

Super Update

January 2025



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APRA review of unlisted asset valuation and liquidity risk management governance

In mid-December 2024, APRA released the findings from a review it conducted of trustees' progress in implementing enhanced valuation governance and liquidity risk management requirements that were included in the latest version of SPS 530.

The review examined the practices of 23 trustees across a range of different asset sizes and business models and including some platform-based funds. The trustees represented approximately 80% of total assets managed by APRA-regulated funds, and all of them had meaningful exposure to unlisted assets. The asset classes covered by the review were unlisted property, unlisted infrastructure, unlisted equity and fixed income private debt.

In the area of unlisted asset valuation governance, APRA found that eight of the trustees (two platforms, four mid-sized funds and two large funds) needed to make material improvements to their practices. Particular weaknesses were observed in relation to:

- Board oversight and conflict management, including the need for greater inclusion of independent committee members with specialist knowledge of individual unlisted asset classes and better separation of operational staff from those conducting valuation processes. APRA also noted that only 11 of the 23 trustees had a dedicated valuation committee
- Revaluation frequency and triggers – APRA expects that valuations would be undertaken at least quarterly, with trustees using a range of qualitative and quantitative triggers for out of cycle valuations that prompt a meeting of the valuation or other committee to consider clear criteria for when to obtain an independent external valuation. The regulator also found cases where valuation triggers appeared to have been met without leading to any revaluation or challenge to the existing valuation
- Valuation control — APRA observed only limited instances of ongoing monitoring of external manager valuations following the initial pre-appointment due diligence, and some cases where auditors had raised this lack of monitoring as an issue requiring remediation
- Fair value reporting — some inconsistent approaches to fair value reporting of unlisted assets were observed.

Eight of the 23 trustees (mostly medium-sized trustees and platforms) were found to need improvement in their liquidity risk management. Weaknesses found encompassed:

- Liquidity stress trigger frameworks — APRA observed the wide use of a single liquidity trigger (% of illiquid asset exposure in investment portfolio) to identify emerging liquidity risk across the reviewed trustees, along with some cases where liquidity triggers were expressed in such broad terms that they were potentially difficult to use in practice. In a small number of cases, differences were identified between documented quantitative triggers and those employed in portfolio operation. APRA encourages trustees to use a range of forward looking and retrospective triggers that include member outflows, minimum cash levels, available liquid assets and relevant indicators of market stress and portfolio characteristics
- Unlisted asset liquidity risks — trustees' liquidity action plans generally lacked sufficient consideration of the specific liquidity risks posed by unlisted assets
- Liquidity action plans were typically observed to be general frameworks rather than detailing the specific steps needed to effectively address potential liquidity stress associated with unlisted asset exposures. APRA also identified a need to improve understanding of the liquidity management capabilities of external providers.

APRA expects all trustees to review the findings, assess themselves against the prudential standard and enhance their valuation governance and liquidity risk frameworks where needed. APRA will take further action to enforce the provisions of SPS 530 and related regulatory requirements where necessary.

This is not the first time APRA has released observations on valuation governance and it is obviously a key area of focus for the regulator, particularly given the Reserve Bank's comments in 2024 on the increasing importance of the superannuation sector to financial system stability more widely. Funds are not required to have a separate Valuation Committee under SPS 530. Nor are they required to conduct investment valuations at least quarterly, although APRA describes that minimum frequency as "expected" in SPG 530. Despite prudential practice guides not creating enforceable requirements, it is increasingly clear that trustees seeking to diverge from APRA's guidance should have well-articulated and supported reasons for doing so.

Reforms to the retirement phase of super

On 20 November 2024, the government announced a four-pronged plan to reform the retirement phase of superannuation. The changes will involve:

- An expansion of the guidance available on ASIC's Moneysmart website and an education campaign to be run by ASIC aimed at members in and approaching retirement
- Consultation in 2025 on reforms to the regulations governing innovative income streams, which could include features such as money-back guarantees, fairer treatment for couples by taking into account joint life expectancy where appropriate, and purchase via instalment payments rather than an upfront lump sum
- A new set of voluntary best practice principles to guide the industry in designing modern, high-quality income products, to be developed by Treasury in consultation with an industry working group and the broader community
- A new reporting framework on retirement outcomes commencing in 2027, to enable consistent and transparent monitoring of the outcomes delivered to members in retirement. APRA will collect and publish the data on an annual basis.

