APRA
Australian Prudential Regulation Authority

# Insurance and Superannuation Bulletin

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# Estimating Superannuation Contribution Flows

*An estimated $26 billion was contributed to Australian superannuation funds in calendar year 1995, not including transfers or annuity premiums. In this article we will discuss some of the problems that have beset previous official estimates for superannuation contributions and outline how this new estimate was derived*

Australia's superannuation system has undergone considerable transformation during the last decade to become an integral and significant component of our overall financial system. For example, 87 percent of Australian workers are now covered by superannuation compared with around 39 percent in 1984 and superannuation savings now represent around 25 percent of financial system assets compared to around 18 percent in 1984.

A major impetus to the growth of superannuation savings for Australian workers was the decision by the Commonwealth Government in 1992 to introduce the Superannuation Guarantee (SG) arrangements that made it compulsory for employers to contribute to superannuation on behalf of their employees.

The level of these SG contributions was initially set at three percent of employee wages in 1992 and is set to increase to nine percent in the year 2002-03. In 1996-97 it will be set at six percent of an employee's overall wage or salary.

Of course, employers are able to contribute higher amounts into their employees' superannuation funds, for example under 'salary sacrifice' arrangements, while employees themselves are also free to make additional contributions.

Total wages and salary paid in Australia in 1994-95 amounted to over $220 billion, suggesting at first glance that total SG contributions should be in the order of $10-13 billion. It is however clear that in reality Australians contribute to their superannuation savings at considerably higher rates than the compulsory arrangements require.

Thus it appears that the favourable taxation treatment of superannuation has made it an attractive way for Australians to save voluntarily for their retirement and that many Australians are responding to the incentive.

With 6.5 million people now being members of superannuation funds in Australia, there is considerable interest in estimating how much in aggregate is actually being contributed each year. However, reliably estimating this amount has proven to be difficult.

It may seem surprising that, while we have for some time been able to track the annual growth in superannuation assets, we have not been able to reliably decompose this figure into net contributions and net earnings components.

The main reasons for the difficulty in accurately estimating aggregate contributions are the diversity and segmentation of the financial system and the complexities of measuring financial flows within it, particularly in relation to the parts played by public sector superannuation funds and life insurance companies.

Put simply, previous ISC estimates of annual contributions have understated public sector flows (because of the notional unfunded component), and overstated life office flows (because of double counting of transfers).

## Public sector contributions

Prior to 1990-91, public sector superannuation funds were not required to report to the ISC in order to receive concessional taxation treatment. Official ISC statistics therefore did not include contributions from these funds.

Another complexity with public sector superannuation involves the lesser known but nonetheless crucial distinction between a superannuation *scheme* and its associated superannuation *fund*, as well as how notional employer contributions are treated by these entities.

### *Public sector schemes*

A public sector superannuation *scheme* is the entire superannuation arrangement, which may include the unfunded defined benefit component of the scheme's projected future liabilities for benefit payments.

While public sector superannuation schemes receive employer and employee contributions, the level of these contributions is not always sufficient to fully meet the scheme's long term benefit payment liabilities.

When additional money is required by the scheme to meet any shortfall, the scheme draws additional money from government consolidated revenue which is then used to fund the benefit payment to the scheme member.

This additional payment to the scheme from government may be thought of as the notional employer contribution. These notional employer contributions are paid on an 'emerging basis', ie, as the need arises.

It is possible to gauge the level of notional funding of public sector funds by assessing the proportional level to which public sector defined benefit superannuation schemes are funded by their employer sponsors as compared to the level to which private sector defined benefit schemes are funded by their employer sponsors, see figure 1.

On this basis, preliminary estimates produced by the ISC Statistics Unit suggest the level of notional funding in public sector schemes may be around $2 billion per year[1]. Most importantly however, this amount has never been included within any previous or current ISC estimate of total contribution amounts.

### *Public sector funds*

The associated public sector *fund* is the financial entity into which the actual employee and award productivity contributions are paid. Contributions into these public sector funds are then invested in the capital markets to earn interest. The accumulated amounts are used to pay the future lump sum benefits. Importantly, these accumulated amounts do not necessarily fund the members' full amount of future pension entitlements.

These public sector *funds* are essentially accumulation funds. They are no different to other accumulation funds that are offered by private sector employer sponsors. On the other hand, public sector *schemes*, because of the way employer contributions are received on an 'emerging basis' are in part technically unfunded for at least some of their projected future liabilities.

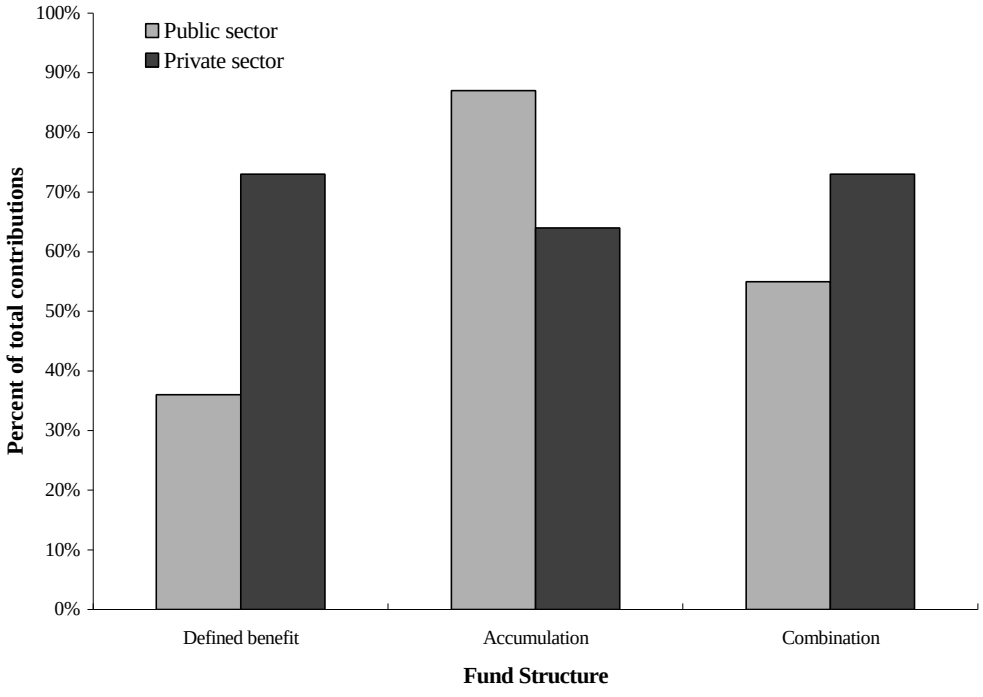
Public sector superannuation *funds* - because of their financial structure - are fully funded and solvent and are usually regulated under the Superannuation Industry Supervision (SIS) Act 1993 in the same way that private sector funds are regulated. These public sector superannuation funds are included within the ISC Quarterly Survey of Superannuation.

