



# Fairer, Simpler Superannuation

**Julia Gillard and Labor**  
Let's move Australia forward



## **FAIRER SIMPLER SUPERANNUATION**

The Gillard Labor Government will assist families to save for their retirement by introducing a new low cost, simple superannuation product called "MySuper". We will also work with the superannuation industry to modernise and streamline the administration of the superannuation system.

The superannuation industry manages \$1.3 trillion in hard-working Australians' retirement nest-eggs. Every dollar diverted in fees or other unnecessary overheads is a dollar less going towards a larger and more secure retirement. Over a person's working life, these fees can total tens of thousands of dollars of lost retirement income.

These reforms form the first part of Federal Labor's response to the Cooper Review into Australia's Superannuation System and continue Labor's commitment to ensure all Australians enjoy a secure retirement.

The MySuper reforms are part of the Gillard Labor Government's plan for a stronger economy and are the next phase of Labor's reforms to our national superannuation system.

MySuper builds on the Prime Minister's breakthrough agreement on the mining tax that delivers a major boost to the superannuation of working Australians through a lift in the Superannuation Guarantee, a new low income super contribution, and increased super contribution caps for over 50s.

### **What is MySuper?**

MySuper is a new low-cost and simple superannuation product that replaces existing default funds.

The requirements that a MySuper product must meet will be set out in legislation and enforced by APRA.

Superannuation funds will still be able to offer different products, and will not have to offer a MySuper product.

However, only a MySuper product will be eligible to operate as a default product. This means a fund's default product must meet the MySuper standards to continue to accept contributions from employees who have not exercised choice and nominated a fund, or where a default fund is specified in a modern Award or industrial agreement.

This creates a powerful incentive for funds to offer a product that meets this higher benchmark. It is expected that existing private sector providers of superannuation products will offer their own MySuper product.

### **What will be the features of a MySuper product?**

The standards that MySuper products will have to meet include:

- No entry fees, with exit fees limited to cost-recovery.
- A ban on hidden fees and commissions in relation to retail product distribution and advice by financial advisers in line with Federal Labor's reforms to financial advice.
- Removal of commissions in relation to Group insurance, but maintenance of the Future of Finance advice process for consultation on individual risk commissions.
- New duties that require super fund providers to deliver value for money or be stripped of their licence by the regulator.
- A single investment strategy set by the trustee.
- Standardised reporting requirements in plain English.
- The ability to accept all types of superannuation contributions.
- New standards around the payment of performance fees to fund managers.
- A requirement that switching fees are not payable to the trustee in their personal capacity.

The Government will also consider requiring regular benchmarking of MySuper funds and permitting some limited flexibility for trustees to determine life-cycle allocations for members.

### **Who can have a MySuper account?**

When fully implemented, anyone can elect to have their super paid into a MySuper fund.

However, it will not be compulsory to use a MySuper product.

A member can opt out of MySuper to another fund of their choice, including self-managed super.

Employees who do not nominate a super fund will have their contributions automatically paid into a MySuper product.

MySuper funds will also become the only funds eligible to be nominated as default funds in a modern Award or industrial agreement.

### **Who will regulate MySuper?**

Superannuation fund trustees will have to apply for a licence from APRA to operate a MySuper fund. The licence could be a variation to existing arrangements.

The licence will impose new obligations on trustees to act to optimise members' financial best interests, as reflected in the net investment return and level of risk, over the longer term.

The regulator will have the power to suspend a super fund's MySuper licence for not delivering value for money to its members.

### **What other changes will be made?**

Labor will also work with the superannuation industry and employers to improve the administration of the superannuation system, making it cheaper and easier for employers, and fund members. This is consistent with the *Superstream* recommendations of the Cooper Review which would modernise the 'back office' of the superannuation system.

An important first step is better use of Tax File Numbers (TFNs) to locate lost accounts and help members consolidate and switch accounts. From 1 July 2011, an individual's TFN will be the primary identifier of member accounts, subject to strict conditions to ensure privacy and security of information.

There are already strict legislative requirements on superannuation funds regarding the use and storage of members' personal information, including TFNs. Any superannuation fund found breaching these rules would be subject to strict penalties.

### **When will the changes come into effect?**

The use of TFNs as primary account identifiers will start from 1 July 2011.

Super funds will be able to offer MySuper products from 1 July 2013.

The Gillard Labor Government will consult closely with industry and consumer groups on detailed implementation and transition arrangements including to ensure that existing contractual arrangements can be complied with under the proposed implementation timetable.

### **What is the cost to the Federal Budget?**

These changes will have no net impact on the Budget over the forward estimates.

An additional \$21.1 million over four years will be provided to APRA and ASIC to implement and monitor the new arrangements. These costs will be recovered from superannuation funds. APRA already has arrangements in place to fully recover the cost of prudential oversight of superannuation funds through industry levies. The amount of this levy is reviewed annually and adjusted as required.

