Australian Government

REVIEW INTO THE GOVERNANCE, EFFICIENCY, STRUCTURE AND OPERATION OF
AUSTRALIA'S SUPERANNUATION SYSTEM

MYSUPER

Optimising Australian superannuation

Second Phase One — Preliminary Report
20 April 2010

www.SuperSystemReview.gov.au

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1 IMPORTANT NOTE

MySuper forms only one element of the choice architecture proposed by the Panel. The Panel is still finalising its views on other elements within the architecture, but it is probable that a number of the changes proposed to apply to MySuper – such as the prohibitions on contribution fees (see paragraph 4.2.6) and trailing commissions (see paragraph 4.2.7) and the requirement to renew advice arrangements every 12 months (see paragraph 4.2.7) – will also be recommended to apply in other superannuation sectors, including to SMSFs. The Panel is concerned not to create regulatory imbalances or opportunities for arbitrage on such key issues.

2 MYSUPER

The Panel has decided to rename the 'universal' part of the choice architecture model outlined in its 14 December 2009 preliminary report as: 'MySuper'.

MySuper is predicated on providing a simple, cost-effective product with a diversified portfolio of investments for the vast majority of Australian workers (shown to be above 80 per cent of members) who are invested in the default option in their current fund. A significant portion of these members have not exercised choice in being where they are, but there are some members who have actively chosen the default investment option as their 'investment of choice'. The Panel has chosen to include both these groups of members in the scope of MySuper.

MySuper may be viewed as a new type of product, but it is really a re-focusing on the principle that occupational/compulsory superannuation should work well for those members who elect not to exercise choice or have chosen the trustee default investment option. 'Choice' products remain as a vital component of the superannuation sector, but are excluded from the specific rules proposed for MySuper.

MySuper is designed to cater to the large number of Australians who would prefer to delegate the task of designing and maintaining an investment strategy for their super to someone else. In summary, it is a product[1] with a single, diversified investment strategy designed to suit members as a whole. It is a value-oriented superannuation offering. The Panel's SuperStream proposals will complement MySuper, further driving down overall costs.[2]

It will be readily apparent that MySuper is similar in some ways to the default investment options offered by many superannuation funds today. Indeed, MySuper has been designed to sit comfortably within the existing structures currently offered by many superannuation funds. However, some features of the default options of many funds are inconsistent with MySuper.

For that reason, MySuper includes a range of additional regulatory requirements that are designed to ensure that the trustee is truly accountable to members, that the trustee is

1 Technically, the product can be either a separate fund or an identifiable pool of assets within an existing superannuation fund.

2 *SuperStream — Phase Two — Preliminary Report* released on 22 March 2010, see www.supersystemreview.gov.au.

unfettered in its pursuit of the best interests of members and that the costs of delivering MySuper are contained. Together, these safeguards are designed to emphasise the ‘trusteeship’ that MySuper members ought to expect from their product providers. They also ensure that members do not inadvertently pay for services they either do not want or do not know about.

Lastly, it is worth emphasising that MySuper has nothing to do with establishing a single national default fund and the Panel is not proposing to recommend one.

3 WHAT IS THE PURPOSE OF THE MYSUPER PROPOSAL?

3.1 A product for a core demographic

MySuper proposes that the Australian superannuation system formally ‘build-in’ a superannuation product that recognises that direct engagement in superannuation decision-making is not a priority for a large proportion of the population. MySuper does not, of course, depend on disengagement — it also works for members who choose actively to participate in this product.

Recent data show that the average member account balance across a wide range of super funds is below $25,000.[3] In fact, APRA data show that retail and industry fund accounts had balances of an average of $18,400 and $16,600, respectively, at 30 June 2009. Rice Warner estimate the June 2008 average balance **per member** (not per account) at $32,895 for industry funds, $46,710 for retail, $100,302 for public sector and $133,492 for corporate funds.[4] Over 80 per cent of members hold all their assets in the default strategy.[5]

These figures remind us of a core member demographic for which the Australian superannuation system should be able to cater simply and efficiently. It is particularly at these member account sizes that the Panel finds the MySuper idea compelling; account sizes where costs and inefficiencies can make a real impact on whether a member has a comfortable retirement. But even as the system matures, and account balances grow, the Australian superannuation system should be able to ensure there is a value for money, simple and effective product for members.

The Panel recognises that offering a simple superannuation product has become increasingly difficult in the choice environment. The Panel believes that the provision of choice within superannuation is now an entrenched feature of the Australian system. It gives participants the ability to tailor their superannuation strategies to their needs, subject to adequate safeguards. However, the Panel also recognises that the administrative and regulatory infrastructure required to provide choice can be expensive. The Panel is concerned that, with relatively few exceptions, the superannuation system seems to be moving in the direction of greater complexity and higher costs at a time when funds ought to be benefitting from the economies of scale derived from increasing size.

