The superannuation goal posts need to stop shifting.

At Mercer, we believe the fundamental purpose of superannuation is to provide an income for life to Australians and relieve pressure on the government age pension. We fully support the Financial System Inquiry’s (FSI) recommendation for clearer objectives and a more consistent legislative environment for superannuation.

We will continue to contribute to the FSI with another submission in early 2015.

Below is a high level summary of the key recommendations related to Australia’s retirement savings system mapped against many of the recommendations we made to the FSI.

**Our Recommendations:**

- Allow default transition from accumulation to retirement phase
- Default option has enough flexibility to allow for different personal circumstances
- Allow for a range of retirement income products to be offered by super funds
- Improving consistency in tax and social security policies so certain post retirement products are treated equally. We hope this will be addressed within the Tax White Paper.

At Mercer, we believe providing protection against longevity risk by pooling the risk makes sense, it is fair. The concept is deliberately biased towards the longer livers and that’s what is needed in the market.

**Can you offer your members a selection of retirement income solutions (or CIPRs) and ensure their super savings will last for the rest of their lives?**
COST EFFECTIVENESS & COMPETITION

The focus needs to be on net returns and long-term outcomes & product providers should be able to compete on an equal footing.

GLOBAL COMPARISONS BASED ON OECD DATA HAVE PAINTED A PICTURE OF AUSTRALIA HAVING ONE OF THE MOST EXPENSIVE RETIREMENT SAVINGS SYSTEMS IN THE WORLD. THIS PICTURE IS INCOMPLETE AND MISLEADING.

The FSI has put the superannuation industry on notice: increase efficiencies and value for money for members and reduce fees or there will be a significant shake-up. The report recommends a formal competitive process to allocate new default members to MySuper products, unless a review by 2020 concludes the Stronger Super reforms have been effective in significantly improving competition and efficiency in the superannuation system. It also focused on ensuring all employees have the ability to choose the fund into which their Superannuation Guarantee contributions are paid.

DO YOU HAVE THE RIGHT STRATEGY TO INCREASE EFFICIENCIES AND VALUE FOR MEMBERS WHILE MAINTAINING A FOCUS ON DELIVERING BETTER OUTCOMES IN RETIREMENT?

OUR RECOMMENDATIONS:

- MySuper and SuperStream given a chance to lead to reduced fees
- Greater flexibility for electronic means for transactions, communications and disclosure.
- Disclosure requirements should allow for key features to be highlighted rather than simply satisfying complex legislative requirements satisfied – The report encourages regulatory impediments to innovative product disclosure and communication with consumer be removed, and the way risk and fees are communicated to consumers is improved.
- High compliance costs reduced – This will become clearer in time
- Active/passive investment management decisions left to the competitive market place and fund trustees and members – We believe a lack of specific mention means it will be left to the market place
- Prudential requirements ensure boards are not drawn into operational matters
- Greater continuity in legislation to reduce the high costs of change
- Default funds removed from Modern Awards and employers able to choose any fund offering MySuper as their default – which severely limits competition between superannuation funds and increase costs. The FSI considers that some form of ‘quality filter’ is still required, at least until MySuper products have been positively evaluated for competition and efficiency.
- Remove barriers to fund consolidation, including rules around deferred tax assets for successor fund transfers – We are confident this will be addressed within the Tax White Paper.

GOVERNANCE

FOCUS SHOULD BE ON THE COMPOSITION AND ENHANCEMENT OF SKILLS AND EXPERIENCE, RATHER THAN JUST INDEPENDENCE

Managing the balance between engaging independent directors and retaining the natural alignment of interests inherent in the representative director model is a challenge, but not an insurmountable one.

Mercer’s 2014 Superannuation Governance Survey

The FSI report recommended a majority of independent directors on the board of corporate trustees of public offer superannuation funds, including an independent chair, be mandated; the director penalty regime be aligned with managed investment schemes; and director conflict of interest requirements be strengthened. The definition of ‘independence’ will be critical to the successful implementation of this recommendation.

OUR RECOMMENDATIONS:

- Prudential requirements ensure boards are not drawn into operational matters
- Trustees subject to same duties and liabilities to directors of other companies – Superannuation Fund Trustees will have the highest liability of any Director in Australia. A very high hurdle has been set to attract and retain independent directors to superannuation funds.