A small number of public sector superannuation schemes have not established associated public sector funds. In general these schemes have applied for 'SIS exempt' status. SIS exempt *schemes* do not formally report to the ISC.

Previously published estimates of public sector contributions have clearly not fully accounted for the complexities of the structure of public sector superannuation. While these estimates have included the full amounts of public sector employee and productivity contributions, they do not include all public sector employer contributions which are paid directly from government consolidated revenue to the scheme's administrators on an 'emerging basis'. When public sector schemes draw upon government consolidated revenue to fund members' pension payments these benefit payments are often 'passed through' the scheme to the regulated *fund* which then pays the member.

Thus while published public sector superannuation statistics reliably describe benefit payment amounts they often understate overall contributions. This in turn implies that previous estimates of net-contributions may have been understated.

*Figure 1 Employer contributions Dec 1995*




1 ISC Quarterly Survey of Superannuation, unpublished analysis

## Contributions into superannuation funds operated by life insurance companies

Life insurance companies manage the moneys invested by their policy holders by grouping together assets from similar policy and product types and then placing these assets within statutory funds. These statutory funds are then subject to regulatory controls which are administered by the ISC under the Life Insurance Act 1995.

Through these arrangements, companies use separate statutory funds to group their investment linked (ie, unitised), non-investment linked (eg, non-unitised traditional policies, capital guaranteed policies) and annuity business. While companies may combine superannuation and ordinary business into a single statutory fund, the trend is to separate these business classes where possible.

Superannuation assets held within life insurance statutory funds account for 39 percent of all superannuation assets, and for 73 percent of all life insurance statutory fund assets.

Life insurance companies have been operating in Australia since 1849. During this long history, and particularly over the past 15 to 20 years, the changing social, economic and regulatory environment has required them to substantially modify their financial operations and practices to reflect these new conditions.

For example, the regulatory environment for superannuation was greatly altered by the introduction of the Occupation Superannuation Standards (OSS) legislation in 1987 and the SIS legislation in 1993 which increased and more clearly defined fiduciary responsibilities under the trustee structure of individual superannuation funds. Life insurance companies responded to these initiatives inter alia by grouping functionally similar superannuation policy holders into subfunds which, while their assets are managed within the statutory funds, are nonetheless discrete entities operating below this level. Because they are set up under their own trust deeds, these groupings are sometimes referred to in the life insurance industry as 'virtual funds'.

Life insurance companies report regularly to the ISC regarding the financial operations of each of their statutory funds (as required under the Life Insurance Act), while each of their superannuation 'virtual funds' reports separately to the ISC as required under the SIS Act.

There is some overlap between the reporting requirements of the Life Act and the SIS Act which results from the different legal and operational (though not necessarily commercial) structure of statutory funds and 'virtual funds'. To understand this overlap, it is important to note that it is the life insurance company 'virtual funds' which are included in the ISC Quarterly Survey of Superannuation.

*Figure 2 How superannuation assets are managed*

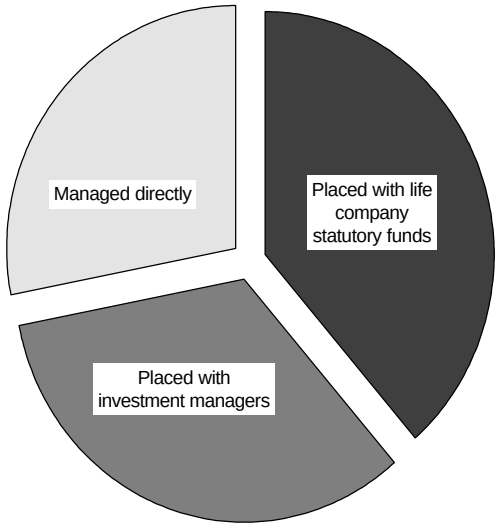
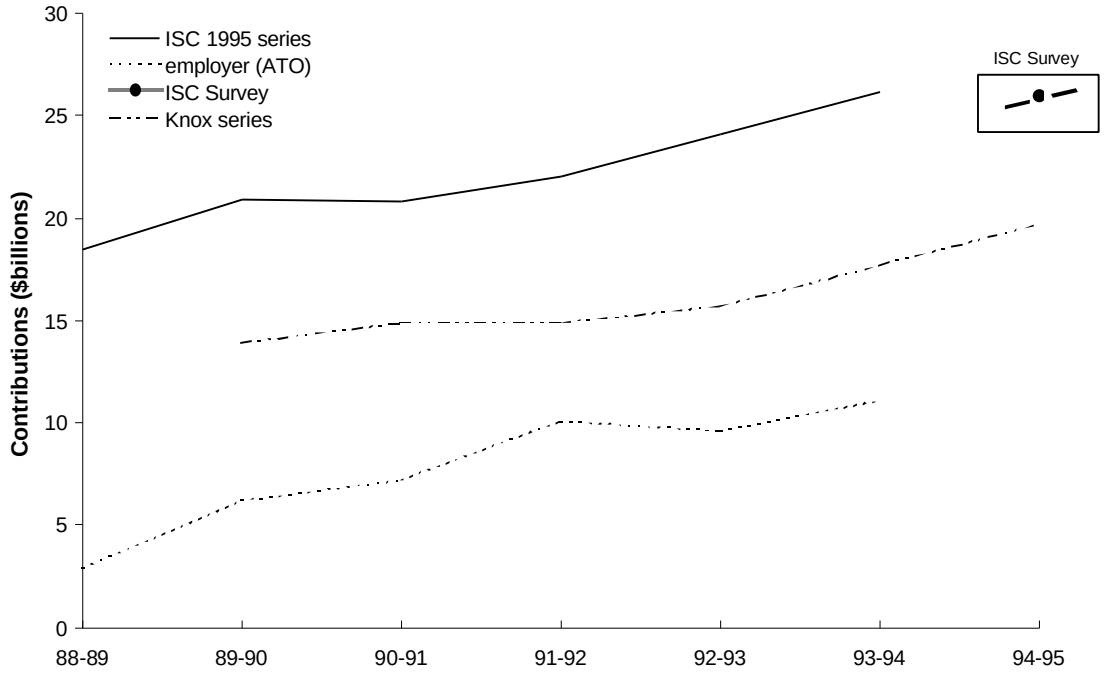


*Figure 3 Estimates for superannuation contributions*




Prior to the introduction of the SIS Act in 1993, superannuation funds operated by life insurance companies were only required to report total superannuation contributions paid into each of their statutory funds. This resulted in life insurance company superannuation contributions also including some transfer payments between superannuation funds as well as transfers into annuity products.