3 SuperRatings 2009 SR All Fund Median average member account balance was $24,855.

4 Rice Warner Actuaries, Superannuation Fees Report 2008.

5 SuperRatings benchmark report for the Review. APRA does not currently collect data on the number of accounts in default options.

3.2 Leveraging off a well-known existing product

Generally speaking, existing default investment options have delivered good outcomes for members. The Panel sees the MySuper proposal as based in and around the existing widely offered and well-understood default investment options. MySuper merely aims to focus more sharply trustees' attention on the types of member advantages afforded by those options.

However, MySuper is not just for people who are disengaged. With the lower costs and traditional trustee obligations, the Panel believes that many engaged investors will choose actively to have their superannuation in MySuper. The Panel has in mind different duties for the trustees of 'choice' funds outside MySuper, but is still refining its thinking on the precise scope of those duties. It is also quite likely that certain features that are developed for MySuper are then recommended for application in the 'choice' and self-managed sectors.

The MySuper proposal intends that there be a simple superannuation product available for members. It will be treated, for some purposes, as separate from other types of superannuation products, and operated so that member interests are transparently paramount and there will be a focus on optimising net investment returns and reducing overall costs. The Panel believes that by imposing some degree of homogeneity on the product, price competition might reasonably be expected to produce more positive outcomes for members and help trustees contain costs. It would also be easier for engaged members and their advisers to make comparisons between MySuper products offered by different funds.

3.3 MySuper structure

The MySuper concept seeks to make super more transparent and comparable for the benefit of members, but not necessarily separate from other aspects of the trustee's operations (for example, other investment options). For example, the Panel would not envisage that a trustee would be required to undertake separate mandates for MySuper investments as opposed to 'choice' investments. The Panel wants funds to keep the synergies available from treating MySuper and choice members as a single pool for administration and investment purposes, where appropriate. This would allow funds to get the benefits of economies of scale and bulk purchasing power. It would not prevent funds using pooled vehicles either.

Similarly, the proposal that MySuper be separately accounted for is a transparency and disclosure measure. It does not follow, from the Panel's perspective, that this dictates any necessary physical separation from other pools of assets. Of course, a trustee would be free to treat MySuper as physically separate if it chose.

3.4 Access to MySuper products

The Panel proposes that only MySuper products could be a 'default' for the purposes of the *Superannuation Guarantee (Administration) Act 1992* (SG Act), either under an award or as nominated by an employer.

That said, choice remains a key concept in the superannuation system. So, for those members who want to exercise choice outside MySuper, they can have their contributions made into non-MySuper products through an active 'opt-in' decision. Employers and others will not be permitted to 'opt-in' on behalf of their employees, clients etcetera.

3.5 Open to all providers

It is a core aim of the MySuper proposal to ensure that the existing default fund or default investment option can be modified to conform with MySuper product requirements with minimal disruption and transition cost. It is therefore not the Panel's intention that MySuper could be achieved only through setting up a new MySuper RSE.[6]

Legislation would address the separation of MySuper products from other superannuation products in existing RSEs in terms of governing rules, accounting, member reporting requirements, member transition and trustee obligations, in a way that would minimise disruption and cost.

Any of the current types of RSEs (except pooled superannuation trusts) would have the scope to offer MySuper products. The Panel does not see any reason why members of current default funds or default investment options that a trustee flags for transformation into a MySuper product should wish to move out of such funds because of the transformation.

3.6 Simplicity

MySuper must be conceptually simple to members, even if the underlying mechanics are complex. This is a difficult matter to prescribe, but the Panel believes that it will be an outcome of all the various elements of the MySuper proposal.

3.7 Decision-making to rest with trustee

A touchstone of MySuper is that its members defer to the trustee generally in relation to all aspects of their superannuation. The Panel believes that offering investment choices in MySuper would, in essence, be delegating what some regard as the most important activity of the trustee to members who are generally not well-equipped to perform that activity or who have specifically chosen to minimise their own decision-making by adopting the MySuper product. The Panel believes that decisions about investment strategy in a MySuper product can be more efficiently and appropriately carried out by the trustee. However, the corollary of delegating responsibility to the trustee is that the level of accountability borne by trustees in the MySuper environment will be enhanced.

