

CORPORATE SUPER ASSOCIATION

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19 April 2013

The Principal Adviser
Financial System Division
The Treasury
Langton Crescent
PARKES ACT 2600

Dear Sir

FINANCIAL INSTITUTIONS SUPERVISORY LEVIES: METHODOLOGY: SUPERANNUATION SECTOR

We refer to the Consultation Paper issued on 5 April 2013.

We refer also to our 2012 letters to Treasury on the topic of supervisory levies for superannuation funds, as follows:

<i>Date of letter</i>	<i>Addressee</i>	<i>Topic</i>
1 June 2012	Mr John Lonsdale	Equity issues: application of maximum asset base for restricted levy component.
7 June 2012	Manager, Banking Prudential Policy Unit	Response to Discussion Paper of 25 May 2012. Equity of application of maximum asset base; spreading cost of Superstream equitably.
7 September 2012	Manager, Banking Prudential Policy Unit	Levy methodology

In light of our views expressed in the above letters, we are surprised by the comment on Page 7 of the 5 April 2013 Consultation Paper at Section 6.2, that to date, there has been minimal industry concern regarding the issue of using asset value as the base for calculating the levy, and a case has not been presented to change the basis of the levy calculation.

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Summary of our views

We believe that the levies for superannuation funds should be separated and applied differently in relation to supervisory cost recovery and recovery of costs of the Super Stream measures.

We oppose the use of asset value as the basis for allocating the SuperStream costs, and continue to advocate allocation of the Super Stream costs on the basis of a charge per member account.

We believe we have provided sound supporting arguments.

We continue to be concerned by the effect of capping of the restricted element of the supervisory levy, as this provides an unjustified subsidy to the many members of very large funds at the marked expense of the considerably less numerous members of medium sized funds.

Below, we reiterate the concerns raised in our 2012 submissions.

Our comments below relate to the impact of levies on the superannuation sector only.

Background: the Corporate Superannuation Association

Established in 1997, the Association is the representative body for large corporate not-for-profit superannuation funds and their employer-sponsors. The Association represents a total of 28 funds controlling \$37 billion in member funds. In general, these funds are sponsored by corporate employer sponsors with membership restricted to employees from the same holding company group, but we also include in our membership a few multi-employer funds with similar employer involvement and focus.

Our concerns

Restricted levy: capping

In past years, we have had concerns about the allocation of levies between small to medium (generally: under \$2 billion), and very large funds (generally: over \$2 billion in assets, although the effects become most marked in funds with assets over \$20 billion).

We wrote to you in June 2012 to express our concerns that for 2011/12, the capping of the amount of the restricted levy had the result that the bulk of the levy ceased to be a progressive charge at levels of around \$2 billion in assets. A similar situation prevailed in prior years. The result was that very large funds had not borne an equitable burden as a percentage on assets, nor as a charge per member.

In the imposition of the 2012/13 levy there was an alteration in the actual restricted rate from prior years, and in addition the maximum amount of unrestricted levy was increased from \$1 million to \$2 million. The result was that the asset base for the maximum amount of unrestricted levy increased from under \$2 billion to \$8.217 billion.

We acknowledge that the reduction in the rate of the restricted levy has alleviated the situation for funds under \$2 billion in assets, and that there has been some shift in this burden to funds between \$2 billion and \$8 billion.

Nevertheless the issues remain similar and indicate serious inequity.

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1. Larger funds are not bearing their share of the levies. Total 2012/13 levies, as a percentage on assets, drop in a \$50 billion fund to approximately one-third of the rate experienced by a fund under \$5 billion.
2. Although larger funds experienced a large percentage increase in 2012/13, when set in the context of the token levies they have experienced in prior years this is not at all surprising or unreasonable. To put this issue at its simplest, any increase on virtually nothing will show as a substantial percentage increase. The very large funds are still being levied at a token rate. In terms of supervision for the benefit of each fund member, this is inequitable.

At section 6.1 of the 5 April Consultation Paper, it is stated that:

... the band between minimum and maximum should be such that few institutions pay the minimum and few the maximum. In this manner, increases in funding requirements fall evenly across those paying the maximum levy rate. The maximum levy typically applies to the largest institutions.

