

MySuper – strategic and operational considerations for superannuation funds

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PURPOSE OF PAPER

To provide a high level guide to superannuation industry participants on the range of strategic and operational considerations for super funds, service providers and advisors.

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DISCLAIMER

This paper is guide only and aims to get you “started on your thinking”. It is not, nor can it be relied upon, as providing legal advice. While the paper takes into account relevant material available as at January 2012, final legislative provisions may differ from the draft legislation described in the paper. Readers should seek their own legal advice in the case of any uncertainties in interpretation of the final legislation.

EXECUTIVE SUMMARY

What is being proposed and what is the timetable for implementation

- Legislation before the Parliament and draft legislation released for comment set out many of the proposed requirements for MySuper in regard to the obligations of employers concerning default contributions and the obligations of superannuation funds across a range of matters.
- Given the relatively tight timetable (1 July 2013 commencement for many MySuper provisions, with a range of strict requirements in regard to default contributions commencing 1 October 2013) funds need to have their strategic planning well underway on these matters. Attachment B of this paper sets out the proposed timetable for a range of MySuper and SuperStream measures.
- The intended audience for this paper is trustees, senior management of funds, and those involved in the implementation of changes.

Strategic and operational decisions required

- How the fund will engage with fund members.
- How the fund will engage with employers.
- How decisions will be made on allocating fund members to a MySuper offering.
- Transition arrangements for members and account balances in regard to MySuper.
- The best way to deal with changes to how default funds are to be specified in industrial awards and agreements.
- Product design and implementation, including the threshold question of whether or not to offer a MySuper product or products.
- Setting a budget for any necessary changes and assignment of responsibilities.
- Whether to conduct various activities in-house and whether to use a related party service provider in regard to contracted services.
- The review of investment asset allocations and how risk is disclosed, and the documentation of investment strategies for all investment options.
- The role of different asset managers in achieving diversification and how to document this.
- Apportioning costs between MySuper products and Choice products.
- Fee structures for both MySuper and Choice members.
- Insurance arrangements in light of proposed requirements and prohibitions as to the offering of insurance cover.
- Whether the interests of fund members and fund sponsors would be better met by merging with another fund.

Whether to have a MySuper offering

- A threshold decision for trustees is whether to provide a MySuper offering. For those funds largely reliant on one or more of Choice contributions, personal contributions and rollovers at the time of retirement, it may not be cost effective to establish a MySuper product.

Members who exercise choice of fund or investment choice

- Both survey and Australian Prudential Regulation Authority data indicate that in many funds over 50 per cent of members make an active choice in regard to the fund receiving contributions and/or their investment option. In total, in excess of 4.5 million Australians cannot be regarded as default members or as in the receipt of default contributions. Funds will need to put in place measures to comprehensively record elections in writing for fund and investment choice. This applies to both current and future fund members.

Customisation of MySuper offerings

- While the legislation provides for the customisation of a MySuper offering (described in the legislation as a MySuper product), for large employers the probable number of such customised products is likely to be low in practice.
- As at June 2009 there were only 1,090 businesses in Australia with more than 1,000 employees and 300 with more than 5,000 employees. Some of these will have their own corporate fund while others will go along with a standard MySuper default fund offering.

- Given the various constraints proposed on the offering of such products and the tight timetables involved, only a handful of customised MySuper products for large employers might be offered initially.
- “White labelling” rather than customisation might be a more viable option for funds when dealing with default arrangements for specific employers.
- The Explanatory Memorandum indicates the Bill will not prevent Registrable Superannuation Entity (RSE) licensees from having more than one Product Disclosure Statement for a MySuper product. This includes using employer names to label a MySuper product or using an RSE licensee’s different brand names. However, this generally does not permit any variation in the features of the underlying product that is offered under a different label. Some differentiation in insurance provisions will be possible and employers are also allowed to provide fee subsidies if they do so on a uniform basis for all employees.

Insurance cover

- The legislation introduces a range of new requirements in regard to the offering of insurance cover. Members will generally be able to opt-out from default levels of coverage or dial up to higher levels of coverage. Funds will need to review their contracts with insurers to ensure they can comply with the new requirements.
- Some forms of insurance will no longer be able to be offered. This appears to apply to both MySuper offerings and Choice products. More specifically, the Government has announced that it considers it in the best interests of members to align insurance definitions with the conditions of release so that insurance is consistent with the purpose of superannuation and insurance monies are available to members at the time of their disability. The implication of this is that insurance benefits related to being unable to perform own occupation or other events not strictly related to a condition of release, will not be able to be offered in the future.

Setting of defaults in awards and industrial agreements

- How default funds will be selected in industrial awards and enterprise agreements will depend on future reviews by the Productivity Commission. While it can be assumed that only MySuper products will be named as default funds in awards, not every or even most MySuper products will necessarily be named.
- The industrial parties (unions and employer associations) are likely to play continuing roles in selecting default funds even if additional criteria have to be considered by them and Fair Work Australia. However, it will be open to all parties to make submissions to both the Productivity Commission and Fair Work Australia.
- Expecting that all funds will qualify as an employer default under industrial awards may be an aspiration of some but in itself is not a viable business plan. Ensuring that a fund meets any likely required objective criteria and seeking employer and union support for inclusion as a default would be a more practical business plan.
- The situation in regard to the future of selection of default funds in enterprise agreements is less clear. As well, monitoring enterprise agreements for compliance with any process that is to be put in place will be challenging. For instance, there were 23,403 federal enterprise agreements current as at 30 June 2011, covering 2.57 million employees. Several thousand new or renewed agreements are lodged each quarter. In contrast there are around 120 modernised awards.

INTRODUCTION

On 16 December 2010, the Assistant Treasurer and Minister for Financial Services and Superannuation, the Honourable Bill Shorten MP, announced the *Stronger Super* reforms.

Stronger Super represents the Government's response to the review of the governance, efficiency, structure and operation of Australia's superannuation system - the Super System Review (more informally known as the Cooper Review). The Government released the Super System Review's final report on 5 July 2010 and announced its decisions on the key design aspects of the *Stronger Super* reforms on 21 September 2011.

The reforms include MySuper, which the Government describes as "a new, simple and cost-effective superannuation product that will replace existing default products". MySuper products are intended to have a simple set of product features, irrespective of who provides them.

[The Superannuation Legislation Amendment \(MySuper Core Provisions\) Bill 2011](#) was introduced into the House of Representatives on 3 November 2011. This Bill aims to implement some of the key aspects of the *Stronger Super* reforms relating to MySuper.

In summary the provisions in the Bill indicate that:

- To meet their obligations under the Superannuation Guarantee (SG) legislation, employers will have to make contributions on behalf of employees that do not have a chosen fund, to a fund that is authorised by the Australian Prudential Regulation Authority (APRA) to offer a MySuper product.
- While technically MySuper could be described as the rights and obligations relating to certain fund members, the legislation uses the term, "MySuper product", as a type of shorthand.
- RSE licensees will be required to pay the contributions of all members into a MySuper product that they offer unless the member elects in writing that the contribution is to be paid into a specified Choice product or more than one specified Choice product.
- An RSE licensee will generally be allowed to offer only one MySuper product, although provisions exist allowing rebadging (provided each offering is identical) and for MySuper products specific to a given employer, when the employer has more than 500 employees.
- A member may make an election in writing by completing an online form or selecting a check box on a written form. An election made in writing continues to remain in effect until a contrary election is made by the member.
- If a member made an election to have contributions paid to a specified product prior to the commencement of MySuper provisions, the proposed legislation provides that such an election will allow for contributions to continue to be paid into that product.
- Employees who have a chosen fund may have SG contributions made to a fund (including a self-managed superannuation fund) whose trustee is not authorised to offer a MySuper product. However, a trustee of this type of fund will not be able to pay these contributions into a Choice product in their fund until the employee has elected in writing to have the contributions paid into a specified Choice product.