3.8 Investment choice

Retail funds typically offer a large number of investment options.[7] The MySuper concept challenges this model for the core demographic of members referred to above. Offering such members delegated decision-making in relation to investment choices brings along with it a number of issues and difficulties, including:

(a) inadequate levels of financial literacy and appreciation of risk;

(b) information asymmetry; and

(c) complex disclosure needed to understand the choices.

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6 Registrable superannuation entity.

7 APRA Superannuation Fund Level Profiles and Performance Characteristics at 30 June 2008. The median for the 100 retail funds which offered choice and for which data was given was 33 investment options. The average of 179 investment options is skewed by one fund that offered 1,591 options and another offering 2,432 options. 40 retail funds reported only one investment option, and data was not reported for a further 18.

The Panel believes that responsibility for such issues should be assumed only by members who have elected actively to be in the 'choice' sector of the industry architecture or in an SMSF.

3.9 Costs

The Panel believes that MySuper, along with its other proposals, including SuperStream, will in due course lead to a reduction in the overall costs currently paid by ordinary members.[8] Detailed back-up for this contention is in train and involves:

(a) a comprehensive analysis of overseas examples;

(b) analysis of a wide range of APRA and industry data;

(c) data from funds themselves; and

(d) a report dated 19 April 2010 from independent consultant, Deloitte Actuaries & Consultants Limited, on the projected total operating and investment costs for the MySuper model. A copy of the report is on the Review's website — www.supersystemreview.gov.au.

There will be saving also on administration expenses through the Panel's SuperStream proposals and other savings on the basis that there will be no bundled advice costs for MySuper products. While not all the savings in administration expenses will necessarily be passed on to members, the Panel still believes that the overall fees paid by the average member will be lower.

Because of its simplicity and the central duty of the fund trustee in overseeing a MySuper product, there would be reduced member disclosure obligations, thereby further reducing costs. In fact, MySuper would not depend on notions of informed choice and disclosure and hence the industry need not be required to provide expensive disclosure to members in the form of product disclosure statements. Instead, comprehensive information, at a variety of levels of detail, would be available on-line. This would be sufficient to enable engaged members wishing to select between MySuper products offered by different funds to make an informed decision.

3.10 Optimising overall costs to members

The Panel does not favour mandating an overall fee cap or otherwise regulating the cost of a MySuper product. The Panel does, however, have the dual aim of optimising the net investment return and reducing the overall cost to members.

The Panel is of the view that proposed new trustee duties to be overseen by APRA, along with the extra transparency, greater comparability and increased competition inherent in the proposal should drive down costs and fees charged to members to an acceptable level.

8 Death insurance must be offered in MySuper (and TPD and income protection will be optional for the trustee to offer), but in keeping with industry standards, the cost of insurance premiums is not taken into account in this analysis.

3.11 Engagement

Currently, there is a range of approaches to encouraging members to be more involved with their superannuation. Some funds offer intra-fund advice. Other communications by funds to members is closer to advertising and is less obviously in member interests. Some funds engage in a substantial amount of outright advertising. The Panel believes that in MySuper, trustees need to be more focused on the intent of engagement with members and its tangible benefit to them.

It should be stressed here that the Panel does not intend to deny members access to information or to enforce a certain level of disengagement in an effort to reduce costs. Instead, the Panel is seeking to make trustees accountable for overall costs to members with the result that some practices carried out in the name of member engagement might come under closer scrutiny by APRA or intermediaries who research, rate or advise on funds.

The Panel envisages that MySuper will result in a greatly enhanced environment for those members who are engaged or want to engage with their superannuation, arising from a combination of the following:

(a) the fact that having an intra-fund advice facility will be compulsory. All MySuper members will have access to information and advice direct from their trustee;

(b) e-super measures mentioned in paragraph 4.2.2;

(c) greater transparency imposed on funds by other measures to be recommended by the Panel outside the MySuper proposals, including fee comparability, performance measurement and more information about the funds generally; and

(d) the mandatory provision of forecasts about likely retirement benefits mentioned at paragraph 3.12 below.

The Panel believes that these measures would reduce the need for other, less relevant, engagement with a corresponding reduction in costs to members. This is not to say that the Panel is opposed to efforts to get members to take more responsibility for their retirement; far from it. The point is that these initiatives cost money and trustees need to be accountable for their effectiveness.

3.12 Forecasts of retirement benefits

The Panel believes that possibly the biggest engagement hurdle is getting members to understand whether their current contribution strategy is likely to provide them with an adequate income in retirement. This involves the multi-tiered challenges of focussing them on future events, current savings habits and the conversion of their lump-sum thinking into 'replacement rate' thinking; what proportion of their current income will they need to live on in retirement? The closest thing to addressing these challenges are the current policy ideas embodied in ASIC's Consultation Paper 122: *Superannuation Forecasts.* The Panel believes these should become mandatory for MySuper products, subject to further refinement of the policy ideas in ASIC's consultation process.[9]

9 http://www.asic.gov.au/asic/pdflib.nsf/LookupByFileName/CP122.pdf/$file/CP122.pdf.