Therefore, the estimate of $26 billion for total new contributions which was published in a 1995 ISC research paper "Superannuation Contributions"[2] was overstated. This is because transfer payments between funds across the industry can account for up to 30 percent of total contributions and so these transfers have the potential to significantly overstate the true value of new contributions through double counting.

Offsetting this overstatement however, was the fact that the statistics significantly understated public sector employer contributions (as discussed earlier).

Indeed, through the SIS legislation, the ISC now requires life insurance companies to separately identify superannuation contributions and transfers received into their 'virtual funds' so the real level of new contributions can be measured more reliably.

Because annuity products are sold directly to policy holders out of a company's statutory fund, they are regulated through the Life Insurance Act, not the SIS Act. This results in annuity assets being included in the superannuation assets series published in the ISC Bulletin while the cashflows for the these products are not included. These cash flows can however be obtained from other ISC life insurance statistical publications[3].

Statistics published by the ISC in earlier superannuation publications[4] excluded contributions paid into superannuation funds operated by life insurance companies. As a consequence, these figures significantly understated the real level of contributions.

## Understanding previous estimates for aggregate contributions

The complexities involved in accurately measuring superannuation contributions have prompted several researchers to derive independent estimates using a variety of official information sources.

The most commonly cited estimates place the actual amount of annual contributions at between $19 billion in 1995[5] and $26 billion in 1993-94[6].

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2 ISC Statistics Unit, Superannuation Contributions, 1995.

3 Quarterly (Life Insurance) Statistical Bulletin and Half Yearly Financial Bulletin on Life Insurance, ISC.

4 ISC Superannuation Bulletin, AGPS. Annual publication, superseded by ISC Bulletin.

5 David Knox, Some Financial Consequences of the Size of Australia's Superannuation Industry in the Next Three Decades, University of Melbourne, 1995.

6 ISC Statistics Unit, Superannuation Contributions, 1995.

The former methodology integrated statistical estimates for superannuation labour costs (ie, employer contributions) published by the Australian Bureau of Statistics (ABS) with estimates for contributions from the self-employed and personal contributions as derived from other ABS publications.

The latter methodology used an alternative approach which drew together official audited results from statutory returns lodged with the ISC by regulated public and private sector superannuation funds. Statistics for superannuation premiums into life insurance statutory funds were added to statistics reported by non-life superannuation funds. The aggregate results were discounted to reflect amounts for life insurance annuity premiums and transfers between non-life superannuation funds. Transfers into life insurance superannuation funds were not always identifiable and so the final estimate, as discussed earlier, may have overstated actual contributions.

Reaction by observers of official statistics to the estimate of $26 billion for total contributions has been cautious because of concerns that its methodology may have inadequately accounted for the treatment of public sector 'pass through' contributions and for wholesale deposits with investment managers. Surprisingly, the most significant area of potential weakness - that the estimate may have included some amount of transfers into superannuation funds operated by life insurance companies - appears to have been overlooked by most observers.

Double counting of wholesale deposits with investment managers has also been raised as a possibility but this is unlikely because only contributions into 'shop front' regulated superannuation funds were included. Contributions into pooled superannuation trusts were explicitly excluded as were wholesale investment manager products because they do not report to the ISC.

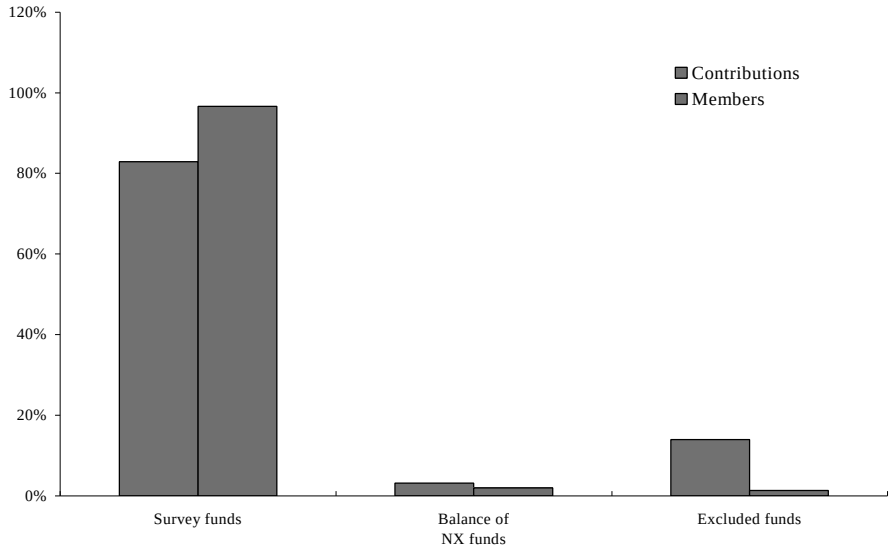
Other analysts have also referred to official Australian Taxation Office statistics for taxable (ie, employer[7]) contributions as a key measure for total employer contributions[8]. These ATO statistics are potentially subject to under coverage because not all public sector superannuation funds pay tax on their employer contributions and therefore may not report all such contributions to the ATO. These ATO statistics may therefore be an inappropriate benchmark for total employer contributions.

Moreover, given the preliminary estimates of $2 billion for notional public sector employer contributions combined with the estimated $5.5 billion paid as public sector employer contributions in 1995[9], it is very likely that any analysis that does not adequately account for these issues may be misleading.

