AXIS FINANCIAL GROUP

SuperFocus

Special Issue
The Super Cooper Review

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Stronger Super released

On 16 December 2010, the Federal Government released Stronger Super – its response to the Cooper Review on Australia's superannuation system. The aim of the Cooper Review was to recommend ways to improve retirement adequacy, an issue which continues to impact most Australians. Focusing on the three components of Governance, Operation and Efficiency and Structure, the Cooper Review involved industry-wide consultation throughout its examination of the system.

Of the 177 recommendations, the Government has accepted 139, many of which were expected by super funds and the industry. This special issue of SuperFocus highlights the key areas of change and AXIS' opinion. The complete report of the Government's response can be viewed at www.strongersuper.treasury.gov.au

Four key areas of change

The key areas of change stemming from Stronger Super include:

1. The introduction of a low cost, default super fund (MySuper);
2. Simplification and improvement of administration systems (SuperStream);
3. An overhaul of the Self Managed Super Fund sector; and
4. Improved governance for super fund trustees.

1. MySuper

Despite the introduction of Super Choice, about 80% of Australians remain in the default investment option or fund[1]. To better ensure the retirement adequacy of these members, a low cost, standardised default option – MySuper – will be introduced from 1 July 2013.

Given this lead in time, the Government intends for MySuper to replace all default options that don't meet the same requirements. These will include a simple set of standard features, such as investments and insurance, regardless of the product provider.

Naturally, Self Managed Super Funds and those not regulated by APRA will be exempt from MySuper. Fair Work Australia will review the default funds in awards, to ensure they meet MySuper criteria. The Government proposes to recover the implementation costs of MySuper through increases in the annual APRA Levy.

[1]*Stronger Super Report*

What are the main proposals?

As one would expect, the key areas of change are all about benefiting members, some of which include:

1. Employees can choose MySuper for their compulsory contributions, but it won't be compulsory to use this option.
2. MySuper must accept all types of contributions, including Super Guarantee, concessional, non-concessional, spouse and rollovers.
3. There will only be one diversified investment strategy.
4. Insurance will be on an opt-out basis.
5. Comparable long term performance data will be provided by APRA.
6. Restrictions on unnecessary or excessive fees, including nil Entry Fees, Exit and Switching Fees limited to cost recovery and no commissions payable in retail products.
7. No financial advice services to be included.

What is AXIS' view?

According to the Government's future projections, the cost benefits of MySuper could result in a 30 year old worker on average weekly earnings retiring on $40,000 extra. However, according to well-respected actuarial firm, Rice Warner, that same worker could retire on $100,000 more[2], if financial advice and education were provided.

From AXIS Financial Group's perspective that's a considerable amount of money that our clients won't benefit from. If their final balance falls short of retirement adequacy projections, this only adds to the existing issue of Government funded pensions. AXIS will be lobbying for more investigation into the positive effects of financial advisers in the three year transitional period.

The other significant negative of MySuper in our experience is that many of our clients have a far superior default option than that being touted with MySuper. This extends to the investment strategy, insurance cover, advisory services and member costs. The result is that members' benefits may be reduced – an extremely disconcerting outcome in our view. This seems to fly in the face of the responsibility of trustees to operate a super fund in the best interests of their members!

[2]*Financial Planning Association, December 2010*

2. SuperStream

SuperStream refers to the recommendations aimed at streamlining superannuation administration systems. The upshot being increased productivity, reduced costs and a simplification of administrative systems.

During the Review process, Cooper found that excessive costs and complexity arose due to manual input of data and money transfers, poor data integrity and the lack of standardised forms. SuperStream is set to change all of this, with an estimated $1 billion in annual savings[3] once it's up and running.

The short term costs that will arise in implementing SuperStream will be offset by a temporary industry levy on APRA-regulated funds.

What are the main proposals?

The main focus areas for SuperStream are as follows:

1. To improve member data integrity.
2. To allow the use of Tax File Numbers as the main identifier of members.
3. To increase the use of technology (eg electronic processing) to enhance processing efficiencies.
4. To improve the processing of fund-to-fund rollovers and the way contributions are made.

[3]*Stronger Super, December 2010*

What is AXIS' view?

Much of the detail for SuperStream hasn't yet been finalised, so it's a little early to say. However, AXIS believes that any measures dedicated to improving administrative and cost efficiencies would be highly advantageous to members and super funds – provided, of course, that they're workable!

In terms of implementation for SuperStream, the Government intends to form a sub-group in early 2011, to consult on data standards and the design and implementation of relevant measures. This sub-group will consist of industry, employers and consumers to obtain a solid understanding of the issues involved. While it's believed implementation will adopt a phased approach, most measures are expected to be up and running by 1 July 2015.

However, the implementation of TFNs as the primary member identifier will be introduced from 1 July 2011.

3. Reform of Self Managed Super Funds

Self Managed Super Funds (SMSFs) continue to own the lion's share of the super marketplace. So, it makes sense to ensure that stringent regulatory supervision applies. The intended reforms for SMSFs focus upon the curbing of fraudulent activity and the correct use of investment funds for retirement.

What are the main proposals?

More than 815,000 SMSFs will be subject to the following proposals:

1. Greater regulatory powers by the Australian Tax Office to impose a raft of new penalties.

2. Changes to the regulatory framework, registration and rollover process.
3. Amendments to Regulatory Guide 146, requiring minimum knowledge and competency skills.
4. The appointment of ASIC as the registration body for SMSF approved auditors.

What is AXIS' view?

Since SMSFs require significant time, effort and experience to run effectively and correctly, AXIS believes that these reforms will be extremely beneficial to the sector. As with SuperStream, a sub-group will be convened in early 2011 to consult and progress the implementation of the reforms.

Most measures are expected to be implemented by 1 July 2012, with implementation costs being met by an increase to the annual SMSF Levy. This Levy will be effective from 1 July 2010.

4. Improved governance for super fund trustees

Trustees are the anchor of any super fund's operation. As trustees, they have considerable obligations to ensure their fund is run smoothly and in accordance with the legislative and regulatory framework of super. In effect, they are charged with the responsibility of good governance.

This recommendation aims to increase the obligations of trustees in the management of their members' assets and their members' interests. The desired outcome is to improve trustee decisions, efficiency and effectiveness for the purpose of enhancing member entitlements.

What are the main proposals?

1. Trustees can continue to invest in assets they believe will maximise member returns. In other words, investment decisions will not be prescribed.
2. Equal representation on trustee boards will continue.
3. Administrators will not be licensed, but will be subject to additional requirements by trustees and APRA.
4. Greater regulatory powers for APRA to issue prudential standards on super.
5. A new operational risk-based approach will replace capital requirements for APRA regulated funds.

What is AXIS' view?

The introduction of this measure will be favourable for super fund members. However, it's not yet known how much additional work will fall onto trustees.

The idea of a risk-based requirement for the maintenance of financial resources is also an effective measure. It has the potential to better protect members from losses due to failures of governance, systems or processes. As this requirement would apply across all super funds, employers can take comfort that members in MySuper products would also be protected.

The timeframe for implementation of this proposal is yet to be decided. A consultative sub-group will be formed in early 2011 to progress this recommendation and timeframes are expected to be determined after consultations are complete.

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Feel free to contact your advisor with any questions about this bulletin

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