FSI Recommendations: Superannuation and Retirement Incomes

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"Seek broad political agreement for, and enshrine in legislation, the objectives of the superannuation system and report publicly on how policy proposals are consistent with achieving these objectives over the long term."

(Recommendation 9) (Financial System Inquiry Final Report, page 95)

Primary Objective (suggested) "To provide income in retirement to substitute or supplement the Age Pension."

Secondary (other) Objectives: ?



"Introduce a formal competitive process to allocate new default fund members to MySuper products, unless a review by 2020 concludes that the Stronger Super reforms have been effective in significantly improving competition and efficiency in the superannuation system."

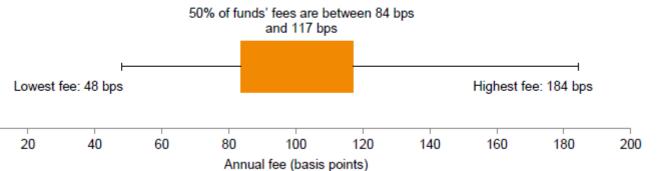
(Recommendation 10) (Financial System Inquiry Final Report, page 101)



MySuper Fees: 2014

Chart 1: Range of MySuper fees

For a \$50,000 balance in 2014



Source: Financial System Inquiry Final Report, page 108



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"Require superannuation trustees to pre-select a comprehensive income product for members' retirement. The product would commence on the member's instruction, or the member may choose to take their benefits in another way. Impediments to product development should be removed."

(Recommendation 11) (Financial System Inquiry Final Report, page 117)



Figure 1: The superannuation system for default fund members

Current	Life stage	Recommended
Account assigned by employer/award from one of 116 MySuper products	First job	Single high-performing account allocated by competitive process.
New account for each new job assigned by employer/award.		Members retain their account for each new job, unless they choose another fund.
Multiple fees and insurance erode superannuation balance	Subsequent jobs	More efficient system, lower fees
Disengaged member can seek advice	Planning for retirement	Income projections on statements
Consolidate multiple accumulation accounts and open a separate pension account	Transition to	Seamless transition. Pre-selected CIPR supports decision making and greater risk pooling.
Complex decisions at retirement	retirement	non pooming.
Lower standard of living in retirement to avoid outliving savings	Retirement	Higher and more enduring income in retirement



Current Recommended Before retirement: receive details Notify fund of retirement. Fund recommends obtaining advice. of CIPR pre-selected by fund Do not Proceed with Obtain advice obtain advice CIPR. Notify May seek fund of advice How to manage multiple risks commencement date. and objectives? Higher income Account-based Lump sum stream, with Elect to take pension payment longevity risk benefits in protection and another way some flexibility No longevity risk management and potentially lower retirement income

Figure 8: Stylised example of decision making for superannuation benefits



CIPRs

Table 5: Examples of comprehensive income products for retirement Allocation to different products; per cent of accumulated balance⁸⁰

	Longevity product (a)	Allocation to longevity product	Draw-down of account-based pension	Allocation to account-based pension
CIPR 1	DLA	23%	Exhaust balance at age 85	77%
CIPR 2	Deferred GSA	17%	Exhaust balance at age 85	83%
CIPR 3	GSA	75%	Minimum rates	25%

(a) Deferred products commence payments at age 85.



Recommendations 12 & 13

Recommendation 12

Provide all employees with the ability to choose the fund into which their Superannuation Guarantee contributions are paid.

Recommendation 13

Mandate a majority of independent directors on the board of corporate trustees of public offer superannuation funds, including an independent chair; align the director penalty regime with managed investment schemes; and strengthen the conflict of interest requirements.



Recommendations 8 and 32

8 Direct borrowing by superannuation funds Remove the exception to the general prohibition on direct borrowing for limited recourse borrowing arrangements by superannuation funds.

32 Impact investment

.....Provide guidance to superannuation trustees on the appropriateness of impact investment.



37 Superannuation member engagement

Publish retirement income projections on member statements from defined contribution superannuation schemes using Australian Securities and Investments Commission (ASIC) regulatory guidance.

Facilitate access to consolidated superannuation information from the Australian Taxation Office to use with ASIC's and superannuation funds' retirement income projection calculators.



Taxation of Superannuation

Observation

In reviewing the taxation of contributions and investment earnings in superannuation, the Tax White Paper should 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.

