

Super Update

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Super in retirement – new government discussion paper

At the start of December Treasury released a discussion paper seeking industry and community views on how the superannuation system can best provide the security and income Australians need as they live longer and healthier lives in retirement. The objective of the paper is to create pathways to assist retirees to better solutions for their circumstances that improve their retirement outcomes. Treasury has also stated that it is seeking to build an evidence base for the current challenges retirees face, to assist in identifying barriers and opportunities to inform future policy development.

The paper is focused on the longevity challenges faced by retirees. It notes that while they worry about running out of savings, 84% of retirees' retirement savings are in account-based pensions that do not include any longevity risk management, and retirees typically seek to self-insure by drawing as little as possible from their savings rather than considering other products or strategies to manage this risk. Combined with this, the paper notes that several inquiries and reviews over the past decade have identified the lack of choice in retirement products and, in particular, the lack of products that involve an element of longevity protection.

The paper considers potential government policy responses in three areas — supporting members, supporting funds and making lifetime income products more accessible.

Supporting members to navigate retirement income

The proposals under this heading seek to address the issue that most retirees, faced with the challenge of managing their savings over an uncertain future period, typically draw on their super at the minimum permitted rates. For many retirees this leads to sub-optimal outcomes. Proposed responses include:

- The government producing and distributing basic factual information or education
- Requiring funds to provide general information about both the accumulation and retirement phases when onboarding members
- The government providing free and impartial guidance for retirees and pre-retirees, e.g. via a similar service to the UK's PensionWise service
- Reviewing the account based pension minimum drawdown rates to achieve a smoother drawdown profile over retirement or offering a second set of alternative rates as a guide.

Consultation questions under this heading ask how government and industry can reduce complexity in the retirement income system and seek information on what barriers funds face both to better use of data to understand their membership and to activities such as utilising nudges and defaults to assist members into better retirement solutions.

Supporting funds to deliver better retirement income strategies

The paper acknowledges that there have been few policy reforms over the past decade in relation to the retirement phase, the most important being the introduction of the retirement income covenant. Regulatory changes in 2017 to support more innovative retirement income products only led to a small number of such products being developed. Funds are working to meet their retirement income covenant obligations and improve their assistance to members in and approaching retirement, but the paper states that there are opportunities for the government to further support an enabling environment for funds to achieve their goals under the covenant.

Potential responses under this heading include the advice changes that the government has already proposed in response to the Quality of Financial Advice review, as well as:

- The creation of a standardised disclosure framework for retirement income products, to assist members to compare products and ensure their particular retirement product meets their needs

- The development of a standardised risk measure that could assess the relative risk of retirement income products to a fall in income from year to year
- Establishing a scorecard approach that demonstrates how products balance the three retirement income covenant objectives or other metrics
- The government developing similar comparison tools for retirement income products to the YourSuper comparison tool or the performance test
- Reforms to the existing regulation of retirement income products (such as making retirement products more portable in the case of a fund merger).

Consultation questions under this heading seek information on which approaches should be prioritised, what other approaches the government should consider, and what barriers there are to product switching in retirement.

Making lifetime income products more accessible

The paper states that ensuring that they have a source of income that will last for life has been identified as a key concern of retirees. Despite this, only 3.5% of assets held in pension accounts are currently invested in annuities. Barriers that may contribute to this are discussed in the paper and include:

- Development costs to super funds, particularly having regard to trustees' obligations under the Best Financial Interests Duty
- The risk of changes to the superannuation environment resulting in costly legacy products
- "Sticker shock" from the up-front cost of an annuity and the risk that the early death of the retiree will result in their savings having been "wasted"
- A lack of flexibility in many longevity products
- Retiree concerns about counterparty risk
- A concern that super funds may not be incentivised to help members draw down savings from the fund.

Potential policy responses discussed include government support for better longevity pricing — for example, by facilitating funds to pool mortality risk or directly intervening in pricing via reinsurance or the sale of longevity bonds that would assist providers to manage their risk in offering longevity products.