MySuper provisions that will be contained in legislation to be introduced at a later date include:

- Allowing defined benefit funds and schemes to continue to be a default superannuation product.
- Consequential amendments to deal with the nomination of superannuation funds in modern awards and enterprise agreements.

A second tranche of *Stronger Super* provisions were set out in an [exposure draft of legislation](#) released on 12 December.

The exposure draft, *Superannuation Legislation Amendment (Trustee Obligations and Prudential Standards) Bill 2012*, covers a variety of areas, including:

- o expanding the covenants for RSE licensees;
- o applying new trustee duties to trustees of an RSE that offers a MySuper product;
- o applying personal duties to the directors of corporate trustees in their own right; and
- o providing details of the power for APRA to issue prudential standards in relation to superannuation.

The consultation draft provides further details of the Government's intentions in a number of areas, assisting funds to plan for the future.

In focusing on the need for trustees to consider on an annual basis whether the fund achieves an acceptable level of scale, it

reinforces the need for capital gains tax (CGT) rollover relief, an issue that ASFA continues to advocate on.

Submissions on the exposure draft were due Friday 13 January 2012. ASFA's submission is available [here](#).

There also are a range of reforms to administration and transaction arrangements, collectively known as SuperStream. Attachment A provides details and timelines for the main initiatives that have been proposed.

While a number of these measures will have significant impacts on funds, they do not necessarily raise strategic issues, such as whether to offer a MySuper product or whether to merge with another fund. A major exception is the proposal for auto-consolidation of inactive accounts which has the potential to significantly impact the fee income of many funds and, hence, possibly the ongoing viability of some funds. As well, implementation of a number of the SuperStream measures will require significant IT expenditure by funds, which can have implications in the context of possible merger discussions.

However, the main focus of this paper is on the MySuper proposals.

The intended audience for this paper is trustees, senior management of funds, and advisers to funds on strategy and implementation of changes.

STRATEGIC CONSIDERATIONS FOR SUPERANNUATION FUNDS

The various *Stronger Super* initiatives will have far reaching impacts on fund members and superannuation funds and their service providers.

While not all the legislation implementing the various changes is either before the Parliament or been exposed as drafts, the clock has well and truly started ticking for superannuation funds to start planning for change and actually implementing some changes in order to be prepared for the introduction of MySuper and other related measures.

As indicated in Attachment B, the changes are many and the timetable is relatively tight. ASFA has argued that funds be able to offer MySuper products from 1 July 2013 but the requirement for default contributions to be paid to a MySuper product only commence from 1 July 2014. However, the legislation currently being considered by the Senate would require default contributions be paid to a MySuper product from 1 October 2013.

Strategic and operational decisions need to be made now on:

- How the fund will engage with fund members.
- How the fund will engage with employers.
- How decisions will be made on allocating fund members to a MySuper offering.
- Transition arrangements for members and account balances in regard to MySuper.
- The best way to deal with changes to how default funds are to be specified in industrial awards and agreements.
- Product design and implementation, including the threshold question of whether or not to offer a MySuper product or products.
- Setting a budget for any necessary changes and assignment of responsibilities.
- Whether to conduct various activities in-house and whether to use a related party service provider in regard to contracted services.
- The review of investment asset allocations and how risk is disclosed, and the documentation of investment strategies for all investment options.
- The role of different asset managers in achieving diversification and how to document this.
- Apportioning costs between MySuper products and Choice products.
- Fee structures for both MySuper and Choice members.
- Insurance arrangements in light of proposed requirements and prohibitions as to the offering of insurance cover.
- Whether the interests of fund members and fund sponsors would be better met by merging with another fund.

The following sections address a number of these important strategic and operational questions.

THE IMPACT ON FUND MEMBERS OF THE MYSUPER PROVISIONS

The Explanatory Memorandum for the Bill containing the first tranche measures states that there is evidence many Australians do not take an active interest in managing their superannuation and that around 60 per cent of members do not make active choices in relation to their superannuation.

This figure is down from earlier figures in public debate which indicated that for the almost 12 million Australians who currently hold a superannuation account, approximately 80 per cent have their compulsory superannuation contributions paid into a default superannuation fund.

Regardless of what the percentage of default members is, the proposed legislation will have an impact (or potential impact) on the superannuation arrangements of every fund member receiving superannuation contributions after the legislation comes into effect. This is because of the proposed changes to the treatment of contributions received through default arrangements and new requirements relating to the exercise of fund and investment choice.

The source of the 60 per cent figure appears in the *Final Report* of the Cooper Review where it was claimed, on page nine, that of those who default into a superannuation fund chosen by their employer, or an award, roughly 80 per cent are in the default investment option. Reference was then made to anecdotal evidence that approximately 20 per cent of default investment option members do choose to be in the default investment option. The inference was then drawn that approximately 60 per cent of members do not make active choices.

However, it is also necessary to take into account the percentage of the population that choose their fund rather than being defaulted into a fund.

In June 2010 APRA statistics indicate there was \$364 billion in default investment strategies out of a total \$1,225 billion, around 30 per cent of total assets and around 44 per cent of the assets in funds other than self-managed superannuation funds (SMSFs). However, the percentage of members in default investment options is certainly higher than 30 per cent given that typically those who exercise fund and investment choice (including through SMSFs) have higher than average account balances.

Other statistics released by APRA indicate that 50 per cent of assets in corporate funds are in the default option, 68 per cent of assets in industry funds, 60 per cent in public sector funds and only 23 per cent in retail funds. However, for employer-related superannuation the percentage is likely to be higher in the case of retail funds.

Also in June 2010, in APRA-regulated funds there was around \$655 billion in accumulation accounts and around \$140 billion in assets attributable to defined benefit accounts. It is possible that the amount attributed to default investment strategies includes all or part of the assets linked to defined benefit accounts.

Even if it were accepted that 60 per cent of fund members go with default arrangements, the counterpart to that is 40 per cent make active choices. There are around 12 million Australians with superannuation so these figures suggest that over 4.5 million Australians have made active choices in regard to their superannuation.

However, as indicated in Attachment A, recent survey evidence indicates that the incidence of active choices of either investment option or fund is higher than 40 per cent.

As will be described in the next section, for those fund members who have exercised Choice (of fund and/or investment option), the proposed legislative provisions could lead to contributions being paid into a superannuation product or investment option other than that intended by the member unless the member has completed an election in writing in regard to the contributions.

This places a new responsibility on fund members and also has implications for funds. A strategic consideration for funds will be how they will engage with fund members in order to obtain the necessary elections in writing. This will involve particular challenges in regard to fund members enrolled through an employer or a financial planner.

IMPLICATIONS OF INVESTMENT AND FUND CHOICE FOR MYSUPER AND CHOICE MEMBERS

Clause 29WA (set out in Box 1) has the potential to be quite problematic for both funds and individuals in regard to accounts receiving contributions where the fund member has exercised either fund or investment choice. Hopefully amendments will be made to the Clause.

Basically the Clause says that if a person is a member of a regulated superannuation fund (and that term includes SMSFs), then the trustee can only accept a contribution if it is paid into a MySuper product in the fund or to another product if the member has specified this with an election in writing.

Taken literally this would mean that trustees of SMSFs in their capacities as fund members would need to give an election in writing to themselves (a SMSF cannot offer a MySuper product). As well, arguably APRA-regulated funds that do not have a MySuper product would only be able to accept contributions (either personal or from an employer) if an election in writing was received prior to the contribution being made. Extension of the MySuper provisions to personal contributions made on a voluntary basis would seem a considerable extension of the coverage of the legislation. Hopefully this will be clarified in amendments to the Bill.