### **Default fund selection**

Currently, some employees do not exercise their right to join a superannuation fund of their own choosing. Instead these employees rely on their employer to make the choice for them from a list of eligible "default superannuation funds" named in the modern award or enterprise agreement that applies to the employer.

In order to maximise employee's retirement incomes, it is important that the funds selected as default funds are low-fee, high performing funds, that represent the best value to members.

We will require Fair Work Australia to review the default superannuation funds named in modern awards so that only those funds meeting the MySuper criteria continue to be included in modern awards as default funds.

We will also request the Productivity Commission to design a process for the selection and ongoing review of the superannuation funds to be included in modern awards or enterprise agreements as default funds. The process will be based on objective criteria and evidence and be subject to systematic review, so that the selection of eligible default funds is transparent and competitive and is subject to systematic review.

This process will maximise employees' retirement incomes by making sure that only those superannuation funds that deliver – and continue to deliver – the best results to their members are able to be included as default fund options in modern awards and enterprise agreements.

This review will be completed prior to the introduction of MySuper products from 1 July 2013.

## How will people benefit?

For a person on average weekly earnings, the increase in their end benefit after a 37 year career could be around \$40,000 or 7% - equivalent to a further 1% increase in Superannuation Guarantee contributions.

This is on top of the boost to retirement savings from increasing the superannuation guarantee to 12 per cent by the end of the decade.

Together these reforms could add almost \$150,000 to the retirement benefit of a worker aged 30 today.

Federal Treasury estimates that around 4.5 million Australians will hold MySuper accounts when fully implemented.

### How MySuper will work

**Anthony** is 18 and starting his first job as an office assistant. His employer provides him with a super choice form from the company's default fund provider. He doesn't return the form. The super fund trustee automatically creates a low-cost MySuper account for Anthony to receive SG contributions made by Anthony's employer.

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**Amanda** is changing jobs. If she does nothing, she will receive SG contributions from her new employer into a new MySuper account. With the use of her TFN as the primary identifier for member accounts, she will not risk her existing super account becoming 'lost'. She can also choose to ask her new employer to make the contributions to her existing super account from her previous job. She can also choose to roll all of her superannuation funds into another account that offers particular features that she wants and which does not necessarily meet the MySuper standards.

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**Angela** is a former bank manager who now runs her own consultancy business. She has a self-managed superannuation fund (SMSF) on behalf of herself and her husband. The MySuper changes will not affect Angela's ability to continue a self-managed superannuation fund.

## The Cooper Review into Australia's Superannuation System

The Gillard Labor Government commissioned an expert panel, headed by former Deputy Chair of the Australian Securities and Investment Commission, Mr Jeremy Cooper, to undertake a comprehensive review of Australia's superannuation system.

The Review has spent the last year consulting widely with industry and developing proposals to increase the efficiency of the superannuation system for the benefit of employees, employers and the economy as a whole.

The final report of the Cooper Review was released on 5 July 2010 and outlines 177 detailed recommendations including introducing MySuper and Superstream.

The Gillard Labor Government's priority has been to respond to the key elements of the Review where there is broad consensus on the way forward.

A re-elected Gillard Labor Government will respond to the remaining recommendations before the end of the year in consultation with industry, and consumer and business groups.

### **A safe and secure retirement under Labor**

Fairer, Simpler Super builds on a series of reforms the Gillard Labor Government has already taken to assist Australians plan for a safe and secure retirement.

We have delivered reforms to provide more support for pensioners – increasing the age pension by more than \$100 a fortnight for singles and \$74 for couples.

The Prime Minister's breakthrough agreement on the mining tax will provide for a historic boost to the superannuation guarantee from 9 to 12 per cent over the next decade. This will benefit 8.4 million Australians and increase the retirement savings balance of an average worker aged 30 today by \$108,000.

We are also providing new concessions for low-income earners and bigger contribution caps for older Australians with low super balances looking to make catch-up contributions. Together these reforms will increase Australia's pool of superannuation savings by \$85 billion over 10 years.

Australians with savings outside the superannuation system will also be assisted, with a 50 per cent tax discount on up to \$1,000 of income earned each year on deposits held with any bank, building society or credit union, as well as interests on bonds, debentures and annuity products.

### **THE LIBERALS' RECORD**

The Coalition opposed Labor's introduction of compulsory superannuation in 1992.

They remain a threat to the future retirement incomes of Australians.

If he is elected Prime Minister, Mr Abbott has already made clear that he would:

- ✘ **Stop the increase in the superannuation guarantee from 9 to 12 per cent:** meaning \$108,000 less in retirement savings for the average worker aged 30 today.
- ✘ **Oppose new concessions to top up superannuation for 3.5 million low-income earners.**
- ✘ **Halve the amount that 275,000 Australians over 50 with superannuation balances less than \$500,000 can contribute to super each year:** from \$50,000 to \$25,000 from 1 July 2012.

The Coalition still does not have a superannuation policy because they don't believe in it.

Mr Abbott has said that superannuation **"is one of the biggest con jobs ever foisted by government on the Australian people."**

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