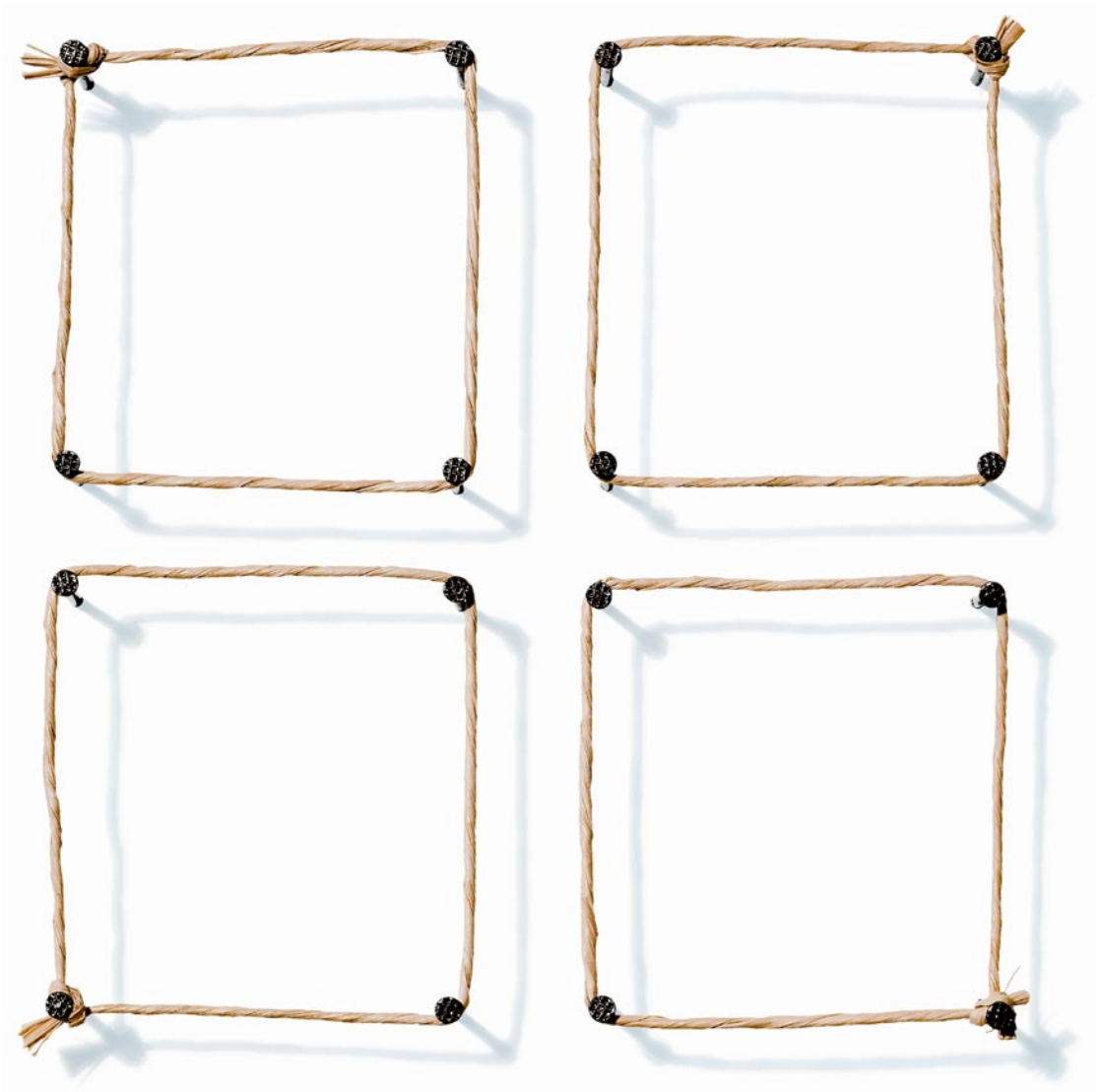




Statistics

Classification of superannuation entities

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Classification of superannuation entities

APRA's review of the classification of superannuation entities ensures its statistics are more meaningful and directly reflect trends in corporate, industry, public sector, retail and small superannuation funds. This document outlines new functional descriptions and details results of APRA's review of the largest superannuation fund types and the impact on previously published APRA data.

