

## Tech Time



### Perpetual's monthly technical guide

#### What does the Government's *Stronger Super Package* mean for retail funds?

On 16 December the Government released its response to the Cooper Review, calling it *Stronger Super*.

The Cooper Review looked at the whole of Australia's superannuation system. The Review concluded that our system was in reasonably good shape but it had several ideas on how it could be improved. *MySuper* and *SuperStream* are two of the bigger ideas.

#### **MySuper**

'Politics is the art of the possible' – Otto von Bismarck

In *Stronger Super* the Government has announced a somewhat diluted version of Cooper's *MySuper* proposal. This outcome is the result of much discussion and compromise with different industry sectors.

In political negotiations like this, no-one gets everything they want but everyone gets enough. The reaction in the press from the industry has been fairly subdued. This is not to say that the industry likes *MySuper*. It just means that they are settling for the compromise position rather than doing more lobbying.

The main focus of the Review when developing this proposal was people who are disengaged; who don't know much about their superannuation balance and aren't interested in finding out. Cooper's view is that this is the majority of people. The Review was concerned that the compulsory employer contributions for these people were ending up in sophisticated funds that offered benefits that they weren't using and didn't need, but nevertheless were paying for.

Cooper's answer was to design a default option for superannuation funds that would be simple, cheap and effective for these people. Its recommendation was to make it compulsory for funds that accept compulsory contributions to use this design for their default option. More sophisticated options were only to be available to those people who took the effort to move their money out of the default option.

In *Stronger Super* the Government has announced a form of compulsory default option called *MySuper*, with most of the characteristics recommended by Cooper:

- the trustee of the fund will have a statutory duty to ensure that *MySuper's* investment strategy is appropriate for the default members
- members of the fund will be entitled to contribute other amounts to *MySuper* besides the compulsory employer contributions
- there will be yet-to-be-negotiated limits on the types of fees that can be charged for *MySuper* including limits on fee discounting and performance fees
- *MySuper* will come with death and TPD insurance on an opt-out basis
- no commission can be paid on contributions to *MySuper* or on insurance paid out of *MySuper*
- increased Statement of Advice requirements when switching clients out of *MySuper*
- there will be a long yet-to-be-negotiated transition period.

Retail superannuation funds will have two choices. They can create a *MySuper* option within their fund or they can tell employers that the fund does not accept default compulsory contributions.

### What does this mean for you and your clients?

Clients seeking advice are not disengaged and so are not the targets for *MySuper*. You could advise your client to use a *MySuper* option or to choose a more sophisticated option; whichever is in their best interest.

As the *MySuper* option is likely to be a conservative asset allocation with few additional benefits, often it will not be appropriate and you would be advising them to exercise their choice.

On the other hand, *MySuper* will be less expensive than other options so it may be the best choice for clients with simpler needs. This is the judgment to be made.

## SuperStream

'The new information technology, internet and e-mail, have practically eliminated the physical costs of communications' – Peter Drucker

The other big Cooper idea was *SuperStream* which is about administrative efficiency. Cooper and the Government are looking for ways to reduce the cost of running big superannuation funds, mainly through replacing paperwork with electronic data transmissions.

Automating the flow of data requires a large up-front investment by the industry. Even though that investment will be returned over a long period of time, there are many things that get in the way of this investment being made.

The Government's proposal is a combination of removing some legislative barriers, forcing cooperation within the industry and forcing the industry to make the investment.

The details will be about standardised forms and removing the privacy restrictions that prevent funds from using members' tax file numbers to identify the member as they move between funds.

*SuperStream* is a big deal for the superannuation providers but is not of direct interest to advisers and their clients.

### What does this mean for you and your clients?

There is nothing that you or your clients need to do. Wait patiently for the benefits to flow to you in the form of improved service and reduced costs.

## The smaller ideas

'Great acts are made up of small deeds' – Lao Tzu

Beyond these two big announcements comes a series of smaller announcements. Like *SuperStream*, they apply to the superannuation fund provider, not the members.

Very briefly, the announcements cover:

- more rules for the trustees
- limits on performance fees
- taking more things into account in formulating the investment strategy
- disclosing proxy voting policies and procedures
- improved disclosure of fees, costs and investment returns to improve transparency, comparability and accountability
- a requirement to offer death and TPD insurance and income protection insurance on an opt-out basis
- requiring financial resources to be set aside to cover operational risk
- removing requirements to disclose risk management plans
- giving APRA the power to issue prudential standards
- increased levies.

### What does this mean for you and your clients?

Continue to judge retail funds on their merits. Like *SuperStream* above, wait patiently for the benefits to flow to you in the form of improved service and reduced costs.

## Consultation

'A healthy state encourages many voices, and lots of listening' – Kathleen Sebelius

The Government will now have a period of public consultation. The big concessions have probably already been made but there will be room for fine tuning.

### What does this mean for you and your clients?

If you or your clients have views that you would like to express, you will get the opportunity. The Government genuinely does listen but it can take a lot to change their mind. If something needs to be said, the more voices saying it, the more influential it will be.

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