



## The Cooper review into superannuation

The Federal Government released the 'Cooper Review' report into Australia's superannuation system in early July 2010. This Review was commissioned more than 12 months earlier and made 177 recommendations across 10 broad categories. The Government is yet to formally accept any of the recommendations and has promised wider consultation with the superannuation industry before legislative changes are made.

**Consistent with our profits-for-members philosophy, AvSuper broadly supports many of the recommendations made – in fact, in many areas the proposed changes are already integrated into AvSuper's operations and superior governance standards.**

Of course the detail and implications of the policy positions proposed by Cooper are yet to be determined and the AvSuper Trustee will continue to monitor developments closely as consultation occurs. Of particular concern will be practical implementation issues, and of course, the costs of implementation. Inevitably there is likely to be some additional complexity.

To implement the proposed reforms will of course require legislative change. Given the Federal Election in August, making the changes may prove difficult and involve a lengthy reform process. It is far too early to say what changes will be incorporated into the final version of any or all of these reforms and when any changes are likely to take effect. We will of course continue to keep you informed as the legislation progresses and when we have analysed in full the impact for AvSuper members. In the meantime we hope that the following initial summary of the main proposed reforms is helpful for AvSuper members in understanding the scope and likely impact of the Cooper Review findings.

**Michelle Griffiths**  
Chief Executive Officer

### An overview

A very changed industry over the next 10 years looks to be emerging following the many recommendations made by the Cooper Review into the superannuation system. While many of the recommendations are currently the subject of much debate in the superannuation industry, there are many positive elements in the package of proposed reforms in a broad range of areas including:

- a new 'architecture' for the superannuation system
- improvements in the operational efficiency of super funds
- changes to trustee and investment governance
- insurance provided through super
- retirement products

**It is important to note that the proposals remain recommendations only at this point.**

The Federal Government has not yet released its response to each of the proposals and many of the recommendations will also require industry consultation ahead of legislative changes being made.

This means it could take some months or years to legislate any of the changes proposed.



## Proposed architecture for super

One of the key aspects of the Cooper Review is a proposed redesign of the superannuation system reflecting what they see as three main categories of members:

- 'MySuper members' – the report describes these as 'disengaged' or 'members who simply want someone else to take care of it all for them.'
- Choice members – those who want to make decisions about their investment strategy but still want their account to be administered for them, and
- Self Managed Super Fund (SMSF) members – those people who want to be fully responsible for the administration and investment of their own super.

The Review proposes that products for MySuper members would be required to satisfy a range of objective criteria for licensing, investment strategy, product design, cost structures and simplified disclosure in addition to providing members with retirement income forecasts and specific member advice about their super.

Products for Choice members are proposed to have additional options, including options relating to member investment choice and insurance.

### Impact for AvSuper

*AvSuper already provides a low-cost default investment option for members who don't want to make a choice, such as has been proposed as a MySuper product, and a range of investment and other options (such as insurance) for those members who want to have more of a say in their super.*

*While we don't anticipate extensive product redesign will be required for AvSuper should these reforms become law, it still isn't clear how the cost associated with making these changes will benefit all members, particularly in profit-for-members super funds like AvSuper.*

## Operational efficiency improvements

Another key batch of recommendations relate to a number of proposals to modernise the 'back-office' of super. These are bundled into a concept referred to as 'SuperStream' and include:

- Industry wide standards for data quality requirements when a member enters the super system
- Better use of technology such as electronic funds transfer (EFT) and e-commerce solutions
- Extending the use of member TFNs so that they can be used as an identifier across the system, reducing lost accounts.

### Impact for AvSuper

*The Review suggests considerable savings can be made, although it is unlikely that all members will share in the future cost savings, especially after the significant costs likely to be incurred in making what is sure to be considerable system changes. Interestingly, the Review does not propose Government financial subsidisation of these costs, which means that most super funds will need to pass this cost directly onto their members.*

*The changes to the use of member TFNs will also have important privacy issues for individuals which will need to be separately considered by the Government and the Privacy Commissioner.*

*Fortunately, AvSuper is already using EFT and other electronic options for members and we do not have data quality and lost member issues like many large super funds.*



## Trustee & investment governance changes

While the Review acknowledged that there is no evidence of any systemic failure of governance standards, Cooper's recommendations are based on the view that there are a number of shortcomings which should be addressed and that further improvements can be made.

Most notable among the trustee governance recommendations is the proposal that equal representation (of member representatives and employer representatives) on trustee boards should no longer be required and that non-associated directors should be introduced on all trustee boards.

In terms of investment governance, while the Review principles state that Governments should not seek to direct trustees to invest in particular ways, nor to prevent investments in certain assets or asset classes (unless there are prudential or regulatory reasons for doing so), the key recommendations include mandating a focus on trustees managing investments on an after tax basis and development of a new enforceable performance based fee standard.

### Impact for AvSuper

*AvSuper believes that the 'equal representation' trustee director model has served profit-for-members super funds like AvSuper very well, providing for a balance of the needs of all stakeholders and we are not convinced that the proposed non-associated directors model would be similarly successful. We are also concerned that the higher costs of non-associated directors, especially if they lack experience in superannuation or investments, could drive member costs up beyond the value they might add.*

*However, we broadly welcome the enhancement of investment governance as proposed by Cooper – in fact AvSuper already takes into account the costs involved and the taxation consequences (i.e. after tax returns) for members when making investment decisions about your retirement savings.*

## Insurance provided through super

Pleasingly, the Review noted the importance and benefits of insurance inside super, especially given the generally low level of insurance in the wider community. The key recommendations relate to the provision of plain English explanations to members of insurance policy terms and conditions and the prohibition of up front and trailing commissions on any insurance offered through super funds.

### Impact for AvSuper

*We support measures which are designed to further improve members' understanding and appreciation of the insurance benefits provided to them through their super, although we acknowledge that plain English explanation of complex insurance policies is potentially going to require careful drafting.*

*AvSuper also welcomes the prohibition on commissions in insurance – consistent with our profit-for-members philosophy, AvSuper's insurance arrangements do not include such commissions.*

## Retirement products

Recognising that the market for post-retirement products is under developed, the Review recommends that super funds be required to provide members with access to a retirement income stream (also known as a pension or annuity) and with specific advice related to such products.



# cooper report



## Impact for AvSuper

*Again, AvSuper supports these reforms. We already provide members with easy access to a range of income stream products and our soon to be launched member advice solution will easily accommodate the specialised advice requirements of retiring and retired members as part of our 'whole of life' focus.*

## Conclusions?

Again at this stage it is important to emphasize that these recommendations are proposals. With a looming Federal Election, it is difficult to know when the industry consultation will occur and what alterations will be made to those recommendations the Government does decide to adopt.

AvSuper will continue to represent the interest of AvSuper members to our industry bodies and to the Government, to ensure that any final changes are operationally functional and of real value to AvSuper members (especially for implementation and ongoing costs).

We'll keep you informed as changes are made, however if you have any queries or concerns about the Cooper Review, the proposed recommendations or your super generally, please contact us on 1800 805 088 or [avsinfo@avsuper.com.au](mailto:avsinfo@avsuper.com.au)

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