The evolution of superannuation trustee boards is about to pick up pace and the industry needs to focus on achieving the right composition of skills and experience through a structured transition process. A good starting point is identification of any skills and experience gaps, but it is also important to consider qualities that will enhance the performance of the board as a collective.

HOW WILL YOU ENSURE THE MOST EFFECTIVE COMPOSITION OF SKILLS AND EXPERIENCE AND ATTRIBUTES ON YOUR TRUSTEE BOARD?
The FSI report did not make any recommendations specifically related to coverage. However, we believe it’s important to keep the spotlight on this important issue. We believe in a fair and equitable system and continue to recommend:

- Extending Superannuation Guarantee coverage to:
  - the self-employed;
  - those earning less than $450 a month;
  - people on workers compensation or parental leave; and
  - certain disability income benefits

- Simplifying legislative restrictions applicable to contributions from age 65

**OUR RECOMMENDATIONS:**

- Higher education and CPD requirements for those providing personal advice
- Term general advice replaced with "product information"
- Provision of retirement income projections mandated
- Greater flexibility for tools and calculators to be available without the output being classified as financial advice – *We are confident recommendations related to technology and innovation could, in time, help support this recommendation*

**FINANCIAL ADVICE**

Simple advice is an essential superannuation benefit.

Enhancing confidence and trust by creating an environment in which financial firms treat customers fairly is a core theme of the FSI report. The report recommended stronger alignment of the interests of financial firms with those of consumers by raising industry standards, enhancing the power to ban individuals from management and ensuring remuneration structures in life insurance and stockbroking do not affect the quality of financial advice.

- 95% of all financial advisers at Mercer have a degree.
- 94% of our Strategic Advisers have a CFP designation or hold a Masters in Financial Planning. Those that don’t will complete additional units of study to meet our Education standard by 2019.
- 92% of Mercer’s advisers are Certified Financial Planners compared to the 45% industry certification levels.

Seeking financial advice is as much about gaining peace of mind as it is about building wealth for Australians. Building and maintaining consumers’ trust in our financial system is critical. Trust will come with quality advisors and expertise that provides a broader and unencumbered view of people’s wealth.

**COVERAGES**

The world’s best retirement savings systems cover everyone in the workplace. Coverage offered by Australia’s Super system could be improved.

- Only 28% of working Aussies believe they will have enough savings to retire when they want.

**DOES YOUR FUND HAVE A MODEL THAT CAN OFFER SIMPLE TO COMPREHENSIVE ADVICE? HOW WILL YOU DEVELOP AND IMPLEMENT SUCH A MODEL IN CONTEXT OF THE FSI’S RECOMMENDATIONS?**
TAX AND SUPER

The FSI final report urges the Tax White Paper to consider:

- Aligning the earnings tax rate across the accumulation and retirement phases.
- Options to better target superannuation tax concessions to the objectives of the superannuation system.

We believe:

- The level of support the Government provides for retirement income is remarkably level across the income spectrum, irrespective of a person’s lifetime income. 
  
  Source: Mercer’s 2012 Paper: Tax, Super & the Age Pension: assessing the value of total government support

- Using Treasury’s tax expenditure figures to shape superannuation policy is short-sighted and defective.
  
  Source: Mercer’s 2012 Paper: Tax, Super & the Age Pension: assessing the value of total government support

We support a fairer system, but it has to be simple to administer or the benefits of changes will be lost. It also has to look at the pre and post retirement phases of our lives.

Source: Mercer’s 2012 Superannuation Sentiment Index

1 in 5 AUSTRALIANS BELIEVE LEGISLATIVE CHANGES TO HOW SUPER IS TAXED COULD HAVE THE GREATEST IMPACT ON THEIR SUPER BALANCES; SECOND ONLY TO GLOBAL ECONOMIC CONDITIONS AND SHARE MARKET FLUCTUATIONS.

Source: Mercer’s 2012 Superannuation Sentiment Index

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This document has been prepared by Mercer (Australia) Pty Ltd ABN 32 005 315 917. The material contained in this document is based on information received in good faith from sources within the market and on our understanding of legislation and government press releases at the date of publication which we believe to be reliable and accurate.

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