Trustees of superannuation funds may wish to consider the current wording of application forms completed by public offer members of superannuation funds. It may be the case that current wording would be sufficient to meet the requirements of an election in writing. If the current wording is arguably not sufficient then an amendment might be appropriate.

There also will be difficulties for employers responding to a choice form from an employee. They could pay to a nominated fund which does not have a MySuper product and then have the payment rejected because the employee has not given the trustee of the fund the election in writing.

Box 1: Provision in the Bill on selecting choice products and MySuper contributions

29WA Contributions in relation to which no election is made are to be paid into MySuper product

(1) This section applies if:

- (a) a person is a member of a regulated superannuation fund; and
- (b) a contribution to the fund is made for the benefit of the person; and
- (c) either:
 - (i) the person has not given the trustee, or the trustees, of the fund an election in writing that the contribution is to be paid into a specified choice product, or choice products; or
 - (ii) the person has given the trustee, or the trustees, of the fund an election in writing to have some of the contribution paid into a specified choice product, or choice products, but no such election has been made in relation to the remainder of the contribution.

(2) The trustee, or trustees, of the fund must treat any contribution to the fund in relation to which no election has been made, and any part of a contribution to the fund in relation to which no election has been made, as a contribution to be paid into a MySuper product of the fund.

(3) A trustee commits an offence if the trustee contravenes subsection (2). This is an offence of strict liability.

Penalty: 50 penalty units.

The Explanatory Memorandum indicates that a member may make an election in writing by completing an online form or selecting a check box on a written form. An election made in writing continues to remain in effect until a contrary election is made by the member. If a member made an election to have contributions paid to a specified product prior to the commencement of these provisions then that election will allow for contributions to continue to be paid into that product.

A significant feature of the *Stronger Super* reforms is the adoption of electronic commerce to facilitate efficient administration. In this context, an amendment to facilitate such consent being received in ways other than 'in writing' (even with the extended definition as set out above) would support efficient administration of the provision.

Some possible ways of providing explicit consent include:

- Over the phone where the member has first gone through a proof of identity check.
- Via a recorded instruction or interactive voice response (IVR) function within a call centre, where a member agrees by pressing a number on a phone key pad, or by voice recognition saying "yes" or "no".

Such wording would facilitate the adoption of a broader range of methods for obtaining or demonstrating the requisite consent. It can be argued that the focus should be on the consent by the member being explicit rather than the form in which consent needs to be given.

Whatever the acceptable methods for members giving consent, it will be necessary for funds to be able to record how and

when consent was given. It is proposed in the Bill that it be a strict liability offence in the absence of consent in writing for a fund to receive a contribution and pay it into anything other than a MySuper offering.

In essence all superannuation funds (other than those which are constitutionally protected or purely defined benefit) will need to have in place mechanisms which both obtain explicit consent from fund members for any such contributions and record such consents on a systematic basis.

Funds may also wish to give consideration to mechanisms for obtaining from employers any choice of fund forms that have been filled in by employees. Currently there is no need for funds to collect such forms. There also is no requirement now (or proposed) for employers to pass them on.

Given that the new requirements will apply to accounts established prior to the introduction of MySuper and there has been no previous requirement to have an accessible register of consents in writing (or explicit consent if that alternative approach is adopted), trustees may wish to consider what they need to do now to be prepared for the requirements which will be in effect from 1 October 2013 if the Bill is passed in its current form. There does not appear to be any "grandfathering" of current arrangements - the provisions relate to all future contributions regardless of when the member's account was established.

In effect, the introduction of MySuper might lead to less member engagement in regard to those who are MySuper members, and more engagement with fund or investment choice members to ensure that the choices of the latter are put into effect.

Funds will need to consider whether they will seek to actively offer MySuper members the opportunity to move into investment choices in fund products which are not MySuper.

MySuper and members who in the past elected to be a choice member

Funds will need to make decisions about members who in the past elected in writing to be in a specified product or investment option and to have their future contributions made to such a product or offering.

For some funds, their MySuper offering may be the logical further development of previous choice offering. In these circumstances the trustee of the fund may need to consider whether to discontinue the previous offering and transfer members affected to the MySuper offering.

In such cases the trustee would need to consider a transition strategy. They may also need to satisfy the regulator that the transition arrangements are in the best interests of the members. If it is to the advantage of a member to transition to the MySuper offering, the regulator may query any delay in effecting such a transfer.

In other cases the trustee may have evidence from the application by the member and/or the investment choice or choices made by the member that the member prefers an offering which differs significantly from the MySuper offering.

In such cases the trustee will need to consider whether to maintain offerings other than MySuper to cater for such members. The regulator could well be interested in there being documentation for such a decision process.

Transition arrangements

It is proposed that trustees of superannuation funds offering MySuper products will need to have transferred existing balances of their default members to a MySuper product by 1 July 2017. Between 10 October 2013 and 1 July 2017, new contributions of default members will have to be allocated to a MySuper product.

In these circumstances trustees will need to consider what is an appropriate transition strategy. It may be to the advantage of a member to have their entire account balance in one product, namely the MySuper offering. As well, funds could experience another layer of complexity through maintaining a distinction between the MySuper account balance and the other account balance of the member.

The regulatory also would be interested in what is in the best interests of the members in such circumstances.

Accordingly, trustees will need to consider what is in an appropriate transition strategy. Factors that would need to be taken into account would include the costs and administrative requirements for such a transfer, the need for member communications, and the impact on the rights and benefits of members. For instance, there may be insurance or other arrangements attached to a product that is not the MySuper offering. Where there is no detriment to a fund member from such a transfer, there could be an expectation that the transfer would be made much earlier than 1 July 2017.

THE POTENTIAL MARKET FOR CUSTOMISED MYSUPER OFFERINGS

The MySuper legislation makes provision for an RSE licensee to apply to APRA for authorisation of a 'tailored' MySuper product that is established for a large employer and its associates that contribute to the fund on behalf of at least 500 members who are either employees of the large employer or associates of that large employer. This will enable RSE licensees to offer a tailored MySuper product to large employers where it is viable to offer a distinct product to suit the particular needs of the workplace.

The first tranche Bill provides that the tailored MySuper product must still be open to all employees of the given employer even in cases where the default contributions cannot be made to the fund for the employees that are employed under a relevant modern award.

The Explanatory Memorandum indicates the general rule is that the same options, benefits and facilities must be available to all members of a MySuper product. This includes, but is not limited to, access to call centres, member education, intra-fund advice (if offered), the capacity to make death benefit nominations, and online account information or other services that may be provided.

This rule applies to each MySuper product. For example, an RSE licensee could provide a member education seminar if it was open to all members of their MySuper product. The fund could not restrict the availability of that seminar to only the employees of a certain employer. However, an RSE licensee that offers a tailored MySuper product that only has members who are employees of a large employer could provide a member education seminar only for the benefit of the employees of that employer.

The Explanatory Memorandum also indicates that any service or activity provided by an RSE licensee that is organised and directly paid for in full by a particular employer and not paid for from fund assets, can be made available to certain employees only. This is a service provided by an employer and should not be considered a MySuper product feature, irrespective of whether it is associated with employees of the particular employer who are members of a MySuper product in a fund operated by that RSE licensee.

There will be a number of challenges to funds in offering customised arrangements.

The Explanatory Memorandum indicates that as a matter of practice, APRA may not accept applications from RSE licensees for authorisation of a tailored MySuper product until there is evidence of an employer's intention to contribute to the fund. Therefore, an RSE licensee participating in a tender process will not be able to submit an application until they have been selected by that process and have evidence supporting this, eg a letter of intent or an executed contract. Winning a tender with a product that may or may not be given approval by APRA is a process that funds have not previously had to deal with.

