Australian Super System

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Australian System at July 1, 2017
(latest reforms start date)

Pillar 1

- Basic, flat state pension at 27.7 p.c. of male total average earnings
- Accessed at age 65.5, increasing to 67 by 2023
- Means-tested – approx. 20 p.c. no pension, 30 p.c. part, 50 p.c. full

Pillar 2

- Compulsory superannuation (SG) at 9.5 p.c. – 12 p.c. by 2021

Size

- $2.2 trillion in system – 3rd largest in the world by size – 126 p.c. of GDP and growing at a rate of 8 p.c. per year

Governance

- Trustee-based for all funds

Taxation

- 15 p.c. on all contributions, except low income earners it is 0
- 30 p.c. on all contributions if earning more than $250,000
- 15 p.c. of earnings effectively 6 to 8 p.c. given dividend imputation
- Zero tax on draw down in retirement
- 15 p.c. on transition to retirement and if savings greater than $1.6m

Retirement Phase

- No compulsory pension/annuity at retirement
- A lump sum **draw down** with minimums – age related percent from account at age 60.
- Transition to retirement from age 55

Outcome

	No. of members '000	Assets $100m
Transition to Retirement	148	263
Account-based pension draw down	538	142
Allocated pension-usually (10-20 years)	358	75
Annuity – lifetime	14	35

Number of Funds

	2002	2011	2016
Corporate	2484	139	31
Industry	134	60	41
Public Sector	76	39	19
Retail	254	143	139
Self-managed	227,000	453,000	584,000

Assets $100m

	2011	2016
Corporate	54	56
Industry	242	482
Public Sector	210	232
Retail	352	559
Self-managed	438	636

Reforms since 2009 – Part 1

- **2009 Cooper Review –** Inquiry into operational efficiency of the system.
- **2011 My Super**
- Low cost standard default investment option
- **Stronger Super**
- Trustees can be sued individually
- APRA power to issue limited licences
- New Best Interest of Member Test

Super Stream

- Standardised coding, recognition of member fund to fund plus transfers

Reforms since 2009 – Part 2

2009 Joint Parliamentary Inquiry into Financial Advice

2012 Future of Financial Advice (FOFA)

- Accountants licensed under Advice Laws
- Advisers act in “best interests of members or client”
- Commissions banned/standard fee template annually
- Opt in to advice every 2 years

(1) **Professional Standards for Financial Advisers**

- **Life Insurance –** commission and remuneration restrictions on
- **Australian Securities and Investment Commission** – added funding

Reforms since 2009 – Part 3

2016 Budget

- Pension - means-test tightened 326,000 pensioners lose all/part of pension January 1, 2017
- Cap of $1.6m on super accumulation, 15 p.c. tax on if above
- $20,000 year max contributions cap
- Yearly $100,000 **after** tax contribution limit if less than $500,000 in super
- 15 p.c. tax on transition to retirement pension
- 30 p.c. contributions tax if earning more than $250,000 a year
- Retirement Income Products – still to be announced.

Trends and Outstanding Issues Part 1

Fund Amalgamation

– 2950 in 2002 to 230 today to 100 in 2020?

Trustees

- Far greater oversight – licensed – training – reporting – Independent arms length contracts and benchmarking – individually liable

Intermediaries

- Advisers far greater oversight – no commissions – best interest of member

Trends and Outstanding Issues Part 2

- **Pension Phase – draw down parameters still outstanding**

- **Technology**
  - Digital/app access now widespread "engagement" seen as vital particularly in lead up to/ in retirement when individual **must** make decision ie investment base, length of draw down and age pension outcome

- **Fees**
  - Far great transparency and coming down from 1.2 p.c.(old default) average to .65-.85 MySuper–

Trends and Outstanding Issues Part 3

Trustees

- 1/3 independent and a chair

Default

- Open rather than restricted i.e. remove prescription of default fund in non-retail sectors

TRUSTEES - WARNING PART I

Greater regulation and supervision , accountability and transparency.

WHY ?

- In a mandatory or semi mandatory (opt out) system government “duty of care “ greater
- In defined contribution member mainly dependent on trustee decision making unlike defined benefit where the outcome a promise delivered by the employer

TRUSTEES - WARNING PART 2

Government policy and parameters change on going.

WHY ?

- Demographic-longer and healthier lives ,increasing dependency ratio

- Cost to government of retirement income systems; basic state pension-open defined benefit-mandatory defined contribution