## Results from the new ISC survey

Because of these and other assorted measurement difficulties, the ISC Quarterly Survey of Superannuation was established in 1995 to more closely and more reliably monitor superannuation stocks and flows, including the level of

*Figure 4 Distribution of contributions*




7 Including contributions paid by self-employed workers.

8 Taxation Statistics, AGPS,annual publication.

9 ISC Quarterly Survey of Superannuation, unpublished results.

contributions, particularly as they impact on the National Accounts and national savings aggregates.

The way in which the survey measures these contributions is by separating superannuation contributions into three distinct classes: contributions paid into the major funds that are covered by the survey, contributions paid into the balance of non-excluded funds that are outside the scope of the survey, and contributions paid into excluded funds.

Contributions are explicitly defined as monies paid into superannuation funds directly from either employers on behalf their employees or from employees (including any personal contributions). Monies received as a result of transfers from other superannuation funds or monies on-invested with investment managers are explicitly not counted as contributions.

Contributions into the balance of non-excluded funds are estimated by scaling up the contributions received into funds within the survey using historical industry concentration ratios.

Contributions into excluded funds are estimated by multiplying the number of excluded funds by the average level of contributions per fund. This calculation is performed with respect to the number of new and continuing excluded funds, where these figures are updated quarterly. The level of annual contributions is derived from historical analysis of annual return results. Annual averages are converted to per quarter averages prior to derivation of quarterly contribution amounts.

The methodology explicitly excludes all transfers, including transfers into annuity products sold through life insurance companies. Other premiums used to buy annuity products are also excluded.

Since the ISC Quarterly Survey of Superannuation has been operational only since June 1995, the annual estimate for aggregate contributions is presently derived by annualising the reported amounts relating to the June 1995, September 1995 and December 1995 financial quarters.

While inclusion of the June 1995 quarter may include biases because of possible end-of-financial-year seasonal effects, these biases are only marginal. For example, using only the September and December quarterly results to estimate total contributions for 1995 results in an aggregate estimate of $25 billion.

### *Main findings*

The main finding is that the flow of superannuation contributions in 1995 is estimated at $26 billion. This estimate is within the range of expectations suggested by previously published estimates.

Further analysis reveals that the top 1,100 funds (the top one percent) account for 83 percent of all contributions, even though they account for 97 percent of all member-accounts.

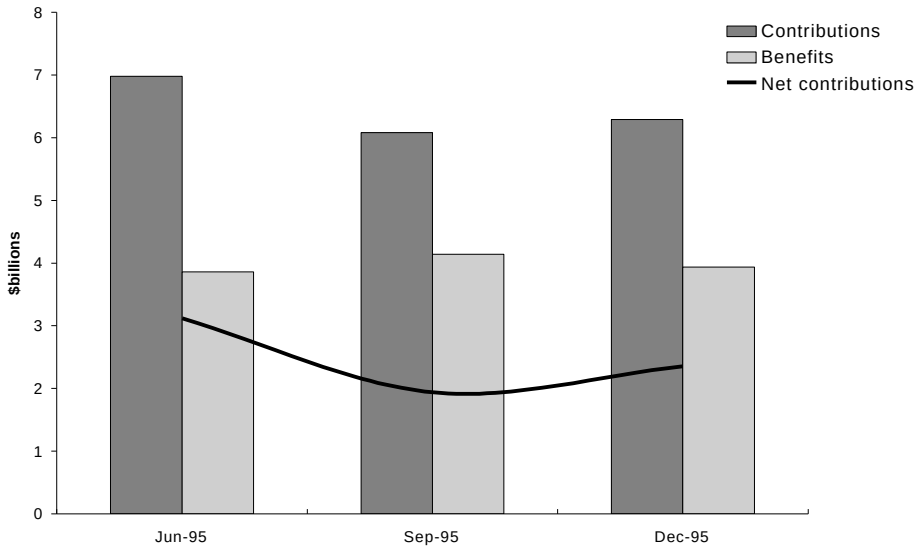
The balance of non-excluded funds account for three percent of contributions, even though they represent two percent of all member-accounts.

Excluded superannuation funds account for 14 percent of total contributions even though they represent only one percent of member-accounts (three percent of individual superannuation members). See figure 4.

Other major results indicate that:

- inward transfers account for around one third of total deposits into superannuation funds; and
- contributions exceed benefit payments by nearly 60 percent (ie, net contributions are currently strongly positive). See figure 5.

*Figure 5 Net contributions*



# Some Background Facts About Superannuation in Australia

*The Quarterly Survey of Superannuation and ABS coverage surveys provide valuable background information about how the superannuation market operates in Australia. In this article we will describe some of the lesser known characteristics of superannuation that have so far been revealed by these surveys.*

## Superannuation coverage

Since 1984 superannuation coverage for employees in Australia has more than doubled to around 87 percent. A feature of this rapid increase in superannuation coverage is that the margin by which male coverage exceeds female coverage has narrowed from 24 percentage points in 1983 to only four percentage points in 1994.

At the same time, full time workers continue to have substantially greater superannuation coverage than part time workers. Coverage for full time workers is now around 95 percent while for part time workers it is around 66 percent.

Since males make up around two thirds of full time workers while females make up around two thirds of part time workers, the lower rates of superannuation coverage for females must reflect their more casual employment patterns.

Interestingly, while superannuation coverage for full time workers is similar for both males and females, the level of superannuation coverage for female part time workers is significantly higher than for male part time workers. See figure 1.

The difference between coverage for male and female part time workers is most pronounced in the agriculture, construction and wholesale industries. In these industries coverage for male part time workers is only around 45 percent compared to 74 percent for female part time workers.

## Multiple accounts

There are now around 15.5 million separate accounts in Australian superannuation funds. This suggests that Australians who have superannuation have on average two and a half superannuation accounts.

The most likely reasons for multiple accounts are the impact of the Superannuation Guarantee arrangements, growth in the number of part time workers, and workforce mobility.

Reflecting the impact of workforce mobility, analysis conducted by the ISC has revealed that the number of multiple accounts for private sector workers is approximately 50 percent higher than for public sector workers.

## Membership

Males make up approximately 56 percent of individual superannuation members. This figure closely matches the proportion of all superannuation *accounts* that are held by males at 59 percent. The pattern of multiple accounts therefore appears to be very similar for both males and females.