There are also timing issues. The Bill states that APRA has 120 days to assess applications (plus a possible extra 120 days if required) and the clock starts on 1 July 2013 regardless of when the application is lodged. So APRA essentially has until December 2013 to deal with such applications. They have made it clear that their priority will be to assess applications for generic MySuper products.

ASFA understands that APRA is aware that some employers want an investment portfolio that meets employer specified ethical standards. APRA is of the view that trustees will need to justify a separate product.

ASFA also understands that APRA would be reluctant to approve arrangements involving employers with less than 1,000 employees given that such approvals would require constant monitoring as seasonal factors or corporate reorganisations could lead to such an employer having less than 500 employees at some point.

The number of employers with more than 500 employees

ASFA has obtained from the Australian Bureau of Statistics previously unpublished data on employers classified by number of employees.

As at June 2009 there were about 1,090 businesses with more than 1,000 employees and 300 with more than 5,000 employees. Some of these will have their own corporate fund while others will go along with a standard MySuper default fund.

There are 1,175 in the 500 to 999 range but, as noted above, APRA has indicated that it is not likely to approve arrangements where there are less than 1,000 employees.

On this basis, the total potential market for customised MySuper offerings for large employers might be around 500, certainly

less than 1,000. This compares to possibly 75,000 or so more or less customised corporate superannuation offerings currently in the market.

Given the factors listed above, the actual number of customised MySuper offerings given APRA approval after achieving support from the relevant employers may be considerably less than 500. Initially the figure could be less than 50 or even negligible given the various constraints proposed and the difficult timetable involved for approval of such products. Table 1 provides details of firms by employment numbers and industry.

Number of employees	Industry sector	Number of employers
1000-4999	Agriculture	11
1000-4999	Mining	32
1000-4999	Manufacturing	107
1000-4999	Electricity, Gas, Water and Waste Services	19
1000-4999	Construction	58
1000-4999	Wholesale Trade	38
1000-4999	Retail Trade	77
1000-4999	Accommodation and Food Services	41
1000-4999	Transport, Postal and Warehousing	34
1000-4999	Information Media and Telecommunications	20
1000-4999	Financial and Insurance Services	67
1000-4999	Rental, Hiring and Real Estate Services	12
1000-4999	Professional, Scientific and Technical Services	50
1000-4999	Administrative and Support Services	110
1000-4999	Public Administration Services	9
1000-4999	Education and Training	6
1000-4999	Health Care and Social Assistance	57
1000-4999	Arts and Recreation Services	14
1000-4999	Other Services	9
1000-4999	Currently Unknown	3
5000+	Agriculture	16
5000+	Manufacturing	16
5000+	Electricity, Gas, Water and Waste Services	3
5000+	Construction	28
5000+	Wholesale Trade	14
5000+	Retail Trade	44
5000+	Accommodation and Food Services	29
5000+	Transport, Postal and Warehousing	16
5000+	Information Media and Telecommunications	6
5000+	Financial and Insurance Services	32
5000+	Rental, Hiring and Real Estate Services	12
5000+	Professional, Scientific and Technical Services	34
5000+	Administrative and Support Services	26
5000+	Public Administration Services	5
5000+	Education and Training	3
5000+	Health Care and Social Assistance	13
5000+	Arts and Recreation Services	3
5000+	Other Services	10

The Bill provides that without the member's consent, an RSE licensee will only be able to transfer a member's interest to another MySuper product within the fund, another MySuper product in another fund where this is permitted by a law of the Commonwealth, or another fund where the transfer is otherwise permitted or required by a law of the Commonwealth.

The Explanatory Memorandum indicates that this will generally allow for the transfer of a member interest from a tailored MySuper product to a generic MySuper product. However, the Government has stated that it will give further consideration as to whether additional rules are needed to protect members from being transferred to a substantially higher-priced product without their knowledge or consent. This may include standardised disclosure requirements in situations where a member would be placed in a higher-fee product as a result of changing their employment.

WHITELABELLING STANDARD MYSUPER OFFERINGS

Some (but certainly not all) funds have suggested to APRA that white labelling is what is really desired rather than actual customisation.

The Explanatory Memorandum indicates that the Bill will not prevent RSE licensees from having more than one Product Disclosure Statement (PDS) for a MySuper product. This includes using employer names to label a MySuper product or using an RSE licensee's different brand names to label a MySuper product. However, this does not permit any variation in the features of the underlying product that is offered under a different label. Therefore, for example, two members that enter a MySuper product under different labels will have the same investment strategy and will be charged the same fee structure.

The Explanatory Memorandum also indicates that where an RSE licensee labels or badges a MySuper product, they must continue to meet the obligations of Part 7.10 of the *Corporations Act*. Therefore, to ensure that PDS documentation is not misleading, the name of the underlying MySuper product will need to be clearly stated.

Employers that subsidise fees will not be able to subsidise their employees differently. If the employer subsidises a flat fee, the Bill provides that the amount by which that flat fee is reduced by fee subsidisation must be the same for all employees of that employer who are members of the MySuper product. If the employer subsidises a percentage-based fee, then the amount by which the percentage is reduced by fee subsidisation must be the same for all employees of that employer. Similarly, if the employer subsidises a fee that is a combination of a flat fee and a percentage-based fee, then the amount that the flat fee and percentage-based fee is reduced must be the same for all employees of that employer who are members of the MySuper product.

INSURANCE AND MYSUPER OFFERINGS

The Government has announced that trustees must, at a minimum, allow members to opt-out of life and total and permanent disability (TPD) insurance within 90 days of the member joining a fund, or on each anniversary of the member joining the fund. However, in cases where trustees are unable to obtain opt-out cover at a reasonable cost, trustees of MySuper products will be required to offer compulsory insurance, and trustees of Choice products will be able to choose between offering compulsory insurance or no insurance. These arrangements will not apply to defined benefit funds that have insurance cover as part of the benefit design.

The Government has also announced that it will be left to the trustee's discretion whether to offer income protection insurance, on an opt-in or opt-out basis or at all.

The Government has announced that MySuper products will be required to offer a standard, default level of life and TPD insurance. However, it has also indicated that members of MySuper products will be able to increase or decrease their insurance cover (if offered by the trustee) without having to leave the MySuper product.

The second tranche exposure draft indicates that each trustee of an RSE will be required to consider the cost to all members when offering insurance of a particular kind or level and should only offer insurance of a particular kind or level if the cost of the insurance does not inappropriately erode the retirement income of beneficiaries. This recognises the importance of trustees balancing the needs of members with respect to insurance cover offered and the development of retirement incomes.

The exposure draft of the legislation indicates that funds will, amongst other things, need to consider the demographic profile of the fund. Given that funds generally have a broad range of members (both by age and by income) this may not necessarily be an easy task. Funds also generally hold only very limited demographic information about their members. However, at the very least funds will need to prepare additional documentation on why particular insurance arrangements are in place, including the choice of the insurance provider.

The Government has indicated that later tranches of legislation will clarify that access to insurance cover may differ for members as a result of their age, medical status, occupation or other factors. Further, the Government has indicated that there may be particular factors at a workplace level that influence the appropriate level and structure of insurance for employees at that workplace. Therefore, within a MySuper product, it will be possible for the standard insurance cover to be replaced by a default insurance strategy tailored to meet the specific requirements of the employees of a particular employer. This has the potential for funds to be able to maintain current customised insurance arrangements that have been developed for a variety of employer sponsors. It also would allow the development of further such arrangements in the future.

As with any other fund features directly paid for by an employer, if an employer pays directly for insurance cover (rather than this coming out of the assets of the fund) then this does not necessarily have to be provided to all fund members on a uniform basis.

A further complication is that APRA will also have a role in approving insurance (and other) arrangements relating to MySuper offerings. APRA has already indicated that trustees will need to have a greater focus on the insurance tailoring needs of funds. In its view, some trustees have not sufficiently focused on insurance issues. However, what this will mean in practice is not clear at this stage. Any requirement by APRA to approve each specific customised insurance arrangement would be a substantial impediment to the offering of such arrangements.