Introduction

Superannuation entities can be classified according to *Superannuation Industry (Supervision) Act 1993* (SIS Act) and also in more practical terms describing how they operate in commercial reality. The regulatory classifications under the SIS Act describe an entity's prudential and legislative requirements and differentiate types of superannuation entities. Practical definitions (functional descriptions) describe the business strategy and market of the superannuation entity (corporate, industry, public sector, retail or small) and are often more useful to superannuation fund members and to the general public.

There are no legislative definitions for functional descriptions (also referred to as fund types). As a result they are more subjective often reflecting how a superannuation entity would like to be seen rather than how they operate. Superannuation administrators and trustees may also misclassify entities as there is some degree of uncertainty around the definitions of each fund type. This document describes the functional descriptions of corporate, industry, public sector, retail and small superannuation entities and provide examples of each type of fund. The results of APRA's recent review of superannuation fund types for the largest entities and the impact on previously published APRA data are also summarised.

Regulatory classification of entities

Under the SIS Act, complying superannuation entities are classified into the following categories:

Public offer superannuation fund (public offer) – is a superannuation entity that offers superannuation interests to the public, usually on a commercial basis. A public offer superannuation fund is either not a standard employer sponsored fund¹ or is a standard employer sponsored fund that has some non standard employer sponsored members or its trustee has elected for it to become a public offer fund. APRA can make declarations in regard to which funds are or are not public offer funds.

¹ Standard employer sponsors are employers who contribute to the fund through an arrangement between the employer and the trustee of the fund. Employer sponsors that are not standard employer sponsors are those that contribute to the fund without an arrangement between the employer and the trustee.

Other APRA-regulated superannuation fund (non-public offer) – is a superannuation fund regulated by APRA that is not public offer and has greater than four members.

Eligible rollover fund (ERF) – is a superannuation fund or approved deposit fund which is eligible to receive benefits automatically rolled over from other funds.

Pooled superannuation trust (PST) – is a trust in which assets of superannuation funds, approved deposit funds and other PSTs can only be invested. Pooled superannuation trusts are excluded from industry assets as their assets are included in other fund types.

Approved deposit fund (ADF) – can receive, hold and invest certain types of rollovers until such funds are withdrawn or a condition of release is satisfied (depending on the preservation status of the member's benefits). ADFs can either be single member or multi-member.

Small APRA fund (SAF) – is a superannuation fund managed by an Approved Trustee that is regulated by APRA that has less than five members.

Self-managed superannuation fund (SMSF) – is a superannuation fund regulated by the Australian Taxation Office (ATO) that has less than five members, all of whom are trustees.

Functional classification of entities

The superannuation industry uses functional classifications more commonly than regulatory classifications under the SIS Act. These functional classifications are described below.

Corporate funds are company superannuation funds sponsored by a single employer or group of usually related employers for the benefit of company employees. Historically corporate funds were defined benefit schemes with fees and insurance subsidised by the standard employer sponsor. There has been a recent move away from providing defined benefits with many corporate funds now consisting of members with defined contributions (accumulation) or a combination of defined contributions and defined

benefits (hybrid). Corporate funds can be either non-public offer or public offer, however the large majority of corporate funds are non-public offer. Non-public offer standard employer sponsored funds are required to have equal employer and member representation on the trustee board. Equal representation seeks to ensure that both members and employers are able to influence the management and operation of the fund via nominated representatives. A typical corporate superannuation fund would be for example ABC Superannuation Fund established for the employees of ABC Superannuation Limited. In this case, the company (ABC Limited) is the standard employer sponsor of the fund and the employees of the company are members of the related superannuation fund (ABC Superannuation Fund). Superannuation funds that do not meet the definition of a SAF or SMSF because they have more than four members are also classified as corporate funds.

