

Stronger Super – Federal Government changes to the super system

In September 2011, the Government provided its final position on the changes it intends to make to superannuation as part of its Stronger Super reform package. The AvSuper Trustee is currently considering the final proposed reforms in order to determine the impact on the Fund and on AvSuper members, however much of the detail will be in the related legislation and regulations which are not yet drafted.

It is important to note that the final legislation will also be subject to passage through both houses of Parliament so it could take some time for this to occur and for the changes to take effect.

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

Nonetheless, we assure you that AvSuper is analysing and monitoring the proposed legislation in detail and we are active contributors to many of the industry consultative groups to Government so as to ensure our members’ interests are represented as the Stronger Super reforms progress. As always, we will continue to keep you informed as changes are introduced and we have determined the likely impact (if any). In the meantime, we hope this summary of the final reforms proposed by the Government is helpful for AvSuper members in understanding the scope and likely impact.

Michelle Griffiths
Chief Executive Officer
September 2011

MySuper

The Government has proposed MySuper as a new class of superannuation product that will replace existing “default” arrangements from 1 July 2013. MySuper products will need to meet specific requirements that are designed to make them relatively simple, easy to compare and low cost.

The central elements of MySuper products are that they offer:

- a single investment option
- a standard set of fees that must meet certain legislated requirements
- default levels of death and disability insurance cover

Most employers will be required by law to ensure Superannuation Guarantee (SG) contributions are made to a MySuper fund from 1 October 2013 (for employees who do not choose a fund). However, defined benefit members will be largely exempt from the new arrangements.

AvSuper response

Trustees will be required to apply to the Australian Prudential Regulation Authority (APRA) to be authorised to offer a MySuper product, and it is not yet clear what this authorisation process will entail.

We expect that our existing low-cost default super arrangement will easily convert to a MySuper product although we have less confidence that the future cost savings purported by the Government are achievable in funds like AvSuper which are profit-for-members (and already operate on a cost recovery basis) especially after considering the costs of making the changes to comply with new laws.

SuperStream

Modernisation of the 'back office' of super is bundled under proposed measures collectively referred to as SuperStream. The most significant proposals involve using member Tax File Numbers (TFNs) as account identifiers and for automated consolidation of multiple super accounts across the industry.

Other changes relate to encouraging a greater use (particularly by fund employers) of mandated data standards for electronic transactions and other e-commerce solutions, designed to make processing of everyday superannuation transactions easier, cheaper and faster.

AvSuper response

We principally support the intention of these measures however we have some concerns about the proposed account consolidation measures and the risks this poses for members who might lose access to affordable insurance for death and disability (especially in high risk occupations such as many in the aviation industry).

We also recognise that there may be significant costs associated with implementing these measures for all parties in making systems changes etc, and it will be many years before the industry sees some of the longer term benefits and efficiencies of these measures.

Governance and operational risk

The Government has decided not to create a new office of 'trustee director' however they have proposed several changes to existing trustee duties, in particular to ensure priority is given to the interests of members (when a conflict with other duties exists), and that conflicts of interest generally are managed more effectively.

A new operational risk financial requirement will replace the existing trustee capital requirement after a transitional period. APRA will consult with industry on this and on other prudential standards which they are now able to develop for the superannuation industry.

AvSuper response

Overall, these changes are sensible and pose little concern for well run profit-for-members super funds like AvSuper and trustees with a strong fiduciary approach to managing their members' retirement savings.

Other proposed measures

From 1 July 2012, employers will be required to report on payslips an 'expected payment on or before' date in addition to the information currently included for the relevant pay period. From 1 July 2013 it is expected that employers will be required to implement payslip reporting of actual contributions paid rather than just accrued super entitlements.

AvSuper response

We note there are currently exemptions on payslip reporting for defined benefit contributions. No information has been provided by the Government as to whether these exemptions will continue under the proposed changes.

Conclusions?

Although this is how the Government intends to change superannuation, it is subject to change during the drafting and passing of legislation. We will continue participating in discussions and monitor progress on behalf of our members. We'll keep you informed as changes are made, however if you have any queries or concerns about Stronger Super or your super generally, please contact us on 1800 805 088 or avsinfo@avsuper.com.au