*Figure 1 Trends in superannuation coverage*

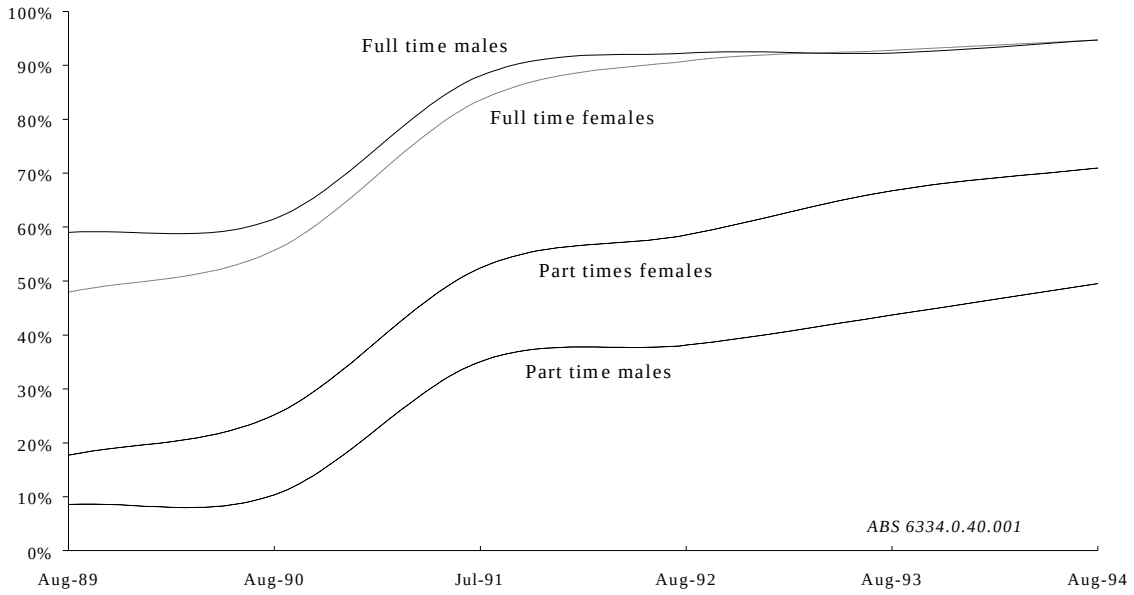
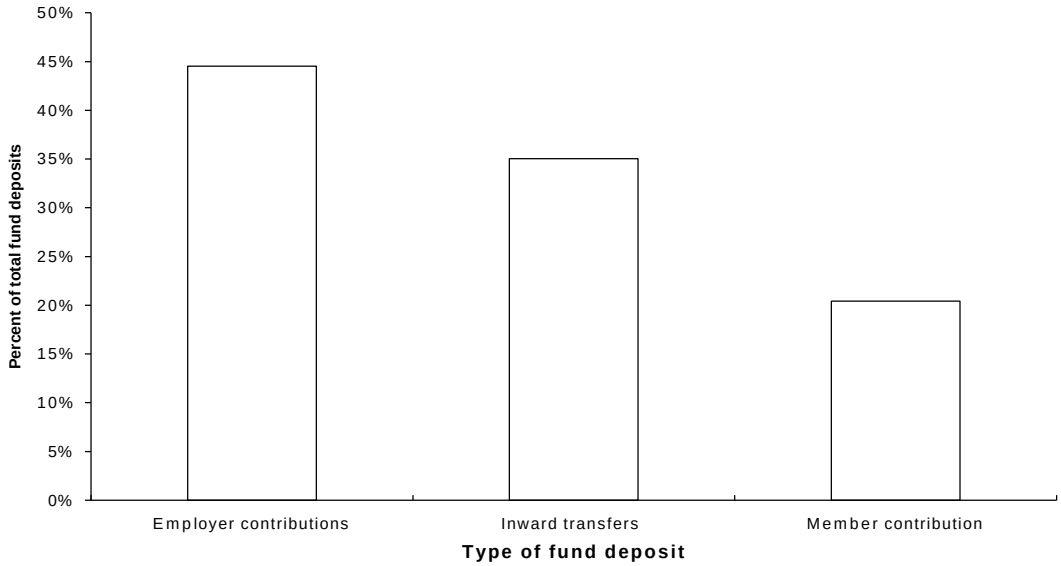


*Figure 2 Deposits into superannuation funds*




While this overall gender distribution is reflected in corporate, industry and excluded funds, other types of funds have different characteristics. For example, in public sector funds 47 percent of accounts are held by males while in retail funds 66 percent of accounts are held by males.

## Entrants and exits

Using the preliminary results from the Quarterly Survey of Superannuation that describe entrants and exits into superannuation funds, it appears that during calender year 1995 an estimated 3.5 million new superannuation accounts were opened in Australia. During this same period, 2.2 million accounts were closed in Australia.

While these figures may seem surprisingly high, it should be appreciated that the vast majority of these movements are most likely the result of people transferring between funds or consolidating their separate superannuation accounts.

Importantly, in terms of money flows, the statistics also reveal that inward transfers account for 35 percent of deposits into superannuation funds. See figure 2.

Preliminary results from the Quarterly Survey of Superannuation also indicate that half of the exits from superannuation funds occur because members are transferring into other funds. It is also interesting to note that this figure closely resembles the 44 percent of fund withdrawals which are paid as outward transfers.

While outwards transfers account for half of all fund exits, retirements, resignations and retrenchments account for another 49 percent.

Death or disability exits account for only one percent.

## Employer contributions

The Superannuation Guarantee arrangements account for $10-13 billion of all contributions. Employer contributions however, account for around $18 billion. Thus it would appear that employers are contributing around 50 percent more than required into their employees' superannuation accounts. See figure 3.

