

Senate Economics Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates

2016 - 2017

Division/Agency: Australian Prudential Regulation Authority

Question No: 141

Topic: For-Profit Sector Superannuation - Appointments and Fees Paid

Reference: Hansard page 35 (02 March 2017)

Senator: Bushby, David

Question:

Senator BUSHBY: That is fine. The board of AUSfund includes Robbie Campo, who until recently was deputy CEO of Industry Super Australia, as well as ex-ACTU employee Linda Rubenstein, and ex-ACTU employee Cath Bowtell is its CEO. Are you aware of whether that is still the case? You might need to take it on notice.

Mr Glenfield: I would take that on notice.

Senator BUSHBY: Looking at that APRA data again, it also indicates that the average director of AUSfund gets paid \$38,000 per annum. I presume you are not going to be able to answer that one off the top of your head?

Mr Glenfield: No.

Senator BUSHBY: So, take it on notice, please. Would you know—and I guess you are going to have to take this on notice, too—whether that money is passed on by the directors to either Industry Super Australia or the ACTU or another union?

Mr Glenfield: Again, we would have to take that on notice.

[...]

Senator BUSHBY: If it is passed on, that would suggest that the union or the industry fund or lobby group, as appropriate, would be receiving money that is generated from a retail for-profit superannuation fund.

Mr Glenfield: Again, I will have to have a look at how it works.

Mr Byres: I do not think we have ever said that it is a retail fund.

Senator BUSHBY: But it is a for-profit fund.

Mr Byres: Yes.

Senator BUSHBY: And if it is not passed on, then presumably the only other conclusion you can draw is that the directors would be receiving money from a for-profit fund that they were appointed to by trade unions? I will leave that to you to answer on notice. I also understand from the performance data that AUSfund returned 1.5 per cent last year and was the secondworst of the eight performing unclaimed super funds. I guess you will probably need to check that, too?

Mrs Rowell: Yes.

Senator BUSHBY: I also understand that AUSfund charged 2.4 per cent per annum in fees, which was the third-highest fee rate for all the unclaimed superannuation funds. So, you might need to check that, too, if you could. Now, Industry Super Australia and the ACTU have consistently made claims that APRA's performance data—and I think we have discussed this a bit today—shows that industry funds outperform retail funds using APRA classifications. If ISA used your categorisation of AUSfund as a for-profit fund, would its poor performance drag down the average performance of for-profit funds?

Mrs Rowell: I suspect it would, at best, at the margin—

Mr Byres: As a statistical calculation, if you put something low in the average, it lowers the

average. It is relatively small, relative to an industry, so, as Helen said, impact would be marginal. But we could do a calculation with it in and out.

Answer:

1. The RSE licensee name for the RSE, Australia's Unclaimed Super Fund (known as 'AUSfund'), is Industry Funds Investments Ltd. Industry Funds Investments Ltd is a wholly owned subsidiary of Industry Fund Services Ltd (IFS), which is itself a wholly owned subsidiary of Industry Super Holdings Pty Ltd (ISH).

For each RSE under the trusteeship of an RSE licensee, the Australian Prudential Regulation Authority (APRA) determines the RSE's segment, or fund type, to be used in APRA statistical publications, on the basis of the RSE licensee's profit status and the RSE membership base as reported at Item 2 on *Superannuation Reporting Form SRF 001.0 Profile and Structure (Baseline)* (SRF 001.0). These fund types are: corporate, industry, public sector, or retail.

Details are available in the paper *Segmentation of superannuation entities* on APRA's website at:

http://www.apra.gov.au/Super/Publications/Documents/1502_Segmentation_of_super_entities.pdf.

Retail funds are RSEs with more than four members under the trusteeship of a 'for profit' RSE licensee with a corporate, industry or general membership base.

APRA's *Annual Fund-level Superannuation Statistics* report for June 2016 can be found on APRA's website at: <http://www.apra.gov.au/Super/Publications/Pages/superannuation-fund-level-publications.aspx>.

In the report, Australia's Unclaimed Super Fund is classified as a retail fund as the RSE is under the trusteeship of the 'for profit' RSE licensee Industry Funds Investments Ltd. Australia's Unclaimed Super Fund has a general membership base.

The report includes information for eight eligible rollover funds. All of these funds are under the trusteeship of 'for profit' RSE licensees, and are classified as retail funds.

The inclusion of the word 'industry' in the name of AUSfund's RSE licensee is a matter for the individual RSE licensee. While APRA acknowledges that the classification of 'not for profit' is generally associated with industry funds, AUSfund is an ERF which is not generally marketed to the public. AUSfund, as an ERF, is designed as a vehicle to hold money in the short term to facilitate consolidation/reunification of multiple member accounts and act as a temporary repository of funds.

2. APRA collects information relating to the responsible persons of an RSE licensee under *Reporting Standard SRF 520.0 Responsible Persons Information* (SRF 520.0) on an annual basis.

The *Superannuation Industry (Supervision) Act 1993* (SIS Act) also requires RSEs to disclose executive details and remuneration on their websites, under section 29QB and regulation 2.37 of the *Superannuation Industry (Supervision) Regulations 1994*. More detailed and up-to-date information on directors may therefore be found on a specific fund's website or within its annual report.

As per AUSfund reporting to APRA under SRF 520.0, Ms Roberta Campo and Ms Linda

Rubinstein are current directors of Industry Funds Investments Ltd, which is the trustee of AUSfund. Ms Catharine Bowtell is the CEO of Industry Funds Services Ltd and its subsidiaries, including Industry Funds Investments Ltd. Ms Bowtell was previously a director of Industry Funds Investments Ltd.