The other complicating factor is that, while funds may be able to customise insurance arrangements, there also will be pressure for simplicity and comparability in offerings. For instance, in the Explanatory Memorandum for the first tranche of the legislation it is indicated that MySuper products will also have common characteristics, meaning that they will be able to be compared based on a few key differences – cost, investment performance and the level of insurance.

Timing

While no explicit reference to timing has been announced, these various changes presumably would come into effect when MySuper products become available, which will be from July 2013.

Alignment of insurance definition with conditions of release

The Government has also announced that it considers it in the best interests of members to align insurance definitions with the conditions of release so that insurance is consistent with the purpose of superannuation and insurance monies are available to members at the time of their disability. This was included in the September 2011 *Stronger Super* information pack at section 2.8.

The Government has said this change needs to be made as rapidly as possible and will consult with industry on an appropriate timeline for the phase-out of existing policies not consistent with definitions of life, TPD and income protection insurance that will be incorporated in the legislation. This suggests that implementation prior to July 2013 might be possible for this, depending on the outcomes of the industry consultations and the typical terms of existing insurance contracts.

While much of the *Stronger Super* announcement relates to MySuper, the section dealing with aligning insurance definitions with conditions of release was headed, “MySuper and Choice Products”. This suggests that the alignment of definitions is to apply in both areas. The second tranche Explanatory Memorandum also does not draw any distinction between MySuper and Choice products on this issue.

The reasoning given for the proposed prohibition also appears to apply to Choice products. That said, if a person signs up for a Choice product it could be argued that they have voluntarily taken on the risk that an insured benefit might not be able to be received from a fund until retirement or some other standard condition of release has been achieved.

INDUSTRIAL RELATIONS ARRANGEMENTS AND IMPLICATIONS

Currently between 20 per cent and 30 per cent of employees are directly subject to award provisions relating to superannuation. (Around 20 per cent of employees receive no more than award wages but a higher percentage than that have at least some employment conditions governed by an award).

A larger proportion of employees have their employment conditions determined by collective agreements which have validity under industrial relations legislation. These collective agreements can be structured independently of the award provided certain minimum employment standards are met or rely on the award for certain conditions. In the latter circumstance, the effect is to indirectly increase the number of employees subject to at least some award conditions. Award modernisation has not changed default provisions in industrial agreements that are independent of the award.

Employees on wages or salary greater than \$100,000 a year are not subject to the modernised awards.

In response to the Cooper Review recommendations (1.3 and 1.4), the Government has indicated that it will request Fair Work Australia to review the default superannuation funds named in modern awards so that only those funds offering a MySuper product continue to be included in modern awards as default funds following consultation with relevant stakeholders on the appropriate transitional period.

In addition to the processes referred to above, the Government also indicated that it would ask the Productivity Commission to design a process, by 1 July 2013, for the selection and ongoing assessment of superannuation funds that are nominated as default funds in modern awards and enterprise agreements. This is an extension of the Cooper recommendation which was for the Productivity Commission to review the existing default selection process in modern awards.

The Assistant Treasurer and the Minister for Financial Services and Superannuation in a [joint press release](#) have announced the terms of this reference to the Productivity Commission.

The inquiry process is to commence in February 2012 and is expected to take eight months to complete.

The Government has indicated that it considers default funds should continue to be included in modern awards, but there should also be a transparent set of criteria that such funds can be assessed against. This review seeks to develop transparent and objective criteria against which funds wishing to be eligible for default fund status in modern awards can be assessed, on an ongoing basis, to ensure that the best interests of members are met if their superannuation contributions are allocated to a default fund under the modern award.

The terms of reference indicate that while the Commission is to focus on factors that optimise outcomes for members, it also is required to consider the administrative and compliance impact of its recommendations on employers and their representatives, unions, superannuation funds and decisions of Fair Work Australia.

While the review appears designed to establish criteria which are necessary for inclusion of a fund as a default fund in an award, it is less clear whether the Government proposes that if a fund meets the objective criteria that are set, this will be sufficient to bring about inclusion. It is likely that the Fair Work Australia review in 2014 will consider both that and other issues.

Another Cooper Review recommendation (1.5) was that any fund that is a 'successor fund' (as defined in the *SIS Act*) to a fund currently nominated as a default fund under an award should, where the successor fund is a MySuper product, be accepted automatically as a default fund under the award, so that there is no impediment to consolidation for those funds that wish to do so. The Government in its response indicated that this recommendation will be considered by Fair Work Australia's reviews of current modern awards.

Fair Work Australia recently has also started on its first scheduled [review of modernised awards](#). The review will be based mainly on applications to vary modern awards. In some cases Fair Work Australia may also propose variations. Fair Work Australia has indicated that it is likely that these proposed variations will be limited to technical and drafting matters. This suggests that there is no real scope in this review for matters of substance such as changing the rules for inclusion of additional funds as default funds in awards, or nominating additional such funds.

That said, it is open to any superannuation fund that considers it has been inappropriately excluded from being listed as a default fund in an award or awards to approach the industrial parties (trade unions and employer associations) involved in specific awards to consider including them in the award as one of the defaults.

Support by employer organisations and unions is important in the current process for determining default funds specified in the modernised awards. In a number of cases awards have been altered to include additional funds. Without such support under the current framework for modernised awards, achieving a listing does not appear to be possible. Further, in the absence of such support a superannuation fund may not be able to demonstrate it even has standing before Fair Work Australia to have an application to be listed to be considered.

The more substantive review of the modernised award system to be undertaken by Fair Work Australia in 2014 should provide all parties with an opportunity to make representations on the broader framework for inclusion of a fund as a default fund in an award. This more substantive review will clearly consider, amongst other things, the findings of the Productivity Commission inquiry, the Government's response to the report of that inquiry, and the various submissions that Fair Work Australia receives during its review process.

Implications of the Government response

At this stage it is difficult to precisely assess what might be the implications of the Government's response relating to default funds in awards and in enterprise agreements. The impact will be conditional on:

- The Productivity Commission recommendations on the process for the selection and ongoing assessment of default funds.
- Fair Work Australia adopting the proposed process in regard to awards.
- The parties to enterprise agreements agreeing to, or being required to use, the process designed by the Productivity Commission or otherwise set by the Government.

However, it seems likely that default funds offered by employers to employees generally will be MySuper products. For those employers who are bound by an award the intent of the Government's response appears to be that the MySuper product used as a default must meet additional criteria (yet to be determined) in regard to selection and ongoing assessment. These criteria will flow out of the Productivity Commission and Fair Work Australia review processes.

For awards specifying default superannuation arrangements it is likely that each award will permit an employer to select from a number of MySuper offerings (which generally currently is the case). These could well be offered by funds that are currently named in the relevant award but the purpose of the review process clearly is to change the selection process.

However, not all MySuper products will necessarily qualify. This potentially applies to both offerings by funds currently listed in awards and MySuper products offered by funds who have not achieved a listing. The Productivity Commission and Fair Work Australia processes are envisaged as providing objective criteria for the selection of particular MySuper product or products in specific awards.

It is also possible that what might be settled on is a two-stage process. A MySuper product might have to meet certain additional set criteria before it might be able to be agreed on by industrial parties as an appropriate default. This will be a matter considered by the reviews.

ASFA will be making submissions to each of these reviews. A number of superannuation funds also are likely to make submissions, as are unions and employer associations.

Unions and employer associations in the past have highlighted the role of the parties to an award in settling the matters contained in the award. On the other hand, a number of participants in the debate about default funds argue for objective criteria to be applied in selecting funds as defaults in addition to or instead of the agreement of the industrial parties.