At the same time the government asked APRA and ASIC to conduct another pulse check, by the end of 2025, of trustees' progress in implementing their strategies under the retirement income covenant. The results of the pulse check will inform the design of the proposed retirement reporting framework.

Any legislative changes to support these proposals may depend on the outcome of the Federal election due by May this year, although it is difficult to see anything objectionable in the expansion of the Moneysmart website or the creation of best practice principles for income products.

ASIC concerns around death benefit claims management

On 19 November 2024, ASIC released a letter it had written to the CEOs of all super funds regarding their handling of death benefit claims.

Concerns identified by ASIC in the letter included:

- Of the 10 trustees from whom ASIC obtained granular data, all had difficulty providing ASIC with data about end to end claims handling times, starting from the time the claimant notified the fund of the member's death. Many required significant manual work to extract certain data and the initial data provided was generally of poor quality
- Many funds did not track claims times from end to end — some only started the timing when the initial claim package was sent; others seemed to focus on the time taken once applications from all claimants had been received and were complete
- Many funds did not report claims handling times for claims where there was no insured benefit, even though these were the majority of the claims ASIC captured over the two years of data covered by the review
- Metrics such as claims volumes or overall claims handling times can mask issues that more appropriate metrics would reveal.

Suggestions for improvement included:

- Trustees should have member-focused performance objectives for handling death benefit claims that should cover all aspects of the process, both within the fund and where outsourced to service providers, and should reflect the reasonable expectations of claimants
- Data should be collected that covers the entire process from the time the claim is first notified to the trustee until the last beneficiary is paid. Where services are outsourced, trustees should ensure they have access to the provider's data and can be confident it is correct

- Performance against objectives should be reported to the Board at the very least every six months. Boards of funds with long claims handling times or a high number of complaints about claims handling should be more engaged and may need more frequent reporting, root cause analysis or material risk reporting
- Where failures are identified, Boards must ensure appropriate steps are taken to address them and, where appropriate, claimants are remediated.

ASIC expects all trustees to review the observations in the letter and in ASIC's final report on its observations in this area (due to be published early in 2025), as well as their own internal dispute resolution data, to identify areas for improvement. Longer term commitments to improve processes should be included in trustees' 2025 business plans.

News in brief

Regulatory Initiatives Grid for the financial sector

Late in December, Treasury released a new Regulatory Initiatives Grid which is intended to better streamline and coordinate regulation in the financial sector. It sets out regulatory changes that will materially affect financial service providers (including super funds) over the next two years, and includes initiatives from Treasury, the Commonwealth Attorney-General's Department, APRA, ASIC, the ATO and AUSTRAC, among others. It has been released as a report, spreadsheet and interactive tool.

Funds should note that the Grid identifies a number of consultations relevant to super that are scheduled to commence in the first quarter of 2025.

Regulations made to support members exiting certain legacy pension products

On 10 December, regulations were finalised providing a five year period for individuals to exit certain legacy retirement products including lifetime, life expectancy and market linked pensions and annuities (excluding any such pensions in a defined benefit fund).

These regulations also provide more flexible pathways for trustees to make allocations from reserves.

- If a reserve supported an income stream that has ceased, and the reserve is allocated to the former recipient of that income stream, it will be exempt from both contribution caps

- Other reserve allocations (subject to the exception below) will count towards an individual's non-concessional contributions instead of their concessional contributions.

Under the current tax regulations, if a reserve allocation is made to each member of the fund, or each member in a class of members to which the reserve relates, and the amount allocated is less than 5% of the member's interest in the fund, then it is not included in the member's concessional contributions. This exemption will continue to apply, with such amounts not counting towards either cap.

Fact sheet on next round of Quality of Advice changes released

On 4 December, Treasury released a fact sheet on the next stage of its "Delivering Better Financial Outcomes" changes (arising from the Quality of Advice review). Importantly, super funds will be permitted to provide "nudges" to members to drive greater engagement with super at key life stages such as approaching the transition to retirement. The rules on what advice topics can be paid for from super will also be clarified, as will those on the member circumstances that can be considered.