However, this approach does not work in the superannuation sector, where the relative asset bases and member numbers of the very large funds and the medium size funds are such that the majority of the member accounts and of superannuation sector assets are held by the outliers, few though they are, and it is these funds to whom the concession intrinsic in the capping of the restricted component applies. This means that the large majority of superannuation members, who belong to the very large funds, are bearing virtually none of the charges, whilst the members of the medium sized funds are bearing a very unfair share of the costs of supervision.

Proposal to restore equity

We would support allocating the elements of the supervisory levy, other than the Super Stream levy discussed below, through a levy that has a single unrestricted element applied at a percentage of funds under management that is sufficient to recover the sector's supervisory costs.

We advocate a separate approach for recovery of SuperStream costs. This is discussed below.

Spreading of costs of implementation of SuperStream measures

The benefits of the SuperStream changes are anticipated (see your Discussion Paper of 5 April 2013, Section 5, page 5) to be savings of \$1 billion each year in processing costs. These are costs which would otherwise fall on funds and would be recoverable, generally, through administration charges on member accounts. The equitable way of recovering such costs would be to recoup from the areas the savings are expected to occur. Hence if a saving per member account is anticipated, the additional supervisory costs should surely be recoverable through a charge per member account.

In the Discussion Paper of 25 May 2012, regarding the first imposition of the SuperStream element of the levy in 2012/13, there was reference on page 6 to the cost/benefit of allocating the SuperStream costs over the 33 million accounts currently in the system, at a cost of \$4 per account, to achieve savings of \$30 per account per year.

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Hence, allocation of the costs as a charge per account would have been an equitable approach, the benefits immediately exceeding the costs to each member.

But this was not in fact the way the levy was imposed in 2012/13. Under the arrangements determined for 2012/13, the members of funds with assets under \$8 billion bore nearly all the SuperStream costs, at an enormously higher cost per member.

A more rational and equitable approach to the SuperStream levy

There is no logical reason why the levy collections to recover the costs of SuperStream should be calculated on the basis of a percentage of assets.

SuperStream is about administrative efficiency in handling member contributions and individual accounts, not about supervision of the RSE as a whole. There are no specific economy of scale arguments for making the fee basis for all or part of the SuperStream element of the levy a percentage of assets. Administration providers typically charge their superannuation clients fees on a dollar per member basis, not a percentage of assets basis. To charge for the recovery of SuperStream costs on a similar (per member) basis would be logical and fair. This is particularly so in light of the fact that it is the larger funds and their members that are going to benefit most from SuperStream.

We would advocate an approach which involved allocating the SuperStream element of the levy on a per member basis.

We submit also that, under the above proposals, it would be reasonable for SMSF members to bear their share of the SuperStream costs through a per member charge similar to that proposed above for APRA regulated funds. The SuperStream processes will apply to SMSF also, the regulatory costs of SuperStream support SMSF members as well, and we believe that this would be equitable.

We note that on the declared estimated costs of \$4 per superannuation account referred to above, this should not impose a huge or unmanageable regulatory cost increase on SMSF members.

Conclusion

In a system that is focussed on the protection of fund members, and on efficient and safe administration, we believe that the costs should be spread fairly and equitably between members.

Unless a radical change is made in the method of allocating the levy, significant inequities for members will occur. Where, as in a number of our funds, the employers effectively meet the costs of the levy, the additional costs will provide a further disincentive to provide superior arrangements for working Australians.

Our funds operate efficiently and honestly, and provide benefits in many cases that exceed the minimum. In the interests of survival of our funds, we urge Treasury and APRA to consider the impact of the distribution of the components of the supervisory levy on funds in the asset range \$50 million to \$5 billion, when allocating the supervision costs.

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If a change in approach does not occur, the impact per member and the impact of the levy on operating expense levels will force all but the largest funds out of the market.

This will be to the substantial detriment of the members of corporate funds and the industry generally.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Mark N Cerché', with a stylized flourish at the end.

Mark N Cerché
Chairman
Corporate Superannuation Association