In this context, expecting that all funds will qualify as an employer default under industrial awards may be an aspiration of some but in itself it is not necessarily a viable business plan. Ensuring that a fund meets any likely required objective criteria and seeking employer and union support for inclusion as a default would be more like a practical business plan.

Enterprise agreements

It is not clear at this point whether parties to an enterprise agreement will, after 1 October 2013, be able to select a superannuation fund or offering that is not a MySuper product. That said, the general thrust of the Government's proposed arrangements is to have MySuper products as the default arrangement for employees but there are various exemptions proposed.

The terms of reference for the Productivity Commission inquiry mention in the background section that enterprise agreements often set a default fund. However, the specific action items for the Commission refer only to the design criteria for the selection and ongoing assessment of superannuation funds eligible for nomination as default funds in modern awards by Fair Work Australia.

Any exemption from the general requirements in the proposed SG legislation relating to the required use of MySuper products as employer defaults would require specific future legislation. At this stage the Explanatory Memorandum goes no further than saying that consequential amendments will be needed to deal with the nomination of funds in enterprise agreements.

It should be noted that later tranches of legislation will include an exemption to the obligation on RSE licensees to pay contributions to a MySuper product for contributions that relate to a member's entitlement to a defined benefit. Further, it is intended that where an employer fully meets their SG obligation with a notional benefit certificate from a defined benefit fund or scheme then they will be able to make additional contributions that the RSE licensee will not have to pay to a MySuper product. That is, those additional contributions could be paid to a Choice product. Many or even most members of defined

benefit funds are likely to be covered by collective industrial agreements given that defined benefit schemes generally involve larger employers. However, clearly many employees covered by collective agreements will not be in defined benefit arrangements.

Enterprise agreements may be able to be drafted in such a way as to mesh with MySuper offerings set up for employers with more than 500 employees. However, getting the timing right for finalising both the enterprise agreement and APRA approval of the MySuper offering may be challenging.

Where an employer is the sponsor of a corporate fund, co-ordination between the APRA approval process for a corporate fund to provide a MySuper offering and the negotiation of an enterprise agreement may be easier. However, considerable work is required in both processes.

Another approach that could be taken is that an enterprise agreement could specify a corporate fund or public sector fund that does not necessarily offer a MySuper product. However, this would be something that would need to be covered in the yet to be established criteria for setting default funds when enterprise agreements are being negotiated.

Monitoring enterprise agreements for compliance with any process that is to be put in place will be challenging. For instance, there were 23,403 federal enterprise agreements current as at 30 June 2011, covering 2.57 million employees. Several thousand new or renewed agreements are lodged each quarter. In contrast there are around 120 modernised awards.

Employers who are not bound by an award or enterprise agreement will generally have to choose a MySuper product as the default fund for their employees. The choice would be from the range of such products available to them given that no specific selection process for such employers is proposed.

Issues that will need to be resolved

Similar to when the choice of fund legislation was introduced, the implementation of the Government's response will require decisions on matters such as:

- The treatment of employers who are bound by legislative arrangements regarding the superannuation fund they must use or by the residual industrial relations arrangements applying in some states.
- What arrangements, if any, will apply to the setting of default funds in enterprise agreements.
- How compliance with any new arrangements by parties to an enterprise agreement will be demonstrated.
- Whether current "grandfathering" arrangements applying to defaults that were in place prior to the introduction of modern awards will remain in place (although employers will need to make contributions to a MySuper product to comply with SG default fund requirements).

PARTICULAR STRATEGIC AND OPERATIONAL ISSUES FOR VARIOUS FUND TYPES

The specific issues to be faced by each superannuation fund from the introduction of the various *Stronger Super* measures will depend on the circumstances of each fund. However, there will be some issues that will be common to many funds.

The analysis below draws on such issues for funds by sector.

Retail funds

The latest figures from APRA indicate that as at September 2011 there was around \$350 billion in assets in retail superannuation funds.

Research house estimates indicate that around 20 per cent of those assets are attributable to employer-related arrangements. This 20 per cent is likely to be fairly evenly split between large plans (with assets of \$50 million plus per employer plan) and smaller plans (less than \$50 million). These plans are associated with a further 10 per cent or so of retail assets in personal products where individuals have been transferred following the cessation of their employment with the sponsor of an employer plan.

The remaining retail assets (70 per cent) are in personal retirement savings products and personal post-retirement products. The *Stronger Super* changes have no direct impact on these products other than possibly to require elections in writing to be held when contributions are made after 1 October 2013.

A threshold question for retail superannuation funds is whether to seek a licence from APRA for a MySuper product or products.

Those funds which currently place little reliance on relationships with employers, but instead gain contributions and rollovers through one-on-one relationships with each member, may decide that it is not worthwhile to become a MySuper provider. However, even in these cases, there will need to be new arrangements in place so there is evidence that the member has elected in writing (or otherwise met the legislated consent requirement) for contributions after 1 October 2013 to be received by the Choice product or products.

For other retail funds, particularly those with substantial numbers of members in employer group plans, careful consideration of the implications of the introduction of MySuper will need to be given.

One approach might be to rely on elections in writing from fund members to retain members in current products. Up to half of current members are likely to have exercised either fund choice (in the case of personal retail products) or investment choice (in the case of group employer plans). However, the flow of new members to group employer plans would largely cease under such an approach.

An alternative approach would be for a fund to develop a MySuper generic product. It is unlikely that APRA would approve, as a MySuper product, retail plans for small employers given their cost structure and product features generally do not mesh well with the MySuper proposed requirements. Large group plans would generally be able to modify such arrangements to meet MySuper requirements. However, a factor that would need to be taken into account is that when employees leave a job they could only be retained in the MySuper product or transferred to another MySuper product.

As well, as noted earlier in the paper, there is scope for customised MySuper products to be developed for large employers.

There could be challenges for retail funds which involve the use of a promoter and a contracted trustee providing trustee services on commercial terms. The new proposed duties and requirements on trustees for MySuper products and more generally may be difficult for such trustees to achieve given the role played (at least in the past) by the promoters. While technically the promoter is a contracted service provider to the trustee, the perception and the reality has been the other way round.

Both the promoters and trustees of such funds will need to consider the implications of the proposed provisions for their future operations.

The proposed requirements in regard to insurance will also have implications for retail funds. Some forms of insurance relating to disability may no longer be able to be offered through superannuation funds. At the very least, additional documentation of the reasons for insurance arrangements will be required for retail (and other) funds. This will apply to both Choice and MySuper members.

Public sector funds

A variety of considerations will apply to public sector funds. As shown by Table 2, there are significant numbers of members and assets in purely defined benefit funds and in the defined benefit divisions of hybrid funds. These defined benefit members will not be subject to the proposed new default arrangements.

Table 2: Structure of retirement benefits				
Year end June 2010				
Public sector funds				
	Accumulation	Defined benefit	Hybrid	Total
Entities	8	12	19	39
Members ('000)	961	634	1,536	3,131
Assets (\$m)	33,525	57,257	82,070	172,853

As well, 17 of the public sector funds are exempt schemes. While there would be some overlap between these and the defined benefit public sector funds, there also would be accumulation elements amongst those funds. Given the nature of the schemes and the employees in them, the reach of the SG and MySuper legislation to them is not clear.

The three public offer public sector funds will unequivocally need to consider the impact of the MySuper and SG legislation. Issues to be considered will be similar to those that apply to retail, industry and corporate funds.

Industry funds

Industry funds will share many of the operational and strategic challenges faced by other funds, including retail and public sector funds.

One of the important threshold decisions for a number of industry funds is whether or not they should remain as an independent entity. The MySuper changes will require funds to actively consider on a regular basis whether they have sufficient scale to deliver the range of services desired by fund members at a competitive cost.