4 QUALIFYING AS A MYSUPER PRODUCT

A MySuper product would be formally established by introducing some 'hard' (objective) criteria to which any trustee would have to conform in order to qualify a MySuper product. There would also be 'soft' (subjective) principles that would apply to MySuper products addressing financial performance, reporting and disclosure. A 'MySuper' APRA licence would be required and trustees would be legally obliged to meet both the hard and soft principles. APRA would be empowered to work with the trustee to resolve any non-conformity with the principles depending on the circumstances.

4.1 Soft principles — trustee duties

The SIS Act would be amended to include three new high level, principles-based, trustee duties that could not be diluted in the governing rules. These are set out below. The second and third duties (paragraphs 4.1.2 and 4.1.3) are directed towards the trustee fulfilling the first duty.

4.1.1 Optimising investment performance and overall cost to members

The trustee must provide members with an appropriately designed investment strategy at an overall cost aimed at optimising their financial best interests, as reflected in the net investment return over the longer term. This does not mean that a trustee must provide the lowest possible cost investment strategy. The Panel recognises the importance of asset allocation and that some investment strategies will be more costly to provide than others. However, MySuper will require that a trustee have a clear and transparent justification for both the investment strategy it formulates and the overall cost and net return to members.

4.1.2 Diversified asset allocation/single investment strategy

Trustees must seek to optimise outcomes for MySuper members (within the parameters of MySuper) by designing a single investment strategy with an appropriately diversified allocation of growth and defensive assets (which may be, but not necessarily be, a lifecycle strategy), based on a mandatory system for explaining investment aims, volatility and fees to members, with the decision on strategy ultimately resting with the trustee.

The Panel believes that trustees should disclose the level of return targeted by their investment strategy (for example, [x] per cent above inflation, usually measured by the CPI) over a rolling [five-year] period, with an indication of risk and volatility being provided by reference to the likelihood of a negative return being posted, again usually once every [y] years and the maximum potential loss that could be reasonably expected.

4.1.3 Scale

A trustee must form the view, on an annual basis, that its MySuper product has sufficient scale on its own (with respect to both assets and number of members) to provide optimal retirement savings for its members or must pool its MySuper product assets with the MySuper products of other trustees or merge its MySuper members and operations with other funds to reach the required scale. The way the scale concept is administered will, of course, need to deal with funds' individual circumstances, features particular to certain occupations and to allowing competition from new entrants to the market.

4.2 Hard criteria

Set out below are the 'hard' criteria with which trustees offering MySuper products would have to comply.

4.2.1 Contributions

The trustee would have to accept all types of contributions into a MySuper product (except where prevented by law).

4.2.2 E-super

Member disclosure requirements for MySuper products would be minimised to assist with cost reduction, although comprehensive information would be available on-line. Member benefit statements would continue to be sent out as they currently are, including by email, because this is one of funds' primary forms of engagement with members. However, MySuper members could elect to have member account information available to them online instead of in hard copy (much like internet banking). Current PDS disclosure could be replaced by simple on-line disclosure, although trustees would be free to choose to continue printing PDSs if they wished.

4.2.3 Cross-subsidisation/quarantining

There will always be some degree of cost cross-subsidisation between members in any pooled investment. However, the Panel believes that there should be no direct or indirect cross-subsidisation of costs between MySuper products and other products offered by a fund trustee whether within the same RSE or not. The trustee would be required to have a formal policy on how costs are allocated. Breaches would be required to be reported to APRA.

To support this objective, a trustee offering a MySuper product would be required to produce separate audited financial statements for the MySuper product as if it the product were a stand alone RSE for the purposes of AAS 25 or its successor.

4.2.4 Post-retirement

MySuper would not just cover accumulation to retirement, but ultimately must also offer a post-retirement product, either on its own or in conjunction with another provider. The Panel views MySuper, in its ultimate form, as a whole of life product. This will need extensive consultation and development with industry, but is a key part of the MySuper concept. Options include products that retain exposure to growth assets after retirement, annuity products and other longevity risk hedging and a range of account-based pension products.

4.2.5 Benchmarking

Trustees offering MySuper will be required to participate in approved benchmarking surveys that will measure their relative efficiency against peers in a number of key areas (for example, administration costs per member, service standards).

