# Super safe when outsourced

With new regulations of the super fund market coming into effect next year, organisations are choosing to outsource their superannuation. *HCA* reports

Outsourcing may be something of a hit-and-miss reality with the HR function but when it comes to superannuation, there is little talk and plenty of action.

Increasing numbers of organisations are moving to outsource their superannuation as further regulations introduced by government, coming into effect next March, will make managing an internal super fund even more costly and time consuming. And the choice to move to outsourcing super has spread from small-and-medium to large organisations. Research from Rainmaker Information shows that while the amount of money in the overall super market has increased by 5% over the past year, corporate funds have enjoyed a 15% increase.

"Larger organisations are turning to outsourcing mainly because of risk management," says David Solomon, managing director at Towers Perrin. "They're seeing that superannuation is not adding the value it used to, and it's also taking up more management time. In other words, the cost of running it in-house can't be justified."

Alex Dunnin of Rainmaker Information says that aside from the cost and compliance issues, employers are also bowing to the extended choice a master trust or industry fund can offer employees.

"As consumers, we're all used to having a lot of choice and flexibility," says Dunnin. "Companies running funds may have up to three investment options, but they're finding it hard to keep up with what employees expect them to do. And the more you try to do, the more compliance issues you end up with."

The new financial regulations also pose other issues for organisations. As anyone providing financial advice will have to be properly licensed to do so, Emery Feyzeny, superannuation partner at KPMG, says companies will have to be wary about any advice they give to employees.

Alex Dunnin

## Super fraud – a reality

KPMG has warned that many Australians are too complacent about protecting their superannuation funds from fraud.

Brett Warfield of KPMG Forensics says that to date Australians have been lucky at the low level of super fraud, but as superannuation becomes a trillion-dollar industry in the next decade, the temptation for fraudsters will only increase.

"Total losses in the past 15 years have amounted to about A$120m, according to informed observers at Australian Prudential Regulation Authority (APRA)," says Warfield. "This is a small percentage of current total super savings of about A$535bn."

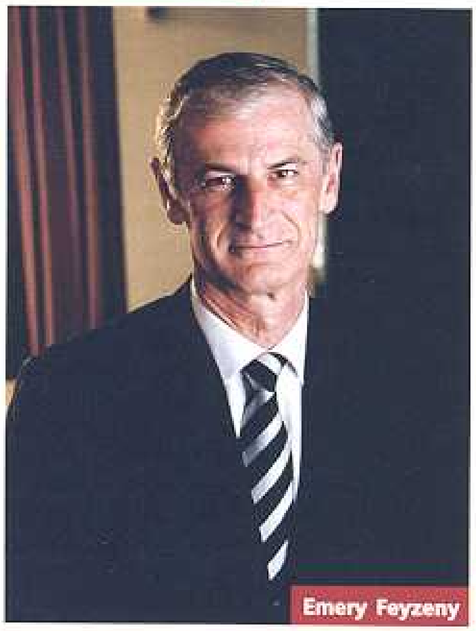
Warfield says the small amount captured by fraudsters indicates current protection systems used by fund managers are working but that as the amount of funds grow, more risk management against fraud will be required. He says any fund not regulated by APRA would be more at risk from fraud, giving organisations yet another reason to outsource their superannuation rather than keep it in-house.

"Small, self-managed funds are more vulnerable to fraud because there is less prudential regulation," he says. "While they have a big vested interest in protecting the assets of the fund, they're not necessarily professional administrators who are aware of the fraud risks."

Warfield says individuals also need to take responsibility for monitoring their super account and report any transactions that do not make sense. "We have investigated a number of cases of super fraud where an alert member checking their statement was the first to identify trouble. This was crucial in preventing further losses," he says.

## ne improving market

elping to allay fears, it ould seem the worst of the per slump is over. Emery yzeny – superannuation rtner at KPMG – says that me super funds have proved their performance between 10% and 15% ce the market bottomed t in March. "Things have ked up, but people need to ar in mind that it's unlikely t we're going to return to nual double-digit returns," says. "Returns should main at around 6%, 7% or over the next three to r years."



Emery Feyzeny

### ow the funds performed – up to 31 August

| | 6-month Return | 6-month Ranking | 1-year Return | 1-year Ranking |
|---|---|---|---|---|
| GI | 12.4 | 3 | 9.4 | 1 |
| ncorp | 11.2 | | 6.4 | 2 |
| TFM | 11.9 | 5 | 6.1 | 3 |
| ndall | 12.8 | 2 | 5.9 | 4 |
| OF/Perennial | 11.6 | 6 | 5.7 | 5 |
| ISBIL | 11.4 | 7 | 5.7 | 6 |
| LC Moderate | 10.1 | | 5.5 | 7 |
| ple-Brown Abbott | 9.7 | | 5.5 | 8 |
| gitta Rothschild | 14.1 | 1 | 5.1 | 9 |
| igroup Balanced | 8.7 | | 5.1 | |
| ited | 9.3 | | 4.8 | |
| rtfolio Partners | 10.3 | | 4.8 | |
| OF MIM | 10.4 | | 4.7 | |
| rpetual | 12.3 | 4 | 4.7 | |
| edit Suisse | 10.1 | | 4.5 | |
| nguard | 9.5 | | 4.4 | |
| hroders | 9.0 | | 4.3 | |
| cquarie | 8.3 | | 4.2 | |
| mmonwealth | 10.3 | | 4.1 | |
| gA | 10.0 | | 3.8 | |
| stpac | 10.2 | | 3.8 | |
| rrill Lynch | 10.9 | | 3.8 | |
| Z | 10.5 | | 3.8 | |
| IP Balanced Growth | 10.7 | | 3.6 | |
| VESCO | 11.3 | 9 | 3.5 | |
| rich | 9.5 | | 3.4 | |
| BC | 11.3 | 8 | 3.1 | |
| igroup Growth | 9.4 | | 3.0 | |
| G | 11.3 | | 3.0 | |
| lonial First State | 8.3 | | 2.2 | |
| WER | 8.2 | | 1.7 | |

*rmation courtesy of InTech Research*

## Recent legislation

The High Court has overturned a November 2001 Federal Court decision that superannuation must be paid to casual and permanent employees for overtime.

The Australian Industry Group (AIG) – which lobbied the Australian Tax Office to fund a High Court appeal under its Test Case Funding Programme – has welcomed the finding.

"Very few, if any, employers would have calculated superannuation entitlements in the manner set out in the full Federal Court's decision and employers were facing an administration nightmare and significant back-pay costs," said AIG. "The High Court decision restores the interpretation which is being applied by almost all employers. That is, that superannuation contributions are not payable on overtime earnings for casual or permanent employees."

"Advice is a very broadly defined term under the new legislation," says Feyzeny. "If an employer even suggests investment ideas, or talks to payroll about such things, it could be seen as giving advice. It could be very easy under the new licensing regime to give advice unintentionally and fall foul of the law."

The push towards super outsourcing is not only filling the coffers of the funds. For companies that have been using outsourcing as a solution for the past few years, the below average returns many funds have been returning has prompted a review by many companies of their outsourcing agreement.

Dunnin says that superannuation has come back on the agenda for organisations, with their outsourcing contracts being reviewed. "Employers seem to be reacting to the pressure they've had from some of their employees, particularly after superannuation has had such a tough two years," he says. "The CEO or CFO has had another look at the statement and realised it's costing the company money too, so they've decided to take