The development of a professional pensions industry: regulation and reform in Australia

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Ross Jones

Deputy Chairman, Australian Prudential Regulation Authority

Introduction

- The objective of this presentation is to provide you with a broad overview of Australia’s superannuation system:
  - With an emphasis on where it fits within Australia’s retirement income system
  - Its history and development

- Australia’s retirement income system is a three-pillar system encompassing:
  - Age pension (non- contributory safety net);
  - Compulsory Superannuation (the Superannuation Guarantee); and
  - Voluntary Savings, including Superannuation.

But before I start - APRA

- The Australian Prudential Regulation Authority (APRA) is the prudential regulator of the Australian financial services industry. It oversees banks, credit unions, building societies, general insurance and reinsurance companies, life insurance, friendly societies, and most members of the superannuation industry. APRA is funded largely by the industries that it supervises. It was established on 1 July 1998. APRA currently supervises institutions holding approximately $3 trillion in assets for 21 million Australian depositors, policyholders and superannuation fund members.

- APRA's website at www.apra.gov.au provides information about our supervised entities and our supervision approach, as well as a great deal of statistical information

General remarks - significance of superannuation to economy

- Superannuation assets in Australia amounted to AUD$1.1 trillion at June 2007 - managed as follows:
  - 15% - public sector schemes
  - 6% - corporate/employer funds)
) the “mutual” or “not for profit” sector
  - 17% - industry funds)
  - 25% - self-managed funds (limited to 4 members, all must be trustees)
  - 32% - retail funds
- This represents 100% GDP

The DB versus DC promise

- With DB schemes a prudential supervisor focuses on ensuring that the employer meets its promise. Scheme funding, actuarial projections are examined
- With DC schemes there is no promise to a beneficiary. The supervisor focuses on compliance with rules or a risk based supervisory approach

Further reforms – Trustee licensing

- Trustees of ALL funds with members at arms-length from the trustee to be licensed by the prudential regulator

- Standards set for:
  - Fitness and propriety
  - Adequacy of resources (financial, human, technical)
  - Risk management
  - Outsourcing

- Industry consolidation continued as rigorous licensing procedures saw many smaller funds wind up or merged

Age pension - first pillar

- Increased twice a year in line with CPI
- Floor of 25% of male total average earnings
- Means tested against income and assets
- New government has indicated it will review age pensions in context of broad tax review

Compulsory Superannuation – second pillar (1)

- Award superannuation arrangements commenced in 1986
- Superannuation Guarantee (SG) arrangements were introduced in 1992.
- The aim of the SG is to ensure that as many Australians as possible have access to superannuation and to provide higher standards of living in retirement.
- Employers are required to contribute 9 per cent of wage or salary

Second Pillar Outcomes

- All employers now make contributions for their employees
- Employees are not required to make any contributions themselves
- Coverage is high: 98% of full-time employees
  over 90% of all employees
- Has adequate retirement income been achieved?

Voluntary Superannuation – third pillar

- Voluntary superannuation is encouraged by the provision of tax concessions to employers and the self-employed
- Employers can make additional superannuation payments on behalf of employees if they wish
- Employees can make additional personal contributions if they wish but these are not tax deductible when contributed
- Incentives exist for the self-employed and employees to make voluntary contributions

Impact of compulsory superannuation on the financial market

- Superannuation assets and Australian share market capitalisation have grown on average at 15% for past 20 years
- Australian pension funds on average allocate more than half of their total equity allocation to Australian shares
- Impact on demand for services

Policy implications

- Is 9% sufficient?
- Incentive to save
- Complexity
- Consumer confidence
- Consumer financial literacy

Thank you

Contact

ross.jones@apra.gov.au