

# Superb Master Trust

## Additional Member Benefit Entitlements

### *Further Information Regarding Administration Errors*

As you are aware the Trustee of the Superb Master Trust (Superb) resolved to wind up the fund in August 2003. All qualifying plans and members were transferred to the ARC Master Trust and the remaining membership was transferred to the Australian Eligible Rollover Fund (AERF) or another complying superannuation fund nominated by the member or the employer as appropriate.

Through the process of winding up the Superb a number of administration errors which have occurred historically within the fund were identified. As a consequence the benefit entitlement calculated for some members at exit was understated and as such they are entitled to a further benefit payment.

#### ***Errors Defined***

These errors date back to 1 July 1994 when TOWER acquired Superb, hereinafter referred to as the 'start date'. They can be categorised into three groups, as follows:

- i. Primary errors, being the initial unrelated errors which gave rise to the mis-statement of member account balances;
- ii. Secondary errors being errors which have arisen as a result of the primary errors but which caused member account balances to be further mis-stated; and
- iii. Other errors being unrelated sundry errors in individual member accounts which were identified through the process of correcting the primary and secondary errors.

## **1 Primary Errors**

### *1.1 Distribution allocation error*

This error concerns a failure to correctly allocate distributions from selected investment options to member accounts. More specifically, some distributions received from unitised Investment Managers (IMs), and listed securities, since the 'start date', have been allocated to Superb members invested in that external IM / security based on 'Average Daily Balance', rather than 'End Balance' as is accepted practice for a securities-based product. Since these unit prices incorporate investment earnings (cum-distribution) up until the time a distribution is made (ex-distribution), the amount of distribution allocated to a member account was incorrect where there was a movement in the member's account (either by way of an investment or redemption) during the distribution period.

Similarly, distributions from certain cash IMs were allocated to members using End Balance rather than Average Daily Balance as is accepted practice for a securities-based product. Since these unit prices do not incorporate investment earnings the amount of distribution allocated to a member account was incorrect where there was

a movement in the member's account (either by way of an investment or redemption) during the distribution period.

In addition, the Superb administration platform did not correctly allocate distributions or apply fees and charges, to members of employer plans for the period upon notification from their employer that they had left, or were leaving, employment up until the member's date of exit from Superb. Nor were these fees collected at the member's point of exit from Superb. Consequently the member's account balance at the date of exit was mis-stated if the member was invested in an IM who distributed during this period or if the period in question covered a month-end fee run.

A Distribution Adjustment will be required to adversely impacted members accounts to rectify these errors.

### *1.2 Tax credits and other tax concession allocation error*

This error concerns a failure to correctly allocate tax credits and other tax concessions received in respect of selected unitised IMs and direct shares, to member accounts. More specifically, tax credits (Imputation Credits & Foreign Tax Credits) and other tax concessions (Tax Exempt & Tax Free Income, Domestic & Foreign 'discounted and concessional' Capital Gains, and Domestic & Foreign 'non-discounted' Capital Gains) received by Superb from the 'start date' to 30 June 2004 (as per IM annual statements), were not fully allocated to members accounts through SSS.

A Tax Allowance Adjustment will be required to adversely impacted member accounts to rectify these errors.

## **2 Secondary Errors**

### *2.1 Capital gains tax error*

This error concerns the incorrect application of capital gains tax payable upon redemption of units in selected unitised IMs and direct shares, to member accounts. More specifically, Distribution Adjustments due to members as a result of the primary errors will change the cost base of a member's investment, and in turn the capital gain or loss on sale of that investment. This will in turn change the amount of capital gains tax payable by the member.

A Capital Gains Tax Adjustment will be required to adversely impacted member accounts to rectify these errors.

### *2.2 Member and management fee errors*

Errors concern the charging of incorrect member and management fees to member accounts. More specifically, Distribution, Tax Allowance and Capital Gains Tax Adjustments to members as a result of primary and secondary errors described above have caused member account balances and plan account balances to change, since member fees are determined based on a member's account balance (introduced from 29 August 2001), and management fees are determined based on the plan account balance

The member fee is a flat dollar per month fee which, post 29 August 2001, is waived once a member's account balance exceeds \$25,000 in certain circumstances.

Therefore where the primary errors cause the members account balance to exceed \$25,000, or vice versa, an adjustment to the member fee actually paid by the member will be required. All members who receive a Distribution and / or Tax Allowance Adjustment will have potentially over or under paid member fees for the same period and will therefore be due a Member Fee Adjustment.

In addition, any Distribution, Tax Allowance, Capital Gains Tax or Member Fee Adjustments to member accounts will change the total plan assets and therefore the management fee levied on all members within that plan (including those members who have never had an investment in an in-scope investment option). This is because the management fee is calculated on a sliding scale at a fund level, based on the value of assets held in the plan as a whole, and levied at a member level based on the % of assets held by individual members in the plan. Therefore, some members of employer plans who never held investments within the impacted investment options could also be affected as the level of fees for a plan are determined based on total plan FUM. Thus if the account balance changes for other members of the same plan, these members may also be eligible for a change in the average management fee charged.

Therefore, all members of a plan containing members who received Distribution, Tax Allowance, Capital Gains Tax or Member Fee Adjustments will have over or under paid management fees for the same period and will be due a Management Fee Adjustment.

### **3 Other Errors**

In addition there are two other isolated errors identified through the remediation process will also be addressed through this process and compensation included in the additional benefit entitlement paid to members where appropriate, as follows:

- Member protection rebate errors in respect of selected member exits processed in 2004; and
- A one-off error in the calculation of the member fee payable by a single member at exit.

As a result of these errors members' account balances have been mis-stated through the course of their membership and at the point of exit from Superb. The Trustee has determined to only act in circumstances where the member has been adversely impacted by the error. They will therefore not seek to recover monies where an over payment has been made to the member.

Members who have a shortfall in their account balance at exit as a consequence of these errors will receive an additional benefit payment.

### ***TOWER's Commitment***

We are disappointed that this problem has occurred, however we can assure you that we are committed to ensuring adversely affected members receive their correct member entitlement.

If you have any questions please contact one of our Customer Service Consultants on free call 1800 812 922, Monday to Friday, 8:30am – 6:00pm (EST). Alternatively, you can email us at [teb.clientservice@au.towerlimited.com](mailto:teb.clientservice@au.towerlimited.com) or write to:

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