Industry funds draw members from a range of employers across a single industry (or group of related industries) and are usually established under an agreement between parties to an industrial award. Industry funds are similar to corporate funds as they have standard employer sponsors and are traditionally non-public offer. In recent years many industry funds have become public offer, meaning members from the general public can now join. Industry funds that are public offer still have the vast majority of their members from the industry for which the fund was established. Examples of industry funds are a construction and building industry fund, established for employees in the construction and building industries; a hospitality fund established for the benefit of employees working in the hospitality industry; or a health superannuation fund established for health and medical professionals.

Public sector funds are superannuation entities where the sponsoring employer is a government agency or a business enterprise that is majority government-owned. Public sector funds provide benefits for government employees and are typically non-public offer standard employer sponsored funds. Government funds have been traditionally defined benefit, however many public sector funds have closed their defined benefit sector to new members.

Therefore, consistent with the trend in corporate and industry funds, some public sector funds now have a combination of both defined contribution and defined benefit members. Examples of public sector funds are the Commonwealth Superannuation Scheme (CSS) and Public Sector Superannuation Scheme (PSS). Some public sector superannuation schemes choose not to be regulated by APRA. However, for statistical purposes, a number of exempt schemes report to APRA under agreement between the Commonwealth Government and each of the State and Territory governments.

Retail funds are superannuation entities that offer superannuation products to the public on a commercial 'for profit' basis. Retail funds are usually run by large financial institutions which provide a range of wealth management products. Included in the retail category are large public offer superannuation trusts that comprise a number of smaller funds (sub-funds) that have been consolidated into the larger trust. These entities are commonly known as superannuation master trusts and have become increasingly popular over the last few years. Multi-member approved deposit funds and eligible rollover funds are also considered to be retail funds.

Small superannuation funds are entities with fewer than five members and include small APRA funds, single-member approved deposit funds and SMSFs. SMSFs are regulated by the ATO and have different legislative requirements than APRA regulated funds. SMSFs are also commonly known as 'Do It Yourself' (DIY) funds as they are primarily managed by the members, who are also the trustees of the fund. Prior to a change in legislation in November 1999, all small funds were regulated by APRA.

Review of functional classifications

Functional descriptions of superannuation entities are reported on APRA annual returns. While regulatory classifications are used for prudential purposes, functional classifications are more pragmatic and are commonly used to compare different types of superannuation funds. As functional descriptions are more subjective than regulatory classifications, they are reviewed regularly. Coinciding with the new reporting framework and release of

new statistical publications APRA recently completed a thorough review of functional classifications of superannuation entities.

Method

APRA's review of superannuation functional descriptions focused on the largest entities, previously included in the APRA *Quarterly Survey of Superannuation* (the Survey). Each of the 351 entities included in the Survey had over \$60 million in assets. Combined they comprised around 75 per cent of total superannuation assets and 95 per cent of non-self-managed superannuation fund assets. *Superannuation Trends* was based on funds in the Survey, with values extrapolated to obtain aggregates for the whole industry.

The review compared the functional descriptions of entities in the Survey with the description reported on the most recent APRA annual return. APRA conducted further research and analysis if a discrepancy occurred between APRA's previously used description of the fund and the fund type reported on the annual return. This involved analysing the entity's annual return information (assets and liabilities, number of members, names and types of employer sponsors), the structure of the fund and composition of the trustee as well as other prudential information.

APRA also drew information from the superannuation entity's web site (which in some cases was inconsistent with the fund type reported on the annual return). APRA liaised with various organisations and superannuation industry bodies prior to the review to obtain a consistent approach to the classification of funds.

