The Australian Experience

Focus on the Cooper Review and Innovation

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Landscape - Australia

- Compulsory superannuation
- Aggressive shift from DB to DC
- Limited estate planning
- Term certain annuity and allocated pension market
- Choice of Funds and investments
- Simplified propositions
- Dominated by 4 banks and subsidiaries
- $1.23 trillion in assets
  - employer contributions 9% voluntary 4%
  - Retail/Industry Funds/Corporate Super and Public Sector
  - Excluded funds – self managed super

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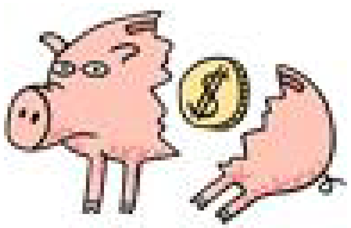
Landscape



- Over 35 years system has generated average return of 5% over inflation
- 30 million accounts - 6 million lost
- Retail and industry fund accounts show average balances of $18,400* and $16,600 respectively at 30 June 2009
- Default and move from 9% to 12% - Cooper Review
- Cooper Review is third stage of most significant reforms since compulsory superannuation introduced

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*Source: APRA

Cooper Review

To achieve:

- superannuation system in the best interests of members
- maximise retirement incomes for all
- improve regulation
- reduce costs to business

Released by Federal Government in July 2010 with promise to consult before legislative change

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Proposed Reforms

A broad range including:

- new ‘architecture’ for the superannuation system
- improvements in the operational efficiency of super funds
- changes to trustee and investment governance
- insurance provided through super
- access to a pension or annuity with related advice

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Issue

“The current superannuation system assumes that all members want to make choices about their superannuation and are interested in receiving a variety of superannuation-related services. ‘Default’ members are not adequately protected and can find them-selves paying for services that they do not need or request and, on some occasions that they do not receive.”

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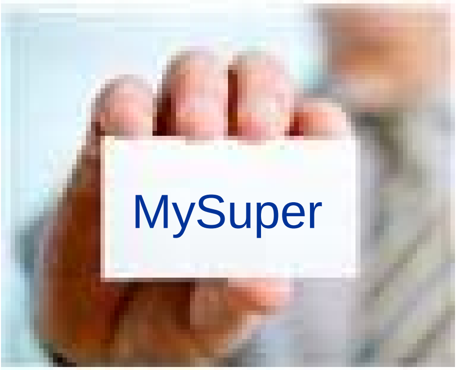
New architecture

for the superannuation industry:

- designed from a member perspective
- the creation of a simple, cost-effective product
- only MySuper eligible to be a ‘default’ fund
- MySuper trustees explicitly responsible for a single, diversified investment strategy and controlling costs



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"The superannuation system ought to facilitate, but not impose, choice..."

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"Members will benefit from the new choice architecture as:

- *they would have the confidence to be engaged as much or as little with their super as they want*
- *MySuper trustees would have to design and give effect to an investment strategy aimed at optimising members' financial interests*
- *the effect of commissions (and like payments) would be contained and fees would not be charged for advice that is not requested or received."*

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Three Categories

New architecture would reflect three main categories of members:

MySuper members	Choice Members	Self Managed Super Fund (SMSF) members
Do it for me	Do it with me	I'll do it myself



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The Model

Uses ‘choice’ to calibrate levels of governance, regulation and member protection: MySuper would have criteria for:

- investment strategy,
- product design,
- cost structures
- simplified disclosure
- retirement income forecasts and member advice.

Limited role for external advice because intra-fund advice would be ‘embedded’

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"The Panel is fundamentally opposed to the 'bundling' of advice with superannuation products, other than intra-fund advice. By bundling the cost of advice into the price of the product, and by having that cost incurred on an ongoing basis, members do not appreciate the true cost of the advice and may pay much more for the advice than it is worth."

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Choice Members

- Would have substantial responsibility for own investment or fund choices but trustee would have responsibility for reasonable due diligence on investment options

- SMSF members would be self-reliant subject to conformity with certain minimum standards

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Costs

The model facilitates more precise allocation of costs to members

Cost of disclosure documents, advertising and transactional infrastructure required to facilitate investment choices in the choice sector would be borne only by members in that sector

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Governance

Improvements suggested:

- equal number of member and employer representatives no longer required
- non-associated directors for all trustee boards
- mandating for trustees to manage investments on an after-tax basis and new enforceable performance- based fee standard

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Member movement

Members moving towards sectors offering increasing choice must

signal their intention expressly and unambiguously.

No special restrictions need to be placed on member movement in the other direction (for example a move from an SMSF to MySuper)

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Superstream

Review Panel also proposes improvements to “back office” of superannuation aka SuperStream

Aims to improve data provided by employers and more efficient use of technology and e-commerce.

“..*many trustees have tended to focus excessively on the costs of administration, without sufficiently recognising the risks to members associated with inadequately resourced administrators*”

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"The Government welcomes the MySuper and Superstream initiatives which could lower fees by 40 per cent, lifting the retirement savings of a worker on average wages by $40,000"

Chris Bowen, Minister for Financial Services, Superannuation and Corporate Law (9 June 2009 - 14 September 2010)

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Platform - Key Features

- Individual wraps dominate advisory market
- Consolidation of advisory channels/bank domination - financial advice provided to corporate super/mastertrust structures
- Employer structures largely offered by bank-life and life insurers
  - AMP CustomSuper ($5.9 billion)
  - Flexible contributions
  - Unlimited switching – choice of 10 investment choices out of 66 fund managers
  - Family members can join the scheme

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Key Features

Corporate Master Trust: investment solution provides employees with consolidated reporting and convenient way of investing in wide choice of investments at usually wholesale rates

- Mercer Corporate Master Trust - $12.9 billion of assets for 160,000 employees
- Select Your Own and Ready Made Investment Options
- Continuation and retirement options – retention of clients

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Parallels

- Major pension reforms out of austerity and recession
- DB to DC shift promoted innovative pensions solutions
- Governance and risk considerations will become more prominent
- Default structures will be key in future
- Minimisation of consumer detriment
- Efficient administration – public and private sector partnerships

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Closing Remarks

- Grasp the nettle of compulsory pension saving and pension reform
- Default structures have become paramount
- Administrative complexity and lost accounts must be addressed
- Diverse investment strategies needed
- Scrutiny on charging structures and commissions
- Innovation being led by DC platforms

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