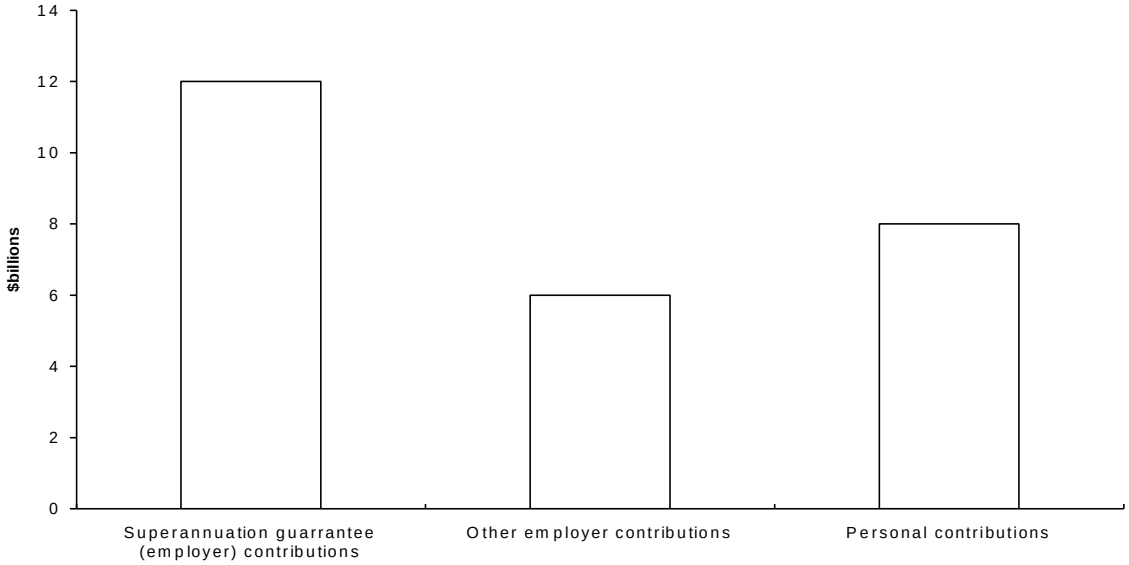
A major reason may be that employees are increasingly recognising the value of negotiating with their employer to convert part of their take home salary into employer contributions because of the taxation advantages it offers. Another reason may be the traditionally high level of superannuation contributions paid by 'white-collar' public and private sector employers into their employees' historically generous defined benefit superannuation funds.

This is also reflected in the growth of non-contributory superannuation in recent years. For example, in 1988 only 14 percent of employees had all their superannuation paid by their employer. By 1993 this figure had climbed to 50 percent[1].

There are also strong differences in the level of employer contributions for the different types of funds. In industry funds employer contributions account for 94 percent of all contributions while public sector funds report that only around 69 percent of all contributions are paid by employers (not including public sector notional 'pass through' contributions).

1 Superannuation Australia, ABS cat no 6319

*Figure 3 Profile of contributions*




Retail superannuation funds, because they capture much of the personal and 'top up' superannuation market, report the lowest proportion of employer contributions at 42 percent.

## Growth across fund types

The fastest growing sector of the superannuation market are industry funds. Their assets have increased by 19 percent during the last two quarters while corporate fund assets have grown by only five percent during the same period.

The growth in industry fund assets may include an element of corporate fund closures where these members have been transferred from the corporate funds into the industry funds. Further illustrating this shift, between June and December 1995 corporate funds increased their membership by only half of one percent while industry fund membership increased by six percent.

Despite the large growth of industry fund assets however, they still account for only five percent of total superannuation assets.

Even though industry funds are the fastest growing superannuation sector their annual per capita contributions, at around $600, are by far the lowest in the superannuation industry. This figure is nonetheless influenced by the high proportion of industry accounts that are inactive (around 30 percent).

Retail funds receive annual contributions of around $1 000 per account.

Retail superannuation grew by seven percent during June to December 1995 while their membership account base grew by two percent. Public sector membership grew by eight percent but this most likely reflects the shifting of members from defined benefit schemes into newer fully funded accumulation funds, possibly causing some members to have accounts in both the old and new schemes.

## Net contributions and net earnings

The long term rate of growth of the pool of superannuation assets has consistently been above 10 percent per annum, even after allowing for improvements in how the ISC measures these aggregate amounts.

However there is much interest in decomposing this growth into its component parts of net contributions (contributions less benefit payments) and net earnings (investment income less costs).

Results from the new survey indicate that net contributions in 1995 accounted for slightly more than one third of overall asset growth. This finding is consistent with previous ISC research which revealed that between 1990 and 1993 net contributions accounted for around one quarter of asset growth.

It is therefore clear that superannuation contributions significantly exceed the amounts that are withdrawn as benefit payments. It is also clear that the superannuation savings pool is growing much more because of positive net investment returns.

Therefore, assuming the continuation of low rates of inflation together with strong rates of return, the future outlook for long term growth in superannuation savings must be regarded as favourable.

# Structuring Asset Portfolios

*To maximise investment performance fund trustees have to make important decisions about asset allocation and investment tactics. This article, which is an exerpt from a new publication recently released by the Australian Investment Managers' Association (AIMA) entitled 'Guide to Investment Management in Australia', looks at some of the issues trustees will need to consider.*

## Setting an Investment Strategy and Objectives

Before an investment fund, typically a superannuation fund, invests its money the trustees need to set an appropriate strategy for a fund. They will consider a wide range of factors which include the age profile of the members of the fund, their risk tolerance, the size of the fund, its likely growth rate and whether it is a defined benefit or accumulation scheme.

A defined benefit scheme, in which the fund sponsor (e.g. the employer) promises specific benefits will require a different investment approach to an accumulation scheme in which members receive in benefits only the amounts which accumulate in their accounts.

Once the trustees have set their investment strategy, they have a wide range of portfolio management options to implement their strategy and achieve the objectives they have set for their fund's members.

A fund's investment strategy may often be expressed as a target rate or return - e.g., to produce a return which is a certain percentage level above the rate of inflation over a specified period of time.

Once a strategy is set, the fund's trustees then have to translate the strategy into a portfolio which will achieve the objectives they have set.

Normally, this will result in the trustees building a model of their portfolio which will achieve the expected returns and match the fund's long-term liabilities and the risk profile of its members.

This long-term model portfolio is usually called a strategic asset allocation. Table 1 sets out who usually does what in the investment process.

## Strategic Asset Allocation

Figure 1 gives an example of a strategic asset allocation which trustees (or, in the case of pooled funds, the investment manager) might adopt for a fund.

In this example the fund has adopted a strategic allocation of 75% equity investments (comprising 40% Australian shares, 25% overseas shares and 10% property trusts) and 25% debt investments (15% fixed interest, 5% indexed bonds and 5% cash).