But perhaps the most interesting potential response is the development of a framework for a standardised retirement product to balance the objectives of the retirement income covenant. The product could include a longevity protection component such as a deferred annuity, a forward-planned income stream that accounts for the member's preferences and an investment allocation that adjusts the investment risk for the member's stage in retirement. An example of

such a product is included in an appendix to the paper. Funds could be required to develop at least one product that meets the framework attributes and provide it as a “first offer” to members. Such a framework would reduce development hurdles, improve outcomes for less engaged members while maintaining member choice, promote competition and convey expectations that members use their savings for income in retirement. But it would need to be designed to prevent take-up for those who would be disadvantaged in doing so.

Consultation questions cover various aspects of this potential framework as well as seeking information on what approaches funds are currently taking to assist members manage risks in retirement and what action could be taken by the government to assist funds to offer longevity protection to members.

Submissions close on 9 February 2024.

Treasury has indicated that this is a deliberately wide-ranging discussion paper with a long-term focus — major policy changes may not be implemented until a potential second term of the government. In our view, it offers a welcome opportunity for funds to provide comprehensive feedback to the government on the challenges they face in developing better solutions for their retiree members and where government support or policy changes would be most beneficial.

News in brief

Consultation on next phase of data transformation project

At the end of November APRA released a discussion paper proposing a significant expansion of the data it collects on investments and trustee board governance. In total APRA proposes to amend five existing reporting standards, introduce six new reporting standards and replace eight pre-data transformation reporting standards. The data proposed to be collected includes:

- Enhanced data on trustees’ business models and on boards and their committees, to provide greater insights into their governance practices and effectiveness, as well as trustees’ financial statements
- Data on product distribution arrangements between funds and intermediaries such as employer sponsors and promoters

- More detailed investment information, including the exposures of all directly held investments in unlisted assets (with no materiality threshold) and their valuation information, data on material unlisted investments held through unlisted investment vehicles including special purpose vehicles and wholly owned vehicles, data to inform assessments of investment governance and exposure to liquidity and valuation risk and information on annual indirect investment costs associated with each investment manager.

There will be roundtables held in February, with consultation closing on 31 March. APRA proposes to issue a consultation response in the September 2024 quarter, and the first reporting periods are proposed to end on 30 June 2025 for annual reporting and 30 September 2025 for quarterly reporting (with due dates in November 2025 and December 2025 respectively).

Access to offenders’ super for victims of child sexual abuse

In the Mid-year Economic and Fiscal Outlook published on 13 December, the government announced that it will enable victims and survivors of child sexual abuse to seek access, via a court order, to additional personal or salary sacrifice superannuation contributions made by the offender after the first offence occurred where a related court order for compensation remains unpaid after 12 months. Access will only apply to identifiable additional contributions starting from 2002/03, and not to mandatory employer contributions or contributions to a defined benefit interest. Applications to identify any potential eligible superannuation will be facilitated by the ATO.

APRA Insight article on quality data as an asset

Late in November APRA published an Insight article on quality data. The article discussed the results of a series of questionnaires sent to regulated entities including super funds between 2019 and 2022 aimed at understanding entities’ data risk management practices.

Overall, while APRA identified improvements in data practices, the regulator considers that progress is slow and the gap between current and better practice in data risk management remains wide. The article highlighted six factors for entities to consider when improving their data risk management:

- Establish data governance with a unified data strategy
- Provide clarity on roles and responsibilities for ownership of critical data elements and processes across the data lifecycle
- Simplify the technology and data architecture environment through improved platform solutions and by decommissioning legacy assets
- Identify critical data elements and create a consistent set of data controls

- Establish mechanisms to monitor data quality and timely remediation of errors based on business requirements
- Integrate data management risk into risk management framework.

APRA insights on the 2023 performance test results

On 29 November APRA released individual product results from this year’s performance test, along with an Insight article discussing the regulator’s observations from the results.

On investment performance, APRA noted that while most MySuper products and non-platform trustee directed products outperformed the investment component of the performance test, more than half of all platform trustee directed products failed to meet the benchmark. APRA expects that trustees of products that consistently underperform their benchmarks will identify the drivers of these poor results and consider what changes are required to improve performance or whether they should advise their members to move to better performing products.

On administration fees, APRA observed that there is significant variance in these fees paid by fund members within each of the product segments. This indicated to APRA considerable scope for fee reductions across the industry, particularly for trustee directed products. Trustee directed products offered through platforms were observed to generally have the highest fees, and so APRA expects that trustees will review whether the additional services provided to justify the higher fees are delivering value for money to members.