In this regard, recent research conducted for ASFA by Rice Warner Actuaries indicates that many of the benefits from increasing scale appear to be achieved in regard to operating expenses when a fund has more than 500,000 members and in regard to investment expenses when it has more than \$10 billion in assets under management. The greatest cost savings from fund mergers are likely to be obtained by mergers involving funds with member numbers or assets under those amounts. However, some smaller funds have cost levels which are competitive with those of larger funds and in these cases the pressures for mergers on cost grounds alone are less.

If a fund decides to remain as a separate entity then there will be considerable preparation needed for the introduction of MySuper. This will involve putting in place mechanisms for identifying both Choice and MySuper members. Strategic decisions will also need to be taken on the extent to which a fund may wish to encourage members to remain in, or elect to move to, investment options other than MySuper.

Many funds are also developing strategies in regard to their currently inactive members. Auto-consolidation of accounts could lead to the loss of many such accounts and associated fees. A goal for funds can be that inactive members be engaged with their super in order to convert them into active members before auto-consolidation commences.

Industry funds typically have insurance arrangements where coverage is provided by default and members are required to opt-out if they do not want insurance coverage. The MySuper legislation will, if passed in its current form, require funds to develop and document policies on why insurance arrangements are appropriate, particularly in the light of the demographic composition of the fund membership. Funds will need to research their membership base and the needs of members for insurance cover, review current default and other arrangements, and document proposed future arrangements.

ATTACHMENT A: INCIDENCE OF FUND AND INVESTMENT CHOICE

It is possible to directly determine the incidence of fund choice and investment choice by surveying fund members.

In this regard, research commissioned by ASFA was carried out in May to June 2010. An online quantitative survey was used to ask around 35 questions. The survey involved a randomly selected consumer sample from the provider's proprietary panel of over 100,000 Australian consumers, with data collected from a representative grouping of the population of those aged 25 to 69 and currently in the labour force - numbering 609 in total. Results were analysed with segmentation from a range of perspectives.

In summary, around 57 per cent of respondents reported that they chose the main fund they are in or were specifically happy with the default fund offered. Around 30 per cent of respondents reported that they specifically chose the main fund they are in rather than just being happy with the default fund on offer from their employer.

Males were more likely to report choosing their main superannuation than females. Only a relatively small proportion (20 per cent) of respondents indicated that while they could have chosen their superannuation fund, they went with the default offered (Table 1).

The finding that the majority of fund members are in a fund they chose or are happy to be in even though it is the employer default is consistent with Australian Bureau of Statistics survey findings in 2007 that just over 50 per cent of employees indicated that their employer pays into the employee's fund of choice.

The results also indicate that a significant minority (around 20 per cent) of employees do not have choice of fund. Employees who are in public sector and private sector defined benefit funds do not have choice of fund. As well, collective industrial agreements can exclude choice of fund.

The incidence of actively choosing a super fund tends to increase with age and with household income. While only 16 per cent of those aged 25 to 29 reported that they specifically chose the fund they are in, the figure lifted to 50 per cent for those aged 60 to 69. Account balances are strongly correlated with age and when there is more at stake, in terms of a higher balance, there is more interest in choice of fund.

Did you choose the main super fund that you are in?	Female	Male	Total
Yes, I specifically chose it	24.0%	32.9%	29.3%
Yes, I was happy with the default fund on offer by my employer	27.3%	27.5%	27.4%
No, I did not have a choice	25.6%	21.3%	23.1%
No, while I could have chosen I went with the default offered	23.1%	18.3%	20.2%
Total	100.0%	100.0%	100.0%

Table 2 sets out the responses on choice of fund split by the type of fund the respondent is in. Not too surprisingly all the respondents who were in a self-managed superannuation fund (SMSF) chose their fund. At the other end of the spectrum only a small proportion of corporate fund members specifically chose to be in the fund, although it should be noted that the majority of members of such funds were happy with the default on offer.

The responses in regard to members of public sector funds clearly indicate that many members of such funds did not have a choice about being a member but they also were generally happy with being a member.

The highest proportion of respondents specifically choosing the fund they are in was for members of retail funds. Over a third of respondents in retail funds specifically chose the fund they are in.

In other surveys conducted for ASFA in 2010 and 2011, around 15 per cent of respondents indicated that they had changed jobs in the previous year. Of these respondents changing jobs, around 70 per cent kept their old fund. While in some sectors a particular fund might be a common default fund for employers, these figures suggest a substantial proportion choose their fund when they change jobs rather than just going with the default. This is likely to apply regardless of whether the individual was defaulted into the fund when they were first employed. Attachment to a fund tends to grow over time.

CURRENT INCIDENCE OF INVESTMENT CHOICE

The majority of fund members surveyed also reported that they actively selected the investment option they are in. There would be a significant proportion of fund members who chose both the fund and the investment option they are in.

As shown in the following table, males were more likely to select their investment option than females but with proportions for both being very substantial. While the numbers in the default option are lower than the 80 per cent figures that have been used by some, they are very consistent with APRA figures showing that only around 30 per cent of sector assets are invested in default options of funds. Those exercising investment choice are likely to have higher account balances than those who do not. However, in some funds (particularly those with younger and/or lower average account balances) the percentage in default options will be higher than these average figures.

Did you actively select the investment option taken with your main super fund or are you in the default option?	Female	Male	Total
I actively selected an investment option other than the default	46.7%	58.1%	53.5%
I am in the default investment option	53.3%	41.9%	46.5%
Total	100.0%	100.0%	100.0%

Being able to exercise investment choice is also supported by a large majority of fund members. While a small minority would be happy to go with the default investment, the great bulk of members want to be able to change the investment mix of their superannuation savings even though not all of them will necessarily exercise such a choice on a regular (or any) basis. The results indicate particularly strong support for investment choice amongst younger fund members, that is those aged under 40.

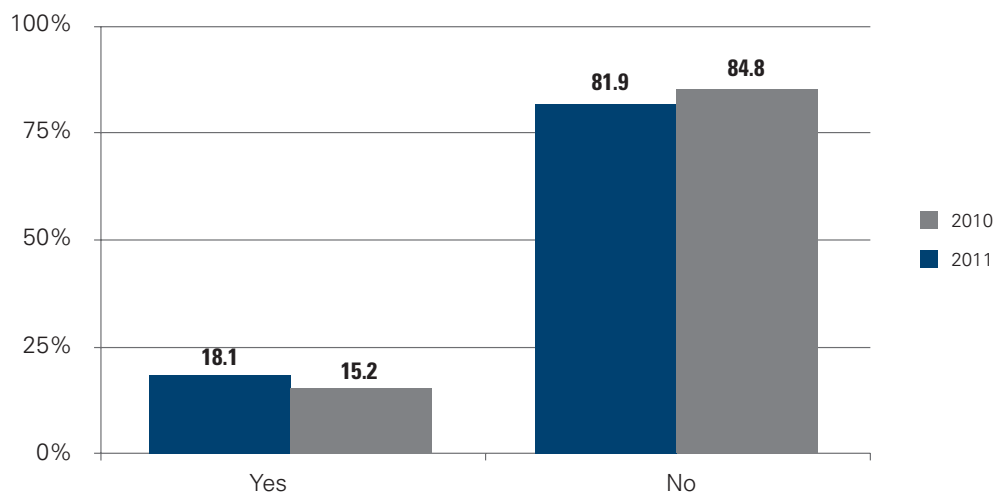
Do you want investment options available in your fund?	Age (in years)					Total
	25-29	30-39	40-49	50-59	60-69	
Yes, I want an opportunity to change the investment mix if I want to	76.3%	73.2%	62.7%	68.9%	44.4%	68.7%
No, I am happy to go with the default investment option	23.7%	26.8%	37.3%	31.1%	55.6%	31.3%

Respondents in 2010 indicated a general desire to be more active in managing their superannuation.