3. According to the 2015/16 financial statements for AUSfund (available on the fund's website at: <https://ausfund.com.au/about-ausfund/policies-reports-and-governance/>), AUSfund does not pay remuneration directly to key management personnel (including directors). Director compensation is paid by IFS to the directors of Industry Funds Investments Ltd, which is the trustee of AUSfund, for activities relating to AUSfund and other entities managed by IFS.

APRA collects RSE licensee information on *Reporting Form 600.0 Profile and Structure (RSE Licensee)* (SRF 600.0). SRF 600.0 is reported to APRA by RSE licensees for annual reporting periods effective on (or after) 1 July 2013. RSE licensees must report all directors and the remuneration paid to a director, individual trustee or alternate director of the RSE licensee with respect to their role for the RSE licensee at Item 2 of SRF 600.0 Profile and Structure (RSE Licensee).

'Remuneration' for this purpose has the meaning given, in the context of an officer (including an RSE licensee director), in the Part 9 Dictionary of the Corporations Act 2001 and accounting standards. That is, remuneration includes direct and indirect payments to directors for their management of the RSE, from the RSE licensee or any related party.

APRA publishes, in 'Table 1 Trustee-level profile and structure' of the *Annual Fund-level Superannuation Statistics*, details of the number of directors, as well as total and average directors' remuneration for each RSE licensee of APRA-regulated RSEs with more than four members.

The total remuneration for directors of Industry Funds Investments Ltd, which is the trustee of AUSfund, for 30 June 2016 as published in the *Annual Fund-level Superannuation Statistics* was \$225,000. The number of directors was reported as six. Therefore, the average director remuneration was \$38,000.

It should be noted that payments to individual directors vary, and more detailed information on director remuneration may be found on a specific fund's website or within its annual report under SIS Act requirements of disclosure.

4. According to the 2015/16 financial statements for AUSfund, all directors are paid in their personal capacity, with the exception of Ms Roberta Campo, whose director fees were paid to Industry Super Australia Pty Ltd.

The rules relating to the nomination, appointment and removal of directors are determined by each RSE licensee. According to the RSE licensee's Constitution and Board Charter, directors of Industry Funds Investments Ltd must also be directors of Industry Funds Services Ltd. The directors of Industry Funds Investments Ltd and Industry Fund Services Ltd are appointed by Industry Super Holdings Pty Ltd. This process is governed by a Directors Nomination Committee and a vote of the shareholders of Industry Super Holdings Pty Ltd.

AUSfund's website provides more detailed policies in relation to director appointment processes, which can be found at: <https://ausfund.com.au/about-ausfund/policies-reports-and-governance/>.

5. APRA's *Annual Fund-level Superannuation Statistics*, referenced above, contains one, five and ten year rates of return (in Table 2). Rate of return is calculated as net earnings after tax over cash flow adjusted net assets. Five and ten year rates of return are calculated as the

geometric average of the one year rates of return for the most recent five and ten year periods. Detailed financial performance information used to calculate one year rates of return can be found in Table 3.

AUSfund's one-year rate of return for the year ended 30 June 2016 was 1.5 per cent. Ranking the ERF rates of return for the year ended 30 June 2016 from highest to lowest places AUSfund as sixth out of eight. The average one year rate of return for these eight ERFs for the year ended 30 June 2016 was 1.4 per cent.

APRA notes that performance over the long-term is a key determinant of members' retirement outcomes and that there is likely to be considerable variability in some data over the short term. In that context, APRA strongly recommends that users of the statistics exercise caution in making assessments or drawing conclusions based on short-term information. APRA's *Annual Fund-level Superannuation Statistics* report also provides the five-year rate of return and the ten-year rate of return for funds (in Table 2). AUSfund's five-year rate of return was 5.1 per cent, the second highest five-year return of the eight ERFs, and their ten-year rate of return was 3.2 per cent, the third highest ten-year return of the eight ERFs.

APRA notes that individual funds may publish investment performance using a different methodology than that used for the purpose of APRA publications (usually available on a fund's website). These investment performance calculations may provide different figures, and may also be difficult to compare. For example, some funds may publish their returns after administration fees are deducted, whereas others may publish their returns before administration fees are deducted.

APRA's *Annual Fund-level Superannuation Statistics* contains the one year operating expense ratio for each fund (in Table 2). The operating expense ratio represents total administration and operating expenses over cash flow adjusted net assets. The operating expense ratio is not a measure of the amount charged per annum in fees.

The figure of 2.4 per cent is the operating expense ratio for AUSfund for the year ended 30 June 2016, which was the third highest of the eight ERFs.

APRA's *Annual Fund-level Superannuation Statistics* also contains information on fees paid (in Table 6, Table 7 and Table 8).

APRA recommends that users of the statistics exercise caution in making assessments or drawing conclusions based on the relative size of fees paid in the reference period. Fees paid may fluctuate in the short-term and it will be some time until a sufficient and reliable time series is available. Fees may also vary due to other factors such as varying service levels offered, and total fees paid are also not necessarily representative of individual member experience. Information on fees reported by RSE licensees to APRA may also reflect inconsistencies in reporting.

AUSfund's PDS provides details of the fees charged to members. This PDS is available on the AUSfund website at: <https://ausfund.com.au/about-ausfund/policies-reports-and-governance/>.