
FSI Recommendations: Superannuation and Retirement Incomes

Kevin Davis

Professor of Finance, University of Melbourne

Research Director, ACFS

Professor, Monash University

Recommendations (& page no.)

8	Direct borrowing by superannuation funds	86
9	Objectives of the superannuation system	95
10	Improving efficiency during accumulation	101
11	The retirement phase of superannuation	117
12	Choice of fund	131
13	Governance of superannuation funds	133
32	Impact investment	261
37	Superannuation member engagement	267
-	Tax summary (observations only)	277

Recommendation 9

“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: ?

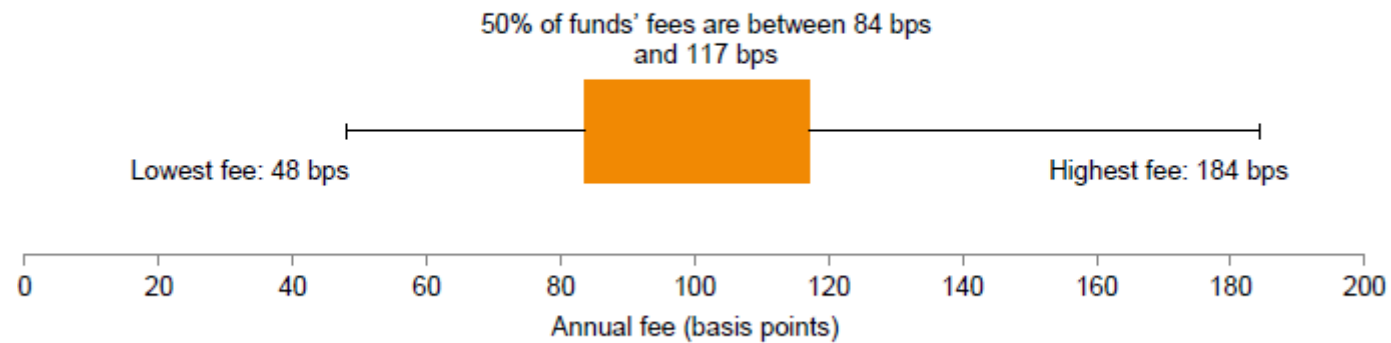
Recommendation 10

“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

Recommendation 11

“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

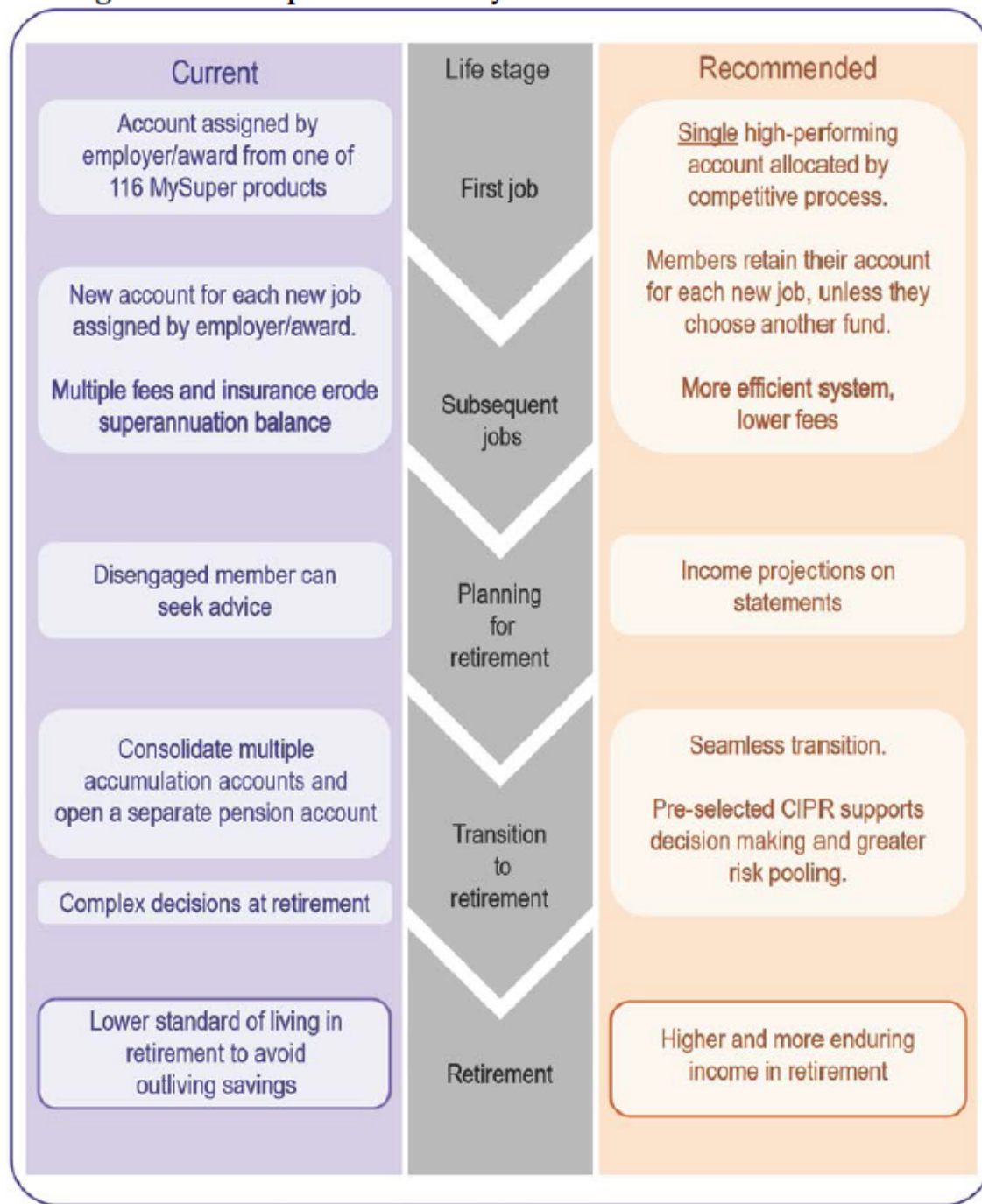
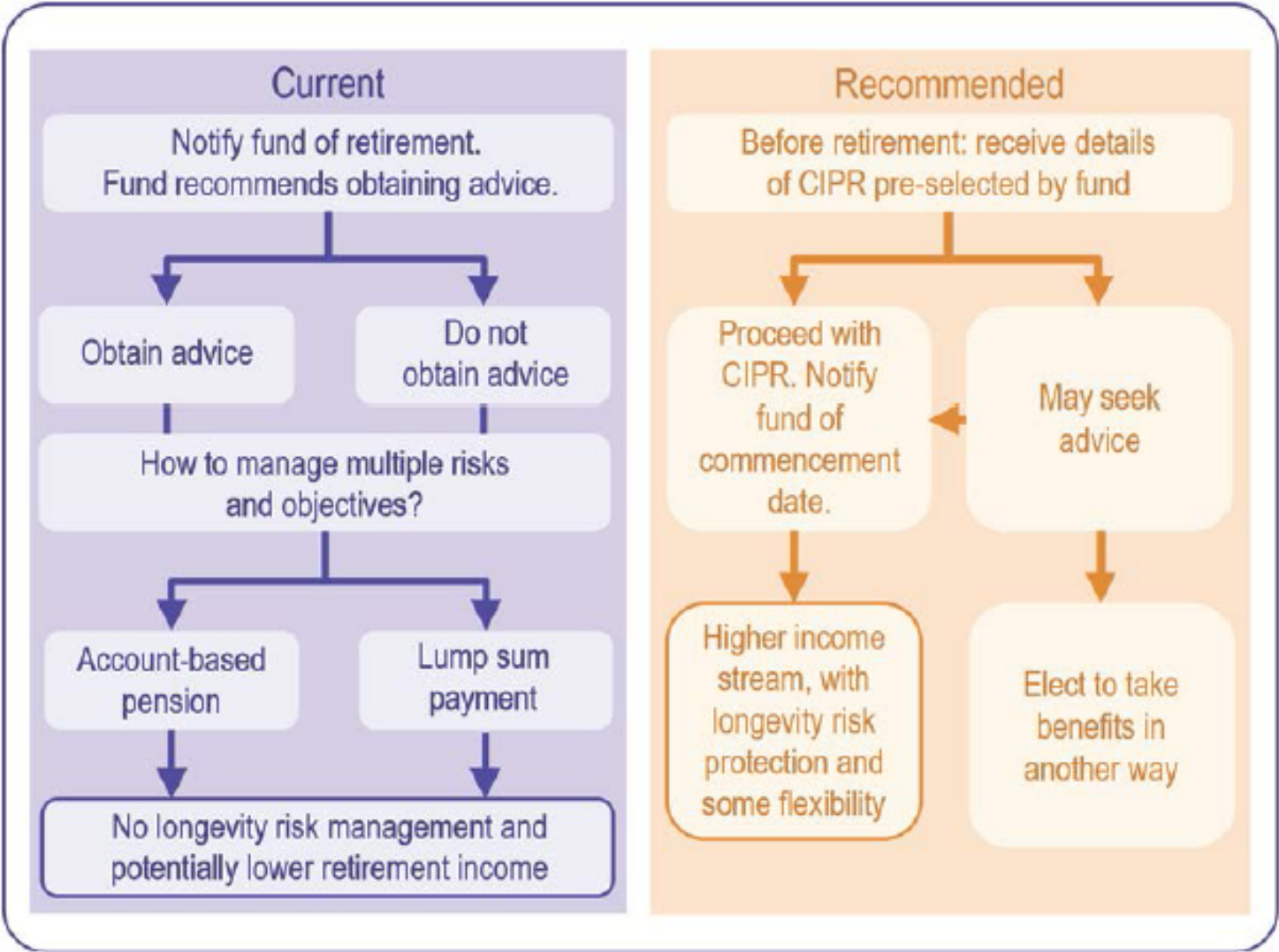


Figure 8: Stylised example of decision making for superannuation benefits



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.

Recommendation 37

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.
-