CHAPTER 1 : INTRODUCTION

> **All the major players, including the agents, life offices, the Government and the consumers have committed themselves to reform. Each shareholder must be prepared to be flexible about the detail of change and its implementation.**[1]

1.1 This report completes the Committee's deliberations on the original 17 terms of reference embodied in the resolution of the Senate on 5 June 1991[2] which established the Committee (see Appendix A). It deals principally with Term of Reference (g):

> the level and structure of fees and commissions charged in relation to superannuation fund membership and asset management.

1.2 It also covers some matters under Term of Reference (h): 'the information available to members of superannuation funds', other aspects of which were dealt with in the Committee's first report, *Safeguarding Super.*

1.3 Since its appointment, the Committee has reported on its 17 terms of reference according to five themes:

- the regulation of superannuation, which was addressed in the Committee's first report, *Safeguarding Super;*
- the depth and breadth of superannuation coverage, which was covered in the second report, *Super Guarantee Bills,* and a background paper entitled *Super System Survey;*

---

1 Justice Paul Stein, Chair National Consumer Affairs Advisory Council. SSCS *Proceedings of the Super Consumer Seminar,* 4 November 1992, p143.

2 In reappointing the Committee on 13 May 1993 the Senate resolved that the Committee should complete this term of reference.

- the impact of superannuation on the financial sector, which was covered in the Committee's third report, *Super and the Financial System,* which also addressed the problem of unfunded liabilities in public sector superannuation;
- the inter-relationship between superannuation and the fiscal and social security systems, which was covered in the fourth report, *Super – Fiscal and Social Links*; and
- fees, charges and commissions relating to the provision of superannuation. This matter has been addressed in a number of reports and issues papers.

1.4 Table 1.1 lists the Committee's reports and papers against the relevant terms of reference.

Table 1.1 List of Committee Reports and Papers presented to the Senate

Title	Date	Term of Reference
Super System Survey – A Background Paper on Retirement Income Arrangements in Twenty-one Countries	December 1991	(q)
Papers relating to the Byrnwood Ltd, WA Superannuation Scheme	March 1992	(c) and (e)
Interim Report on Fees, Charges and Commissions in the Life Insurance Industry	June 1992	(g) and (h)
First Report – Safeguarding Super – The Regulation of Superannuation	June 1992	(a), (c), (d), (e), (f), (h), (i), and (j)
Second Report – Super Guarantee Bills	June 1992	(l), (m), (o) and (p)
Super Charges – An Issues Paper on Fees, Commissions, Charges and Disclosure in the Superannuation Industry	August 1992	(g) and (h)
Third Report – Super and the Financial System	October 1992	(d)
Super Consumer Seminar – Proceedings	November 1992	(g) and (h)
Fourth Report – Super – Fiscal and Social Links	December 1992	(k), (b) and (n)

Fifth Report – Super - Supervisory Levy	May 1993	Referral of Statutory Rule 283 of 1992
Sixth Report – Super - Fees, Charges and Commissions		(g) and (h)

Conduct of the Inquiry

1.5 The inquiry into fees, charges and commissions has been a protracted process which began in March 1992 when the Committee first took oral evidence from representatives of the life insurance industry in Melbourne. The evidence which followed reflected that there is a high degree of polarity amongst the various interest groups regarding the solutions which could be implemented to bring about more competitive and thereby more efficient structures of fees and charges in the sale of personal superannuation products. The material which the Committee gathered and presented in its interim report to the Senate on 3 June 1992 indicated that the level of initial commissions on many products appeared to be excessive with average initial commissions on some products as high as 60 per cent. Subsequent evidence showing high cancellation rates and low surrender values as a consequence of these seemingly high initial commissions focussed the Committee on developing solutions to make personal superannuation more equitable and portable. In Chapter 3 of this report these solutions are examined in detail and recommendations for reform have been formulated.

1.6 The Committee was greatly assisted by the work of the Trade Practices Commission in conducting research and preparing a report on the sale of personal superannuation products. This report, and the seminar which the Committee convened in conjunction with the National Consumer Affairs Advisory Council and the Trade Practices Commission which was attended by more than 100 participants from industry, consumer and government agencies, also assisted in focussing the Committee on key issues and desirable outcomes in this critical aspect of superannuation.

