009, respectively. The final deadline for the Review Panel to report its recommendations is 30 June 2010. If you'd like to know more, visit the Cooper Review website at www.supersystemreview.gov.au

Retirees remain hamstrung by frozen mortgage funds

While Australia is slowly recovering from the GFC, retirees continue to be impacted by the fallout.

At the height of the GFC last October, many mortgage and property funds froze withdrawals. The Government's implementation of bank deposit guarantees did little to assist, with mortgage and property funds excluded from

Federal protection. The bad news is, the freeze is likely to remain until the deposit guarantee is lifted. Unfortunately, this is unlikely to happen due to Government concerns of a foreign investment exodus.

As a result, about \$25 billion of retirement savings remain partially or fully frozen. In efforts to relieve some of the burden, ASIC introduced changes to hardship withdrawals. This allows eligible investors to access up to \$100,000 pa from their accounts, instead of the previous cap of \$20,000. However, this still leaves more than 70 funds with some form of restriction on them.

The Investment and Financial Services Association claims it may take up to four years for the freeze to be completely lifted. Until then, the options open to retirees are unappealing and limited. They can wait for the opportunity of a small and partial withdrawal from their frozen fund, approach Centrelink for potential relief or sell their units in the frozen funds to specially established investment trusts.

Award Modernisation update

With less than three months before the modern awards kick off on 1 January 2010, employers certainly have their work cut out for them. Not least due to the major decision announced on 2 September 2009, relating to transitional arrangements for pay-related conditions.

The transitional arrangements are due to be phased in over five years, starting from 1 July 2010 and only apply to the following:

- Minimum wages;
- Casual and part-time loadings;
- Penalty rates for weekends, public holidays and evenings; and
- Shift allowances.

The arrangements have been devised to minimise potential disadvantages to both employers and employees, such as higher employer costs and decreased employee conditions.

It's important to note that the transitional arrangements **don't apply to all modern awards** and are specifically concerned with the first two stages – Priority Stage and Stage 2. However, a general approach for Stages 3 and 4 will apply.

Generally, the phasing in arrangements only apply to employees in the relevant occupation prior to 1 January 2010. Employers impacted include those covered by the transitional or minimum wage instrument prior to 1 January 2010 or those who would have been covered had they been in the relevant industry prior to 1 January 2010.

So what do employers need to do to prepare before next January?:

1. Determine which employees will be covered by the modern awards, including those covered by existing Enterprise Bargaining Agreements (EBA). If the wage rates in the EBA are below the modern award, the modern award rates apply;
2. Implement the appropriate internal processes to cater for the new arrangements; and
3. Check whether they are subject to the transitional phasing in provisions.

For a complete list of modern awards and those to which transitional arrangements apply, visit www.airc.gov.au/awardmod

References:

- www.superannuation.asn.au
- www.taxreview.treasury.gov.au
- www.minterellison.com
- www.deacons.com.au
- www.airc.gov.au/awardmod
- www.supersystemreview.gov.au
- www.news.com.au, *Billions in investment funds still frozen*, 14 September 2009

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