In other changes, the best interests duty will be modernised into an outcomes-focused duty, with the existing safe harbour steps to be abolished, and Statements of Advice will be replaced by a principles-based record in plain English that addresses the client's needs. Finally, the government proposes to introduce a new class of financial adviser to deliver simple advice. This adviser will be required to hold an AQF level 5 diploma, but their licensee will be wholly responsible for the advice they provide and will be subject to additional monitoring and supervision obligations. The adviser will only be allowed to advise on certain types of products issued by prudentially regulated entities and won't be able to provide advice on more complex/high risk areas such as establishing an SMSF. Various other restrictions will also apply to this class of adviser.

New Australian Life Tables published

The Australian Government Actuary published the 2020-22 edition of the Australian Life Tables on 12 December. The publication includes discussion of the impact of the COVID-19 pandemic over the three years covered by the tables.

APRA superannuation statistical publications released

Highlights of APRA's September 2024 Quarterly Superannuation Performance publication, issued on 27 November, included the following:

	Sep 2023 (\$ billion)	Sep 2024 (\$ billion)	Change (%)
Total Superannuation assets	3,599.3	4,083.0	+13.4
Total APRA-regulated assets	2,459.2	2,829.7	+15.1
Total self-managed super fund assets	924.0	1,204.4	+10.9

Total superannuation assets increased by 3.7% over the quarter to reach \$4.1 trillion as at September 2024, of which \$2.8 trillion are in APRA-regulated funds. Benefit payments increased by 11.4% to \$119.9 billion over the year. This increase was the result of lump sum payments rising by 4.9% to \$65.1 billion and pension payments increasing by 20.3% to \$54.8 billion.

APRA's MySuper statistical publication for the September 2024 quarter was also released on 27 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 and some insurance premium data.

On 12 December, APRA released the September 2024 editions of its new series Quarterly Superannuation Product Statistics, Superannuation Industry and Fund-level Statistics publications:

- The Product Statistics publication lists all superannuation products offered by each APRA-regulated superannuation fund and the investment menus and investment options available through these products, along with granular information on fees and costs, investment performance, investment strategy and asset allocation for a range of products and investment options
- The Super Industry publication contains data on superannuation products, investment options, member demographics and industry investments by asset class
- The Fund-level Statistics publication contains detailed member demographic information and total fund investments by asset sector types for each APRA-regulated fund with more than six members.

Legislative update

In the last week of parliament for 2024, a number of bills of interest were passed, including:

- The Superannuation (Objective) Bill 2023, which enshrines the objective for superannuation into law. The final form of the objective is “to preserve savings to deliver income for a dignified retirement, alongside government support, in an equitable and sustainable way”
- The Family Law Amendment Bill 2024, which empowers the Minister to direct a fund trustee that has approved methods or factors for super valuations for Family Law purposes to review those factors and if necessary have updated factors submitted to the Minister for approval
- The Privacy and Other Legislation Amendment Bill 2024, which will, among other things, require entities to include in their privacy policies information on the kinds of personal information used in, and types of decisions made by, computer programs that use personal information to make decisions that could reasonably be expected to significantly affect the rights or interests of an individual. The changes apply to decisions made after commencement, which has been set as 2 years after Royal Assent.

The bill which would create the new Division 296 tax on earnings on balances greater than \$3 million was not passed before parliament rose. The Senate voted to divide the bill in two, separating the Division 296 tax amendments from the other changes in the bill.

Finally, a Federal election must be held by 17 May 2025, assuming, as usual, that a simultaneous election for the House of Representatives and half the Senate will be held. The next Federal Budget is currently scheduled to be handed down on Tuesday 25 March 2025. Any legislation which has not been passed by both Houses of parliament by the time the parliament is dissolved for the election will automatically lapse and must be resubmitted for approval by both Houses once the new Parliament resumes after the election.

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
15 Mar 2025	Financial Accountability Regime commences for superannuation.
1 Jul 2025	SG to increase to 12.0%.
1 Jul 2025	Commencement of revised version of SPS 515 Strategic Planning and Member Outcomes.
1 Jul 2025	Commencement of CPS 230 Operational Risk Management.
1 Jul 2025	Commencement of revised version of SPS 114 Operational Risk Financial Requirement.
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 Jul 2026	Commencement of climate-related financial disclosure obligations for group 2 entities including super funds.
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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