AIST submission

Response to Treasury: Proposed Financial Industry Levies for 2012-13

June 2012

Australian Institute of Superannuation Trustees

AIST

The Australian Institute of Superannuation Trustees (AIST) is an independent, not-for-profit professional body whose mission is to protect the interests of Australia's $450 billion not-for-profit superannuation sector. AIST's members are the trustee directors and staff of industry, corporate and public-sector superannuation funds, who manage the superannuation accounts of two-thirds of the Australian workforce.

AIST is a registered training organisation and has recently expanded its education program to encompass the growing and changing needs of all members of the not-for-profit superannuation sector.

AIST offers a range of services including compliance and consulting services, events - both national and international - as well as member support. AIST also advocates on behalf of its members to relevant stakeholders.

AIST's services are designed to support members in their endeavour to improve the superannuation system and build a better retirement for all Australians.

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1 Executive summary

AIST recommends that:

1. all participants of the superannuation system deriving a benefit from the implementation of SuperStream should make an appropriate and proportionate contribution toward the SuperStream component of the levy.
2. each SMSF be levied an amount of $81 toward the ATO's SuperStream development costs in 2012-13 (or $52 pa if recommendation 5 is accepted).
3. the Government adopt the Parliamentary Joint Committee on Corporations and Financial Services recommendation that the ATO be required to provide a regular detailed breakdown of its SuperStream development costs.
4. the levy be discounted by expenditure providing a wider benefit to the ATO and the Federal Government.
5. the total amount of SuperStream funding to be recouped by the levy be collected in equal instalments across the six years from 2012-13 to 2017-18.
6. the Financial Industry Levies for 2012-13 be applied on the basis of Scenario 3.
7. Treasury and APRA be tasked to review the calculation method for levies with a view to taking member numbers into account.

2 Body of submission

2.1 Australian Government cost recovery

One of the underlying principles of the Government's cost recovery policy is that cost recovery of agency costs is appropriate where the beneficiaries are to be "a narrow and identifiable group." This is reiterated in the introduction to the paper.

However, the beneficiaries of SuperStream are a ***wide*** and identifiable group, and include:

- All participants in the superannuation industry:
  - Super funds operating under an APRA-issued RSE licence
  - Small APRA Funds
  - Self-Managed Super Funds
- Employers
- ATO
- APRA
- Federal Government

Ultimately, of course, employees entitled to SC contributions, and members of superannuation funds will have a better experience of superannuation as a result of SuperStream. As superannuation involves the private provision of a public good, it is the superannuation industry and the government, rather than employers and employees, that should bear the cost of implementing a more efficient system.

In its Stronger Super policy announcement of December 2010, the Government made the following comment on costs:

> *"The Government recognises that the introduction of the broader SuperStream recommendations, including electronic processing and common data standards will impose additional costs on the industry in the short term. However, streamlining administration will deliver considerable benefits over the longer term.*
>
> *There will be costs to Government to implement the TFN and account consolidation changes, and to update systems and forms to be compliant with new data and e-commerce standards as recommended by the SuperStream proposals. These costs will be offset by a temporary industry levy on APRA-regulated funds, on a cost recovery basis."*

AIST does not oppose the Government's cost recovery policy, and accepts that that it is appropriate to levy the superannuation industry to fund the ATO's implementation of

SuperStream, provided it is properly designed and implemented, and accountable through the SuperStream Advisory Council.

AIST recommends therefore that all participants of the superannuation system that derive a benefit from the implementation of SuperStream should make an appropriate contribution toward the SuperStream component of the levy.

2.2 Superannuation industry contribution to SuperStream levy

Self-Managed Superannuation Funds (SMSFs) will derive significant efficiencies from the implementation of SuperStream and should therefore make an appropriate contribution to the SuperStream component of the levy, or make an equivalent contribution through an alternate collection measure. Of course, AIST is *not* suggesting that SMSFs make any contribution to the APRA-funding component of the levy

The SMSF Professional Association of Australia (SPAA) is represented on the SuperStream Working Group and has been an active and positive participant. Issues raised at the Working Group such as the ready and accurate verification of SMSF bank accounts have been recognised by all participants as measures that add to the efficiency of the super system as a whole, and to SMSF's in particular.

