Comment on Editorial — Volume 5 Number 3, May 2000

Brendan O'Farrell is correct when he states that, in retirement, the priority is adequacy. The debate in Australia is certainly not whether we provide defined benefits or defined contributions, but whether the final benefit is adequate. From 1st July, 2000, Australian employers will be required to pay 8 per cent of each employee's wage into a regulated superannuation fund. Even when this amount rises to 9 per cent of wages by 2002 and is paid over a working life of 30 years, it will not be adequate for a comfortable retirement. Moreover, most retirees will still need a part-pension paid from general taxes to supplement their savings.

The level of contributions needed is 12 per cent of wages or more. How do we lift the funding? A number of solutions are on the table but the most obvious one in the Australian context is for the government to remove the 15 per cent tax on contributions and fund earnings. This would boost each employee's annual savings by the equivalent of contributions amounting to 2 per cent of wages. A further compulsory 1 per cent contribution from the employee would not only make up the numbers but signal that retirement savings is a shared responsibility for government, employers and employees.

A recent survey conducted on behalf of the Association of Superannuation

Funds of Australia (ASFA) has confirmed support (91 per cent) by the population for a compulsory regime of savings for retirement and 87 per cent would support an extra 1 per cent of compulsory employee savings if the government removed the taxes.

Some facts about the Australian system, explicit or implied, in the Editorial need to be clarified:

- Employee choice of retirement savings fund is not yet mandatory. Even the proposed legislation envisages arrangements where a workplace can collectively decide which fund the employees will use and there will always need to be a default fund for those who choose not to choose.
- Some funds provide a choice of investment strategy, but it is not mandatory. Again, a default is always in place.
- The compulsory contributions can be paid into either a DB or DC scheme. An actuary supplies a certificate of equivalent value for a DB scheme. (Note: Table 1 does not include self-managed funds — fewer than five members who are all trustees of the fund — which are all DC and had assets of \$59bn or the \$48bn in life office statutory funds for annuities.)
- Most employees are in employer-sponsored schemes, either a

Table 1 DB and DC schemes

As at 30th December, 1999	Type of scheme — non-excluded funds			Total
	Defined cont.	Defined benefit	Hybrid	
Number of funds	2,396	477	420	3,294
Number of members (000s)	17,061	431	2,437	19,929
Assets (\$m)	159,719	22,445	128,991	311,155

Table 2 Membership of types of funds

	Corporate	Industry	Number of members (000s)			Total
			Public sector	Retail	Small funds ^a	
As at 30th Dec., 1999	1,400	6,185	2,679	9,896	393	20,552

^aSmall funds refers to superannuation funds with fewer than five members.

Table 3 Numbers of corporate funds and assets 1995–1999

	1995	1996	As at 30th June		1999
			1997	1998	
Number of corporate funds	5,833	5,200	4,510	4,265	3,051
Assets in corporate funds (\$m)	46,695	54,566	61,710	64,349	69,385

Table 4 Assets and members in retail funds

	1995	1996	As at 30th June		1999
			1997	1998	
Assets (\$m)	51,319	61,033	77,203	90,455	110,902
Members (000s)	5,884	6,651	7,556	8,151	9,248

- corporate fund set up by an employer, a fund set up by government, or an industry fund with a large number of sponsoring employers. Most of the small funds are used by the self-employed, small business or high-net-worth individuals. Retail funds include all these groups plus additional (voluntary) savings by employees who are also members of employer-sponsored schemes (see Table 2). Both the small funds and the retail figures contain people who are receiving a retirement income payment.
- Contrary to predictions at the advent of compulsory contributions for all

- employees and increased regulatory burden, corporate funds in terms of assets and members are not fast disappearing (see Table 3). However, some very small corporate funds have closed down.
- Some smaller employers have transferred to Master Trust arrangements where their fund becomes a subfund. Although these are contained in the 'Retail' numbers in Table 4, they are rather different from a Group Personal Pension arrangement.
 - A 1999 survey of costs by ASFA found that corporate funds are more costly to run in terms of administration costs,

Table 5 Administration costs

Type of fund	Minimum	Cost per member per week Maximum	Average
Corporate/enterprise fund	\$0.94	\$52.15	\$2.40
Industry fund	\$0.80	\$6.92	\$1.65
Public sector fund	\$0.73	\$6.75	\$1.41
Average administration cost per member per week			\$1.66

largely because they are defined benefit. However, such funds have relatively low investment costs. State governments and agencies are largely using defined contribution funds for new employees. These and the industry funds have economies needed for lower fees (see Table 5). As funds offer more services and greater choice of investment strategy, costs may

reflect this complexity, but this is not yet in evidence.

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