With its relatively high exposure to equity investments, this strategic asset allocation would be

*Table 1 - Involvment in the investment function*

| Examples: | Industry best practice | CPI+3% over rolling 5 years | Use only external professional managers | Benchmark asset allocation | Variations within set asset ranges | Yearly returns vs benchmark |
|---|---|---|---|---|---|---|
| Stage: | Fund objectives | Asset objectives | Investment policy | Investment strategy | Investment tactics | Performance measurement & monitoring |
| Who gets involved: | | | | | | |
| Members[1] | ✓✓ | | | | | |
| Trustees/ Policy C'tee[1] | ✓✓ | ✓✓ | ✓✓ | ✓✓ | ✓ | ✓✓ |
| Actuary/ Benefit Con[1] | ✓ | ✓✓ | ✓ | | | |
| Asset consultants | | ✓✓ | ✓✓ | ✓✓ | ✓ | ✓✓ |
| Investment managers | | ✓ | ✓ | ✓ | ✓✓ | ✓✓ |
| Custodians | | | | | | ✓✓ |

Code: ✓✓ Usually involved ✓ May be involved and/or have useful knowledge

[1] Members, Trustees and Benefit consultants are also all usually involved at the liability objectives stage, for example determining retirement benefit levels.

most suited to a fund with a reasonably long term investment horizon and with relatively few members approaching their retirement. The fund would need to be able to withstand adverse short-term fluctuations in the share market so it could capture the expected higher returns from those markets over the longer term.

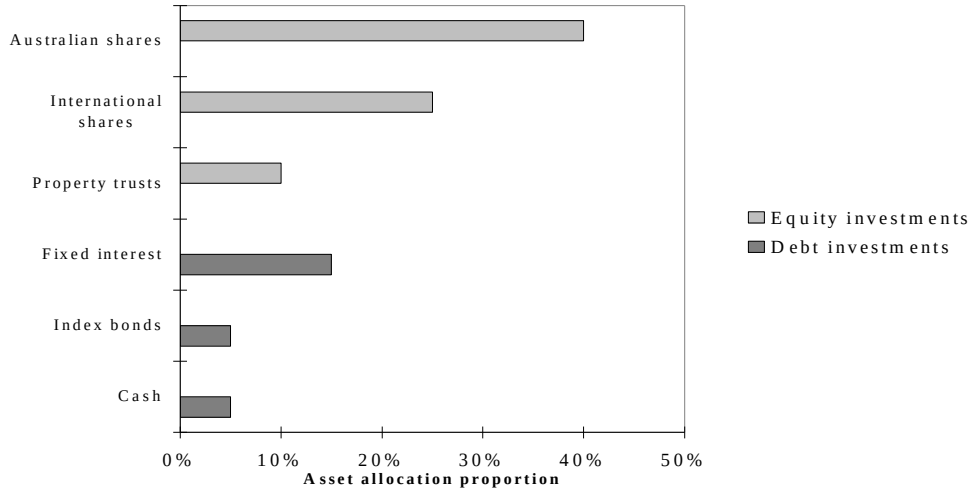
Trustees of funds in different circumstances might adopt alternative strategic asset allocations; for example:

- A fund with low reserves or which expected heavy retirement payments in the near future would adopt a much lower exposure to shares (perhaps 30-40%) to cope with the shorter time horizon of the fund;
- A fund sponsored by an employer whose income is mainly from exports might have a lower overseas currency exposure, so that a rising $A would not hurt both the fund and the employer at the same time; or
- A fund paying a significant volume of inflation-indexed pensions to retired members might increase its component of indexed bonds to lock in protection against future rises in inflation.

Whatever the circumstances, trustees and their advisors can devise a strategic asset allocation which meets their fund's particular circumstances and objectives.

*Copies of the 'Guide to Investment Management in Australia' may be obtained by contacting the Australian Investment Managers' Association (AIMA) on (02)2993533.*

*Figure 1 - Asset allocation example*



# Providing Quality Independent Financial Advice

*The ISC released an issues paper reviewing matters relevant to the regulation of life insurance brokers last October for public comment. One aspect of the provision of financial advice raised in the review is the client's perception of the independence of that advice . By achieving the following standards a financial adviser could confidently describe him or herself in the marketplace as 'independent' and a provider of a professional service.*

1. *Fully disclose status and fees*

   An independent adviser discloses to the client who is responsible for the adviser's conduct and the fact that the adviser owes his or her primary duty to the client. The adviser also informs the client of any fees or other amounts the client will be charged for services provided.

2. *Don't receive commissions*

   An independent adviser is able to give unbiased advice only if, in making product recommendations, the adviser cannot be influenced by any commissions, trailing commissions or soft dollar arrangements paid by product providers.

3. *Don't act as a life agent*

   An independent adviser acts only for the client and the adviser's primary duty remains to the client in all transactions. The adviser by acting solely as the representative of the client avoids confusing the client. The adviser does not swap between the 'hats' of an adviser and an agent.

4. *Conduct a fact finder/know your client process*

   An independent adviser firstly obtains relevant information about the client's circumstances, needs and objectives to ensure that the client receives appropriate advice.

5. *Broke the market/cover reasonable range of products*

   An independent adviser regularly reviews his or her list of 'recommended' products. The adviser 'brokes' the market either by directly researching the products available or by subscribing to external research facilities. In reviewing products the adviser covers a reasonable range and maintains a high level of knowledge of these products.

6. *Have a reasonable basis for recommendation*

   An independent adviser makes product recommendations to the client that take account of the client's circumstances, needs and objectives and are reasonable for, and appropriate to, that client.

7. *Don't recommend a major shareholder's products*

   An independent adviser is able to give unbiased advice because he or she only recommends the products of a major shareholder or associated company of the advisory firm where those products are clearly and demonstrably the most appropriate for the needs of the client and there is disclosure of any material ownership links.

8. *Keep records on file*

   An independent adviser maintains comprehensive and accurate records of all dealings with clients. These records are made available on request to the client, external dispute resolution mechanisms, and the industry regulator.

9. *Have professional indemnity insurance*

   An independent adviser has professional indemnity insurance that is sufficient to cover liabilities arising out of, or in the course of, the adviser's business. The adviser makes a long-term commitment to the industry but, if necessary, also buys run-off cover on exiting the industry.

10. *Subscribe to an approved complaints scheme*

    An independent adviser establishes internal complaints handling procedures that are free of charge to the client and are capable of addressing all possible complaints against the adviser. An independent adviser is also a party to a government-approved external complaints scheme that has jurisdiction to handle the types of complaints brought against the adviser.