In an article entitled "*New SuperStream measures to benefit SMSFs: SPAA*" (9 August 2011), SPAA is reported as identifying many of the benefits of SuperStream to SMSF's:

> *"New data transfers standards for rollovers and employer contributions, to be introduced as part of SuperStream, will benefit self-managed super funds (SMSFs), according to SMSF Professionals' Association of Australia (SPAA) technical director, Peter Burgess.*
>
> *The Government is expected to introduce new mandatory data transfer rules, which will apply to super funds and some employers, from 1 July 2013.*
>
> *Speaking at the SPAA Technical Conference in Sydney, Burgess said SuperStream would reduce the time it took to rollover funds and process employer contributions, adding SMSFs should not fear the changes.*
>
> *"Ensuring all rollovers and employer contributions must be accompanied by mandatory sets of data will eliminate the need for SMSF administers to chase up missing data and undertake time consuming reconciliation processes," he added.*
>
> *It is also expected SuperStream will require SMSFs to have access to the internet and a bank account which can accept electronic fund transfers - requirements deemed by SPAA as reasonable."*

The contribution that SMSFs should make to the cost of funding SuperStream should be reasonable and proportionate to the benefit that SMSF members derive from SuperStream.

Table 1: Proportional allocation of SuperStream funding costs by superannuation industry sector

Sector	FUM ($B)[1]	% of market	Proposed SuperStream component ($M)	Number of entities[2]
Corporate	57.0	4.3%	5.20	123
Industry	264.5	19.8%	24.11	56
Public Sector	218.1	16.4%	19.88	39
Retail	376.9	28.3%	34.36	136
SMSF	416.4	**31.2%**	37.96	468,133
Total	1,332.9	100.0%	121.50	468,487

On the basis of the above, **AIST recommends that each SMSF be levied an amount of $81 toward the ATO's SuperStream development costs in 2012-13.** This equates to SMSF's share of Australian superannuation assets.

Alternately, and in the event that AIST's subsequent recommendation (in section 2.4 of this submission) about the even distribution of the levy over the next six years is accepted, **AIST further recommends that each SMSF be levied a total of $311 toward SuperStream development costs, payable in six annual instalments of $52 over the period 2012-13.**

Collection of a SMSF component is appropriately undertaken by the ATO rather than APRA. Regulations made pursuant to the SMSF Superannuation (Self Managed Superannuation Funds) Supervisory Levy Imposition Act 1991 would need to be amended for this purpose.

[1] APRA Statistics Quarterly Superannuation Performance (March 2012 issued 7 June 2012

[2] Ibid 1

2.3 Determination and isolation of ATO SuperStream development costs

The June 2012 report of the Parliamentary Joint Committee on Corporations and Financial Services Inquiry into the Superannuation Legislation Amendment (Stronger Super) Bill 2012 and the Superannuation Supervisory Levy Imposition Amendment Bill 2012 made the recommendation:

> *2.41 That the ATO be required to provide a regular detailed breakdown of its costs and expenditure of the additional levies to the SuperStream Advisory Council, based on reporting guidelines developed in consultation between the council and the ATO.*

This followed a joint submission made by AIST, ASFA, FSC and ISN that recommended:

> *1. The ATO as the principal expender of monies is required to table a detailed costs breakdown of the two major policy objectives (namely consolidation and standardisation as referred to in Subsection 50(6));*
>
> *2. Regular transparent reporting to the SuperStream Advisory Council on expenditure and progress against budgeted plans be required;*
>
> *3. The ATO and superannuation industry look for areas where the expenditure and development already planned or in place by the industry reduces or negates the need for ATO expenditure;*
>
> *4. The levy is paid in annual instalments by superannuation funds in line with the ATO's requirements.*

It continues to be the case that very little detail has been provided to date on what the levy will fund, and the information that has been provided is not totally consistent. The level of generality and lack of precision can be seen noting and comparing each of the announcements about the undertakings to be funded by the levy:

- **Stronger Super policy announcement, December 2010**

- implement TFN changes
- implement account consolidation changes
- update systems and forms to be compliant with new data and e-commerce standards.

- **Federal Budget, May 2012**

- better use of technology
- standardising data and payment requirements for member related superannuation transactions (such as contributions and rollovers).
- up-front investment is required in information technology systems.