APRA superannuation statistical publications released

Highlights of APRA’s September 2023 Quarterly Superannuation Performance publication, issued on 21 November 2023, included the following:

	Sep 2022 (\$ billion)	Sep 2023 (\$ billion)	Change (%)
Total Superannuation assets	3,281.1	3,560.5	+8.5
Total APRA-regulated assets	2,239.5	2,465.7	+10.1
Of which: total assets in MySuper products	887.4	1,000.4	+12.7
Total self-managed super fund assets	837.5	884.6	+5.6

APRA noted that the growth in superannuation over the year was driven by strong contribution inflows and positive investment returns. Contributions increased by 12.5% to \$169.0 billion over the year, while benefit payments reached \$107.5 billion (increasing by 21.8% over the year).

APRA’s MySuper statistical publication for the September 2023 quarter was also released on 21 November. This report contains data relating to product profile, asset allocation targets and ranges, investment performance and net returns, as well as fees and costs. Statistics are presented at an individual product or lifecycle stage level.

The annual fund-level superannuation statistics and annual MySuper statistics publications for 30 June 2023 were published on 13 December. These contain information on structure, financial performance, fees and membership demographics at the fund and MySuper product level respectively.

Legislative update

Parliament rose on 7 December 2023 for the summer break and will not resume until 6 February 2024. The Treasury Laws Amendment (2023 Measures No. 1) Bill 2023, an omnibus bill which, among other things, amends the tax legislation to align the income tax treatment of off-market share buybacks by listed public companies with on-market share buybacks, and empowers the Australian Accounting Standards Board and Auditing and Assurance Standards Board to develop sustainability standards and auditing and assurance standards for sustainability purposes, was passed by parliament before it rose. However, the following bills remain before the parliament:

- The Treasury Laws Amendment (Support for Small Business and Charities and Other Measures) Bill 2023, which includes the government’s proposed changes to the non-arm’s length expense rules for SMSFs and corrections to AFCA’s legislation to allow it to hear certain superannuation complaints, is before the Senate
- The Superannuation (Objective) Bill 2023, which will enshrine the objective for superannuation, is before the House of Representatives. This bill has also been referred to the Senate Economics Legislation Committee for review and report by 28 March 2024
- The Treasury Laws Amendment (Better Targeted Superannuation Concessions and Other Measures) Bill 2023 and related tax imposition bill, which will create the new Division 296 tax on earnings on balances greater than \$3 million, are also before the House of Representatives. It has also been referred to the Senate Economics Legislation Committee for review and report by 19 April 2024.

Several instruments have been registered in recent months revoking various APRA reporting standards, including SRS 530.0 Investments, SRS 702.0 Investment Performance, SRS 530.1 Investments and Investment Flows, and SRS 410.0 Accrued Default Amounts. In addition, in early November ASIC’s cost recovery instruments for 2022/23 were registered.

A guide to key changes

The dates that follow were correct as at the time of publication of this edition of Super Update.

Date	Change
1 Jan 2024	Commencement of CPS 511 Remuneration for super fund trustees that are not significant financial institutions, and commencement of uplifted remuneration disclosure requirements for all trustees (first financial year starting on/after this date).
1 Jul 2024	Start date for website disclosure of certain information relating to employer-sponsored sub-plans previously subject to ASIC relief.
1 Jul 2024	SG to increase to 11.5%.
1 Jan 2025	Commencement of CPS 190 Recovery and Exit Planning for superannuation.
1 Jan 2025	Proposed commencement of revised version of SPS 515 Strategic Planning and Member Outcomes.
1 Jan 2025	Proposed commencement of revised version of SPS 114 Operational Risk Financial Requirement.
15 Mar 2025	Financial Accountability Regime commences for super fund trustees.
1 Jul 2025	SG to increase to 12.0%.
1 Jul 2025	Commencement of CPS 230 Operational Risk Management.
1 Jul 2025	Proposed commencement of Division 296 tax — additional earnings tax on super balances over \$3 million.
1 Jan 2026	Commencement of section 29QC of the SIS Act.
1 Jul 2026	Proposed commencement of Payday Super requirements.
1 Oct 2027	Start date for publication of product dashboard for certain Choice products.
1 Oct 2027	MySuper product dashboard to be included in periodic statements.

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