Superannuation update from legalsuper

Bigger is not always better

By Andrew Proebstl,
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In the world of superannuation and around it too, there has been much debate about how big a superannuation fund needs to be to continue to exist.

In recent time, funds with less than $5 billion in assets were branded as ultimately going to succumb to merger.

It is a debate that has always been around but intensified after the 2010 Super System Review commissioned by the former Federal Government reported that funds with assets of more than $20 billion had lower operating costs and called on smaller funds to consider whether they had “sufficient scale ... to continue providing optimal benefits to members”.

Many commentators submit that it is a virtual foregone conclusion that smaller funds should shut up shop thereby acting in the best interests of their members.

I contend that whether a fund should merge with another involves more deep and sophisticated thinking than simply drawing a numeric line in the sand that if a fund is less than $5 billion it should merge. When considering what is in the best interests of members, funds need to carefully weigh up the gains from a merger AND the losses from a merger.

One key benefit of smaller super funds is that they are better placed to understand and therefore meet the expectations of their members. They know their target market well and therefore can more efficiently access and serve their niche market. They are also more likely to provide high levels of personal service.

A current day illustration of the opportunity for smaller funds to be advantaged relative to larger funds is recent industry-wide experience of steep rises in insurance premiums for life and total and permanent disablement cover.

Indeed, a number of large super funds have announced very substantial increases in insurance premiums including 38% by AustralianSuper, 52% by REST, and 27% by CareSuper.

There are multiple issues driving these significant premium increases including increased awareness of the availability of insurance cover and also poor claim history.

As the $2.2 billion industry super fund for 40% of people working in Australia’s legal profession, legalsuper has a more homogenous membership relative to some of the larger super funds that target membership across a wide range of occupational groups often with very different risk profiles.

On the other hand, smaller super funds with well-defined target markets are better placed to negotiate insurance cover at competitive premiums due to their consistent membership and risk profile.

We have recieved some enquiries from employers as to the rate at which SG is to be paid from 1 July 2014.

The former Federal Government legislated for a gradual increase in the SG rate, which will reach 12% from July 2019.

According to current legislation, SG is to be paid at 9.5% from 1 July 2014.

The current Federal Government introduced legislation into Parliament to defer any increase above the current 9.25% for two years (i.e. to 14 July 2016). On 25 March 2014 the Senate voted against this legislation.

Unless the Federal Government secures the support of other political parties, the existing legislation will prevail such that the SG rate will rise to 9.5% from 1 July 2014.

legalsuper will continue to monitor developments and keep you briefed. ●

This is why, despite dramatic premium hikes being announced by larger funds, legalsuper has been able to secure a three-year freeze on insurance premiums.

As well as the three-year freeze, legalsuper has been able to increase member insurance benefits at no extra cost including unlimited death cover (previously limited to $3M), increased TPD cover to $3M (previously limited to $2M), increased terminal illness benefit to $2M (previously limited to $1M) and increased maximum income protection to $30k (previously limited to $20k).

Other additional improvements included for employed members aged 45 and above, between one and four units of additional insurance (in addition to the four units of default insurance provided) can be requested without the need to complete an insurance application.

According to a report from the prudential regulator of the Australian super industry (the Australian Prudential Regulation Authority – 'APRA'), of the 200 largest super funds in Australia just over half have less than $1 billion of assets. The largest has around $66 billion of assets. Another report from APRA shows that there has already been significant rationalisation in the number of super funds – about an 80% drop in the number of super funds over the last ten years from around 1,800 in 2004 to just over 300 in 2003. So, the industry has certainly already significantly rationalised.

Whether the industry continues to rationalise will only be known with time. My hope is that the debate about scale becomes more than just an application of a numeric threshold for the decision as to whether to merge or not to merge.

The decision as to whether to merge is certainly about more than size. Ultimately, it is whether a merger is in the best interests of members and as mentioned earlier the pros and cons of merger need to be carefully weighed up.

In reality the existence of smaller and larger players in any industry is an indicator of a mature industry. It's horses for courses. In Australia's legal profession there are large law firms and small law firms, smaller firms may specialise in a particular area of law. If it was all about size, why don't the small firms all just merge into a handful of large legal firms? Part of the answer I'd suggest is that well run businesses in any industry can co-exist and succeed be they large, medium or small.

As I believe the favourable insurance outcome achieved by legalsuper shows, smaller super funds can be beautiful. •

ANDREW PROEBSTL is chief executive of legalsuper, Australia's industry super fund for the legal profession.

38% increase in insurance premiums by AustralianSuper

52% increase in insurance premiums by REST

27% increase in insurance premiums by CareSuper

Three-year freeze on insurance premiums by legalsuper

legalsuper 'Half year report to members'

The report has been sent to all legalsuper members and provides a summary of key outcomes for the period 1 July 2013 – 31 December 2013.

Some key outcomes noted include:

- legalsuper delivered top-quartile investment performance for 90% of all members' assets.
- Gross inflows of $101 million were received – an increase of 13% over the same period 12 months earlier.
- Current insurance fees have been locked in until 1 October 2016.

legalsuper now manages in excess of $2.2 billion on behalf of people working in the national legal profession. •