# Highlights - December 1995

## Main features

- At the end of the December quarter 1995 the value of total assets in the superannuation system was $239.8 billion.
- The value of total superannuation assets increased during the December quarter by $8.7 billion (3.8% or 16%pa).
- During the December quarter superannuation member accounts increased by 264,000 (1.7% or 7%pa) to 15.5 million.
- Contributions into superannuation funds for the calender year 1995, excluding transfers, are estimated to have been $26 billion. Employers' contributions account for 68 percent of this total, while employee and personal contributions account for 32 percent. During 1995 SG contributions were estimated to be around $12 billion, implying that employers contributed around $5.5 billion (50%) over and above their SG obligations.

## Contributions and Benefits

Employers contributed $4.3 billion into superannuation funds during the December quarter whilst employees contributed $2.0 billion into superannuation funds.

Transfers into superannuation funds accounted for 35 percent ($3.4 billion) of all fund deposits during the December quarter.

Contributions per superannuation account during the December quarter were $407, or around $1,700 for calender year 1995. Average contributions per individual member for 1995 are estimated to be around $4,250 (assuming 2.5 accounts per individual).

Lump sums accounted for 80 percent ($3.1 billion) of the benefits, excluding transfers, paid during the December quarter. The remaining 20 percent ($800 million) of benefits were paid as pensions.

Transfers out of superannuation funds accounted for 44 percent ($3.1 billion) of all fund withdrawals during the December quarter.

*Contributions by fund type*

Public sector funds received the largest share of contributions made during the December quarter, receiving $2.0 billion (33%) of all contributions.

Retail funds received $1.5 billion (24%), corporate funds $1.1 billion (18%) and excluded funds $900 million (14%) of all contributions.

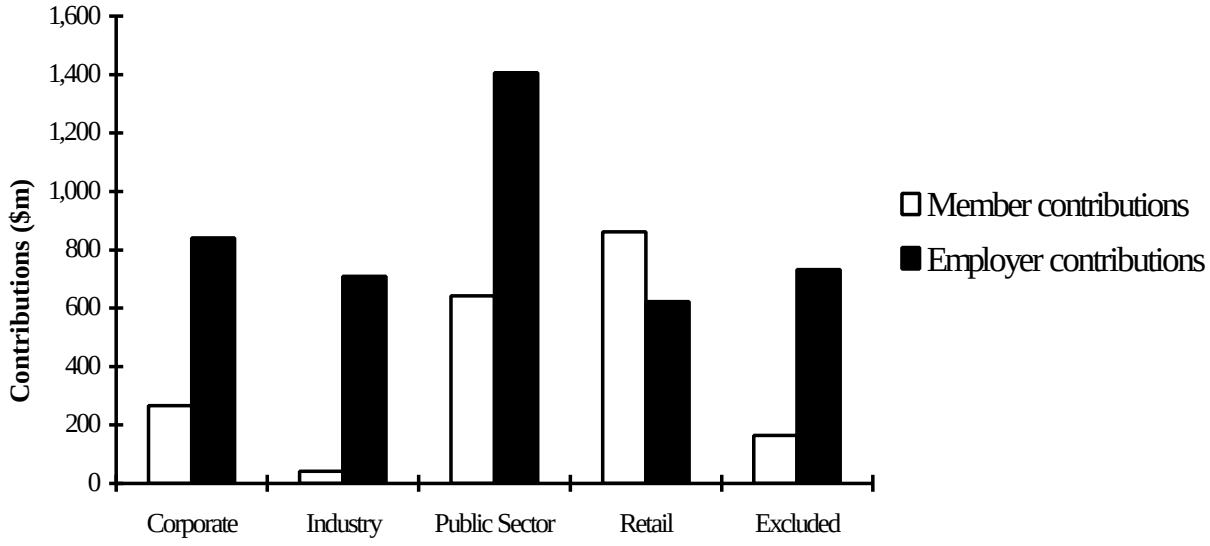
Interestingly, although industry funds contain 35 percent of superannuation accounts, they received only 12 percent ($750 million) of all contributions during the December quarter.

Reflecting their award and SG basis, 94 percent of

contributions paid into industry funds were paid by employers. Contributions into industry funds can be expected to grow in direct relation to the increase in SG contribution requirements (while employer choice is restricted by award conditions).

Retail funds were the only funds where member contributions were greater than employer contributions, being $860 million (58%) and $620 million (42%) respectively. This result reflects the large amount of personal superannuation contributions made into retail funds.

*Figure 1 - Member and employer contributions*



## Manner of investment

At the end of December 1995 the statutory funds of life offices retained the largest share of the total assets of superannuation, holding $91.2 billion (38%) of assets.

Investment managers held $80.9 billion (34%) of superannuation assets whilst $67.6 billion (28%) of superannuation assets were directly invested.

During the six months to 31 December 1995 the statutory funds of life offices experienced the lowest growth in superannuation assets (6.0%), compared to the holdings by investment managers (8.4%) and direct investment (8.5%).

## Asset allocation

Superannuation assets invested overseas remained steady at 15% at the end of December. As the TWI remained static over the December quarter (increasing by only 0.2 percent) this represents a net flow of around $1 billion offshore.

Superannuation investment in equities increased by 7 percent during December quarter. Since the ASX accumulation index rose by 4.6 percent during the quarter it follows that there was a net flow of around $1.4 billion into the equities markets from superannuation assets. This increase in superannuation equity holdings had the effect of increasing the overall proportion of superannuation assets invested in equities by one percent to 29 percent in December.

Holdings of long term debt securities increased by around 2 percent during the December quarter. However, during this time long term bond yields decreased by around 3.5 percent, indicating a net outflow of around $750 million of superannuation assets from long term debt securities. Despite this outflow of funds, the overall amount of superannuation assets invested in long term debt securities remained at around 20 percent.

The proportion of superannuation assets invested in short term debt securities remained steady at 7.5 percent, as did assets invested in cash, deposits and placements (10%) and units in trusts (8%). The proportion of assets invested in direct property fell slightly to 7 percent with other investments showing a commensurate increase to 4 percent.

## Female and male superannuation accounts

At the end of December males held 9.1 million (59%) of superannuation fund accounts whilst females held 6.4 million (41%) of superannuation fund accounts. These distributions match broadly the gender ratios for employees generally at 56 percent male and 44 percent female.

Public sector superannuation funds were the only funds to have a greater proportion of female member accounts (53%) than male member accounts (47%). Retail funds had the greatest proportion of male member accounts (66%), possibly reflecting a greater number of males having personal superannuation accounts.