Please rate your level of agreement with the following. [I would like to be more active in managing my superannuation than I am now]		Female	Male	Total
	Strongly disagree	6.2%	9.0%	7.9%
	Disagree	36.4%	32.3%	33.9%
	Agree	47.9%	48.0%	48.0%
	Strongly agree	9.5%	10.7%	10.2%
Total		100.0%	100.0%	100.0%

This intention to be more active appears to have actually occurred in 2011, as indicated by further polling conducted for ASFA in September/October 2011. Nearly 20 per cent of respondents reported that they changed investment option in the 12-month period. This is on top of the 15 per cent that changed investment option in the previous year but it should be noted that some respondents would be changing investment option each year or even more often.

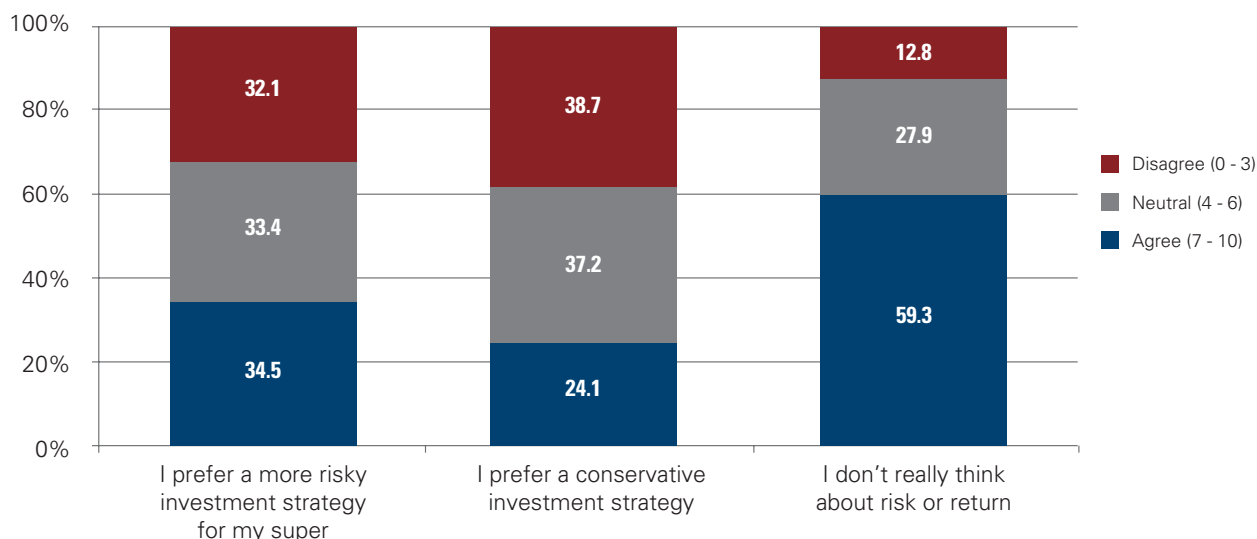
Chart 1: Percentage of respondents changing investment options in previous 12 months



Market volatility following the global financial crisis would be one of the reasons for the increase in investment option switching. However, the switches were not all the one way. While some respondents switched to cash, property and low-risk or more stable investments due to the market volatility, others switched to higher growth options. A number of respondents reported that they changed their investment option following advice from their financial planner.

As shown by Chart 2, the appetite for higher risk (and potential higher return) varies across the community. A significant proportion of respondents had an appetite or tolerance for riskier investments while a different significant proportion prefer more conservative investments.

Chart 2: Attitudes to the risk of investments



The overall conclusion to be drawn from these various survey responses is that in excess of 50 per cent of fund members have selected their fund and/or investment choice and will not necessarily wish to be defaulted into a MySuper offering with a uniform investment portfolio for all fund members.

ATTACHMENT B: TIMELINES

MySuper

1 July 2013: Superannuation funds will be able to offer MySuper products.

1 October 2013: Employers must make contributions for employees who have not made a choice of fund to a fund that offers a MySuper product in order to satisfy Superannuation Guarantee (SG) requirements.

Additional transitional arrangements will be developed to deal with situations involving funds nominated in enterprise agreements.

Based on latest discussions with the Australian Prudential Regulation Authority (APRA), ASFA understands that the draft prudential standards being prepared by APRA are likely to be issued in April 2012 for finalisation during 2012. The prudential standards are expected to take effect on 1 July 2013.

1 October 2013: Registrable Superannuation Entity licensees will be required to pay the contributions of all members into a MySuper product that they offer unless the member elects in writing that the contribution is to be paid into a specified Choice product or more than one specified Choice product.

1 July 2017: Trustees of superannuation funds offering MySuper products will need to have transferred the existing balances of their default members to a MySuper product.

Setting default funds

First half of 2012: The Government will ask the Productivity Commission to design a process, to be in place by 1 July 2013, for the selection and ongoing assessment of superannuation funds that are nominated as default funds in modern awards and enterprise agreements. The formal reference is still to be sent to the Productivity Commission.

2013: The Government will request Fair Work Australia to review the default superannuation funds named in modern awards so that only those funds offering a MySuper product continue to be included in modern awards as default funds following consultation with relevant stakeholders on the appropriate transitional period. This review would be in advance of the first regular review by Fair Work Australia currently scheduled to take place in 2014, four years after modern awards commenced on 1 January 2010.

SuperStream

The implementation timeline for the data and ecommerce standards is as follows:

Early 2012: Pre-final data standards published and available for use by funds (voluntary uptake).

Mid 2012: Final data standards published.

July 2013: Data standards and use of e-commerce becomes mandatory for APRA regulated funds and self-managed superannuation funds for processing rollovers and accepting contributions (provided by employers in the new format).

July 2014: Data standards and use of e-commerce becomes mandatory for large and medium employers making contributions.

July 2015: Proposed application of data standards and use of ecommerce to small employers subject to further consultation on impacts.

Auto-consolidation

July 2011: Funds can use tax file numbers (TFNs) as primary locator to find accounts within a fund.

January 2012: Funds can use TFNs to search the Australian Taxation Office (ATO)'s current service for searching for lost accounts along with unclaimed SHAR and SG amounts — but only with member consent.

January 2012: Funds can use a member's TFN to seek information about a member's interest in another fund or retirement savings account – but only with member consent.

July 2012: Where a member has multiple accounts within a fund, funds would be required to identify and consolidate these accounts where possible.

July 2012: The ATO will provide a new online facility for members to view their active (but not inactive) superannuation accounts that are currently reported to the ATO, in addition to their lost accounts and other superannuation monies held by the ATO (for example, unclaimed money). Funds will also be able to search the account information with member consent.

October 2013: Funds will report all inactive accounts, lost accounts as well as active accounts to the ATO.

January 2014: Commencement of auto-consolidation of lost and inactive accounts (two years without contributions or rollover) with a balance of less than \$1,000 and accounts in eligible rollover funds. The process will be initiated by the ATO and conducted annually.

July - December 2014: The enrolment process for new employees will be modified so that employees can actively consider account consolidation at this time. If the new employee does not exercise choice, the default option would be to create a new account. Any lost and inactive accounts with a balance of less than \$1,000 will be transferred into the new account through the auto-consolidation process described above.

Latter half of 2014: The threshold for auto-consolidation of lost and inactive accounts would be increased to at least \$10,000 subject to a review of the threshold by the Treasury, ATO and APRA.

Arrangements for dealing with member contributions

July 2013: Where contributions are made to a super fund and the member TFN and other identifying details are not provided within six months of the contribution being made, the account balance is to be paid to the ATO as unclaimed money.

July 2013: Employees will receive either a six-monthly contributions statement or a quarterly electronic notification from their super fund advising whether super has been received or not.