- **Proposed financial industry levies for 2012-13**
- data and e-commerce standard, enabling services and on-boarding
- SuperSeeker, account consolidation and data matching
- program management and governance
- communications and research

In line with this, **AIST recommends that the ATO be required to provide a regular detailed breakdown of its SuperStream development costs, and that the levy be discounted by other expenditure providing a wider development to the ATO of the Federal Government**.

For example, “other expenditure” could include development work to improve the overall operation of Standard Business Reporting (SBR), upgrading the operation of AUSkey, or further developing Proof of Identity measures.

2.4 Distribution of SuperStream levy component 2012 - 13 to 2017 - 18

AIST notes and agrees with the Government that there will be additional costs on the superannuation industry in the short term while delivering considerable benefits over the longer term.

Many of these industry costs will be incurred during 2012-13. That is, in the same period that super funds are being levied the largest component of the SuperStream related levy ($121.5 million).

The total amount of SuperStream funding for 2012-13 and subsequent years was only announced in the May 2012 Federal Budget, around the same time super funds were calculating system and business requirements for SuperStream. The high level of funding required came as a surprise to the super industry, and has not been budgeted for at the necessary level – and could not have been given the absence of prior knowledge.

In addition, super funds are budgeting for their own costs for SuperStream, notwithstanding that legislation to give effect to SuperStream is only scheduled to pass through Federal Parliament this week.

It remains the case that super funds have to continually review their SuperStream development budgets, as components of SuperStream are designed. For example, it is still not possible to plan with certainty for messaging gateways; security and transport protocols; nor fully understand their pass-through-of-contributions obligations.

The sum of these additional costs is likely to be in the order of hundreds of millions of dollars, although the lack of certainty on these matters means that final costs can only be estimated.

The sum of internal costs plus the levy means that super funds will be faced with very significant additional financial burdens in 2012-13.

The combination of this uncertainty with the high financial costs means that the Government should ameliorate the impact of the SuperStream component of the levy.

AIST recommends that the total amount of SuperStream funding to be recouped by the levy be collected in equal instalments across the six years from 2012-13 to 2017-18.

If the levy is paid at the proposed level by APRA-regulated funds, then $77.85 million should be levied in each of the next six years.

In the event of other participants in the superannuation industry being required to contribute to the levy, or the level of the levy being reduced, these figures will change. For example, if SMSF's are required to pay their share of funding costs, $53.57 million would be paid by APRA regulated funds over each of the next six years.

2.5 Levy scenarios for 2012 - 13

AIST is concerned about the adoption of a levy scenario that results in a lack of equity in the payment of the levy by funds of different asset sizes and numbers of members. This is not so much an issue about equity between funds, but about equity between members of different sized funds.

These comments are consistent with submissions made by AIST on the Trio levy, and on the 2011-12 Financial Industry levy, and our overall commitment to equity within the superannuation industry.

The comments below are made on the basis of the levy being paid at the proposed level by APRA regulated funds. In the event of other participants in the superannuation industry being required to contribute to the levy, or the level of the levy being reduced, these figures will change.

Scenario 3

Of the three scenarios presented in the Treasury/APRA paper, Scenario 3 is the most equitable model with the maximum rate applying for all funds with an asset base greater than $19.778B.

This scenario provides some limited advantage for higher asset base funds. The $20 billion fund will pay effectively the same rate of as a $1 billion fund, while the $40 billion fund will pay around ¼ less.

Table 3: Levy rate on superannuation fund by asset size – Scenario 3

Fund	Asset Base	Restricted	Unrestricted	Total	Effective Rate
A	$1.0B	$126,400	$104,060	$104,060	0.02305%
B	$20.0B	$2,500,000	$2,081,200	$2,081,200	0.02291%
C	$40.0B	$2,500,000	$4,162,400	$4,162,400	0.01666%

Fund	Member Base	Cost per member
D	70,000	$4.61
E	700,000	$4.61
F	1,400,000	$3.87

The comment in the paper (page 6) that "the [2012-13] cost is roughly in the order of $4 per account" is accurate when applied to Scenario 3 given the limited range of outcomes at a member level. However, this is not the case with Scenario 2 which would effectively result in super fund members making widely different contributions to the levy, depending on the nature of their super fund.

AIST recommends that the Financial Industry Levies for 2012-13 be applied on the basis of Scenario 3.

AIST also recommends that Treasury and APRA be tasked to review the calculation method for levies to take member base into account.