1.7 The Committee generally welcomes the response of the industry to the recommendations proposed by the Trade Practices Commission and the nine options which the Committee proposed in its *Super Charges* issues paper. It would appear that the drawn out process, in which a high level of community debate has occurred, has resulted in the formulation of policy which will assist in the achievement of sound long term retirement incomes goals.

The Place of Personal Superannuation in Retirement Incomes Policy

Changes in Policy

1.8 Traditionally, retirement incomes policy in Australia has had two components: the provision by government of an age pension funded from consolidated revenue and private superannuation plans supported by tax concessions. However, for most of the period since 1908 the emphasis has been on the age pension.

1.9 On several occasions unsuccessful attempts have been made to replace the non-contributory pension with a national superannuation scheme funded by earnings-based contributions from all employees. The first of these initiatives occurred in the 1930-39 period and was embraced by both Labor and non-Labor governments. The second, which was introduced in 1945, was funded by an additional personal income tax by employees and a payroll tax paid by employers which were credited to the National Welfare Fund and called a 'social services contribution'. In 1950 this contribution was merged with the income tax system and from 1952 payments from the National Welfare Fund were financed by appropriations from consolidated revenue. Thereafter, the fund was merely an accounting device until its abolition in 1985.

1.10 Historically, private pensions have largely been the preserve of members of the white collar and the professional workforce. Broadly-based occupational superannuation did not achieve any real prominence until 1986 when the Conciliation and Arbitration Commission, at the request of the Government and the trade unions, decided that it would formally approve agreements between employees and employers relating to contributions to approved superannuation funds in lieu of wage increases, up to a maximum of three per cent. The next major development in the extension of occupational superannuation occurred when the Parliament passed the Superannuation Guarantee legislation which provided that all employees receive a minimum coverage of nine per cent contributions by 2002. A large proportion of the moneys arising from award and SGC superannuation has been deposited in the rapidly expanding industry funds. Notwithstanding the thrust towards universal work-based superannuation coverage, many members of the workforce still need to make their own superannuation provisions.

1.11 The self-employed and those employees who wish to 'top up' SGC or award superannuation, continue to purchase personal superannuation plans, although a small percentage contribute additional funds to an industry scheme.

Personal Superannuation Plans

1.12 Personal superannuation plans, which are sold by life offices and other financial intermediaries such as banks, have grown out of traditional life insurance products. These products constitute about 12.5% of funds held by financial intermediaries and premium income from them in 1991-92 was reported as being $14 bn. According to the 1991-92 ISC Annual Report, at the end of 1991 there were 2.87 million superannuation policies in force with an asset backing of $66 billion.

1.13 Life insurance offices have also played a key role in providing administration, funds management advisory services, and death and disability cover to the emerging industry superannuation schemes.

1.14 The Trade Practices Commission (TPC) in its report on *Life Insurance and Superannuation* identified the following categories of individual life office products which are sold by approximately 50 life insurance companies registered under the provisions of the *Life Insurance Act 1945*:

- risk products,
- savings products,
- conventional products,
- single premium products, and
- annuities.[3]

1.15 It is the savings product that has been the focus of consumer complaints to the Committee. Under this product arrangement consumers contribute for an extended period, usually between ten to 35 years. Early

---

[3] Trade Practices Commission, *Life Insurance and Superannuation* 1992, p 92.

surrender or cancellation of the product often attracts a penalty charge and, as a consequence, the value of the payout is lower than accumulated premiums and interest. In defending this outcome, life offices claim that the lower than expected amount reflects the fact that it is in the early years of a policy's life when agents are remunerated. Selling these products through an agency system on a commission basis is a longstanding arrangement in the life insurance industry.

1.16 Consumer groups have questioned whether, in the context of large scale compulsory superannuation, these methods of remuneration and product design are appropriate to the needs of those who purchase superannuation plans. This report examines the place of personal superannuation in current retirement incomes policy and recommends changes to increase the quality and quantity of information available to consumers with the objectives of promoting greater industry efficiency and increased consumer equity.