

Superannuation and Investment Management Insights

Stronger Super – Final details released

The Government has now released the final details of its Stronger Super reforms. Whilst legislation is still to be passed, there are certain things that you should start looking at now (if you haven't already) to prepare for when the various measures are introduced. This Superannuation Insight focuses on a few key measures that are likely to have a major impact on the industry and what you need to consider in relation to these (& when).

My Super

- Funds will be able to offer MySuper products from 1 July 2013. From 1 October 2013 employers must make Super Guarantee contributions for employees who have not made a choice of fund to a fund that offers a MySuper product.
- Existing balances for default members to be transferred to a MySuper product by 1 July 2017 (except for defined benefit entitlements & certain legacy products).
- Cost allocation will be a key consideration with the introduction of My-Super products (ie. between MySuper & other products offered by a fund) – need to determine a methodology for the fair and reasonable allocation of costs.
- Employers will be able to negotiate discounted administration fees with funds to take account of differing scales of employers. Funds will be able to offer tailored MySuper products to employers with more than 500 employees ie. these products will be able to differ from a fund's main MySuper product in terms of investment strategy, member services provided & fees charged. Details of tailored products & discounted administration fees will need to be reported to APRA and separately published by trustees. Trustees will need to consider whether they will offer discounted administration fees to certain employers and/or tailored MySuper products (if applicable).
- MySuper products will be required to have a single, diversified investment strategy (lifecycle investment options may be used). Trustees will need to disclose the targeted rate of return (over a rolling 10 year period) and the level of risk determined appropriate for MySuper members.
- Trustees will need to be authorised by APRA for each MySuper product they wish to offer.

Super Stream

- SuperStream contains three main components designed to improve the efficiency and effectiveness of back office superannuation processes and controls:
 - Use of the TFN as a primary identifier for all accounts across any fund; if a TFN is not supplied, the fund will send the contribution to the ATO which will be identified as "unclaimed"
 - Use of e-commerce solutions to replace paper and manual transactions (eg. cheques, paper forms)
 - Use of standardised data and reporting to increase the quality of data flowing in the system (eg. from the employers to funds and between funds).

There are several key dates and milestones in relation to SuperStream which are set out in the timeline table on the following pages.

Governance

- Increased trustee duties to be further enhanced and clarified in the SIS Act to address issues identified by the Cooper Review. Areas expected to be targeted include: conflicts of interest, development of investment strategies and providing explanation to members/beneficiaries of decisions made. The changes could require amendments to trust documents such as policy documents, trust deeds and other compliance documents.
- APRA is to develop a prudential standard for the implementation of a risk-based financial requirement for managing operational risk. The content of the standard will be subject to consultation between APRA and the industry (refer to section on page 3).

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Stronger Super Timetable

Event/Change	Date applicable										
	Jul-11	Oct-11	Jan-12	Jul-12	Jul-13	Oct-13	Jan-14	Jul-14	Jul-15	Jul-16	Jul-17
Transition to MySuper											
Funds able to offer MySuper Products					X						
Employers to pay contributions for employees who haven't chosen a fund to a MySuper product.						X					
Trustees of super funds offering MySuper products must transfer existing balances of default members to a MySuper product											X
Submissions due to Government on CGT consequences that arise from transitioning to MySuper		X									
SuperStream											
- Funds/Administrators											
Use of the TFN as a unique identifier for each of your members.	X										
Search the ATO repository (using the TFNs of members who have given consent) for other accounts of such members held by other funds.			X								
Automatic consolidation of lost and inactive accounts (& ERF accounts) with less than \$1,000 unless the member opts-out. (Threshold is under review)							X				
For APRA regulated funds and SMSFs - processing all member information and payments according to the new data standards (to be published early 2012). This will also include new procedures on how to treat contributions when insufficient information is available for the contribution.					X						
Reporting to each member either through paper statements every six months or quarterly through electronic records, whether superannuation contributions were received for them or not.					X						
Need to report all inactive, lost or active accounts to the ATO.						X					

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Event/Change	Date applicable										
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– Employers											
Reporting the expected payment date and current entitlement to employee on payslips.				X							
If no significant payroll system costs, the employer will have to report the actual contribution paid (as opposed to the accrued contribution).					X						
For large to medium employers, processing all member information and payments according to the new standards (to be published early 2012).								X			
For small employers, processing all member information and payments according to the new standards (to be published early 2012)									X		

Legislation to enact these reforms is expected to be introduced shortly - an exposure draft of the [Superannuation Legislation Amendment \(MySuper Core Provisions\) Bill 2011](#) has just been released for consultation.

APRA have also just released a [discussion paper](#) for consultation on the prudential standards they are proposing to develop, which will contain most of the detail of the reforms. These proposed standards will cover such matters as:

- **conflicts of interest** eg. RSE licencees to be required to develop and maintain a conflicts management framework.
- **operational risk financial requirements** eg. APRA proposes that the current custodian or approved guarantee arrangements would not satisfy this requirement – rather a specific fund reserve, trustee capital or a combination of both would be required.
- **fitness and propriety** eg. fit and proper policy to cover all ‘responsible persons’ and annual assessments of fitness and propriety of all responsible persons to be undertaken.
- **risk management** eg. requirement to be introduced to articulate risk appetite as part of an RSE licensee’s risk management framework.
- **outsourcing** eg. minimum requirements for outsourcing agreements and due diligence requirements.
- **investment governance** eg. investment objectives to be articulated in a specific and measurable way.
- **audit requirements** eg. APRA proposes to introduce a requirement for RSE licensee to have an internal audit function (may be outsourced subject to APRA’s approval).

These reforms present both challenges and opportunities for the industry so it is crucial to plan now in order to address the challenges of implementing the reforms, and to make the most of the potential opportunities.

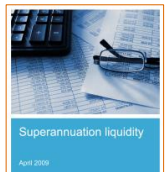
For assistance in managing these changes please contact your PwC team or the contacts listed overleaf.



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Superannuation
Liquidity



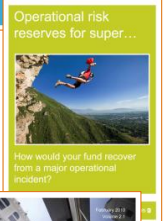
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Operational
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