Results

Of the 351 funds reviewed, there were 13 instances where the functional description differed from the descriptions previously included in *Superannuation Trends*. Two entities were re-classified from retail funds to corporate funds and three entities were moved from the corporate to the retail sector. Another four entities were re-classified from public sector to industry funds and one entity was moved from industry into the public sector category. One entity was re-classified from industry to retail and an additional two entities were moved from the retail to the industry fund type.

Of the 40 public sector superannuation entities that currently report to APRA, APRA regulates 22 of them with the remaining 18 being exempt schemes (unregulated). In *Superannuation Trends*, an additional 12 known exempt schemes were included in the fund numbers to provide a better representation of the number of public sector schemes in Australia. As we do not collect financial information from these schemes, these twelve funds have been removed from the public sector fund numbers, reducing the total number of public sector funds to 40.

Table 1 shows the previously published number of funds and assets in each sector before and after the review of fund types.

After the review of fund types, the results show a slight increase in corporate fund assets, from \$58.4 billion to \$59.1 billion, with the share of corporate fund assets increasing to 9.4 per cent of total superannuation assets. The assets of industry funds also increased as a result of the review and now stand at \$88.4 billion, 14.0 per cent of total superannuation assets. Public sector funds decreased after the fund re-classifications and now stand at \$111.6 billion, 17.7 per cent of total assets. Retail funds showed a slight decrease from \$210.8 billion to \$209.5 billion, 33.2 per cent of total superannuation assets.

Conclusion

As a result of APRA's review of fund types there are now more consistent statistical aggregates for the superannuation sector. The aggregates are more meaningful and more directly reflect trends in corporate, industry, public sector, retail and small funds. The revised aggregates for the fund types are published in the *Annual Superannuation Bulletin* and *Quarterly Superannuation Performance* and are not directly comparable to those published in *Superannuation Trends*. The aggregates have been revised historically and APRA will review the peer groups annually to ensure consistency and accuracy. Any further changes to fund types will be clearly explained in the next issue of the *Annual Superannuation Bulletin*.

While every effort has been made to classify funds into the appropriate functional descriptions, some entities may have characteristics of two functional classes. In these instances, APRA has classified the fund into the most appropriate category.

Changes in legislation, particularly the *Choice of Fund (2004)* legislation, the emergence of new superannuation products and industry consolidation may make the classification of funds more challenging.

Table 1: Number of funds and assets of superannuation funds (as at June 2004)

	Prior to review		After review	
	Entities	Assets (\$b)	Entities	Assets (\$b)
Corporate	1,406	58	1,404	59
Industry	103	72	107	88
Public sector ^a	43	127	40	112
Retail	234	211	235	209
Sub-total	1,786	468	1,786	468
Small ^b	290,440	137	289,367	137
Balance of statutory funds		27		25
Total^c	292,226	631	291,153	631

^a The numbers of public sector funds have been revised to include only those funds that are regulated by APRA and the 18 exempt schemes that report to APRA under a Heads of Government agreement.

^b The numbers of SMSFs have been revised by the ATO.

^c The total does not include 143 pooled superannuation trusts.

The distinction between public offer industry and retail funds may be particularly challenging if industry funds obtain large numbers of new members across a wide range of different industries. Should this occur, the retail description would be more applicable and will be updated accordingly in these cases.

APRA encourages administrators and trustees to read through the descriptions of fund types contained in this publication and to report the most appropriate category on their annual return. Increased awareness

of the characteristics of the different types of superannuation entities in Australia will lead to improved reporting across all sectors.

a Standard employer sponsors are employers who contribute to the fund through an arrangement between the employer and the trustee of the fund. Employer sponsors that are not standard employer sponsors are those that contribute to the fund without an arrangement between the employer and the trustee.



Telephone
1300 13 10 60

Website
www.apra.gov.au

Mail
GPO Box 9836
in all capital cities
(except Hobart and Darwin)