4.2.6 Fees

(a) Contribution fees

There would be no entry (contribution) fees charged for a MySuper product, including on rollovers. Exit fees could only be charged on a cost recovery basis.

(b) Buy and sell spreads

Buy and sell spreads charged to MySuper members would have to be closely linked to demonstrable costs incurred (that is, actual transaction costs in investing contributions) provided that they are paid to the fund and not the trustee in its personal capacity or to any other party.

(c) Switching fees

Fees payable on switching within the fund into or out of a MySuper product, whether chargeable on the first switch in any given period or only after a certain limit has been reached, are able to be charged in MySuper provided that they are paid to the fund (as in the case of the buy and sell spread) and not the trustee in its personal capacity or to any other party.

(d) Fee schedules and discounts

All fee schedules and discounts (if any) are to be explicit and not subject to negotiation or rebates.

(e) Performance-based investment management fees

No performance-based investment management fees could be paid to or by the trustee unless they comply with the Performance Fee Standards (high level principles which are to be separately articulated by the Panel for consultation with the industry).

4.2.7 Advice

(a) No bundled advice

Personal advice (except for intra-fund advice) could not be bundled with MySuper products and it would be up to members to request advice. Members who want advice must have access to:

(i) free, quality information on the fund's website; and

(ii) intra-fund advice about MySuper along the lines of ASIC RG 200: *Advice to super fund members*, the cost of which can either be shared across the MySuper membership (like an administration expense) or charged to those who use the service.

(b) No trailing commission or ongoing payments

Fees for personal financial advice sought by MySuper members outside the intra-fund model would be on a fee-for-service basis negotiated between the member and the adviser and could not involve any trailing commission (or other similar payment or a volume rebate paid by or behalf of the trustee). If the trustee allows, fees for advice about superannuation would be able to be paid from the member's account. Trustees could have an arrangement with advisers to provide the service to MySuper members. However, every arrangement for payment for advice would require express renewal by the MySuper member every 12 months (that is an opt-in regime for advice where members are in control).

4.2.8 Unit pricing or crediting rates

The Panel is still looking at the question whether trustees should use unit pricing or apply crediting rates to attribute a value to the interests of members in the fund. If the Panel decides to recommend any change to existing policy in this area, MySuper would not be treated differently from the 'choice' sector.

5 MOVING IN AND OUT OF MYSUPER

5.1 Investment choice

There should be very few barriers to a MySuper member making an investment choice — and so moving some or all of their super out of the MySuper product — if that is what they want to do. An exception to this is where a licensed adviser makes a recommendation; this is dealt with separately in paragraph 5.5.

On the other hand, it should not be easy for a trustee to recommend this because the trustee would be under a range of obligations directed at the member's best financial interests in MySuper. Obviously, the purpose of MySuper will be quickly defeated if trustees can induce members to switch to products where the features aimed at better outcomes for members (for example, scale, cost transparency, simplicity and so on) are not present.

5.2 Moving back to MySuper

A member might make a choice in relation to some or all of their MySuper and switch, for example, to a cash investment option. Later on, they might decide to switch back to MySuper. The Panel sees this occurring in much the same way as it does now with the possible exception that it might be done with less paperwork. The move back to MySuper should involve even less administration and would not call for the member being treated in any way differently from other MySuper members merely because they had chosen to be there.

5.3 Being in both the MySuper and Choice segments

It will be possible for a member to have a part of their superannuation in a MySuper product and the rest in, for example, an international equities investment option offered by the same RSE or in another fund altogether.

5.4 Eligible rollover funds

The Panel believes that a member should only be able to be moved out of a MySuper account, where they have not made an active choice, if they are moved to an eligible rollover fund (**ERF**). All ERFs would be required to operate under standards very similar to those proposed for MySuper. Under the SuperStream proposals, ERFs will have a range of more member-friendly obligations. Also, the auto-consolidation proposals will also catch a large proportion of such accounts and consolidate them with the member's latest active account (or other instruction nominated by the member). This would also cover the practice of 'flipping' members out of corporate plans when they have ceased employment.

5.5 Recommendations by licensed advisers

The Panel believes that requirements at least as robust as those in section 947D of the Corporations Act are required where an adviser recommends that a member switch out of a MySuper product into an alternative superannuation product.

6 INSURANCE IN MYSUPER

6.1 Compulsory insurance in MySuper

Death insurance would have to be offered on an opt-out basis[10] in MySuper products (and be able to be increased above the default level of cover at member election). Rather than there being a minimum specified level of cover, the Panel believes that the trustee is best placed to judge what level of death cover suits its member demographic. However:

(a) members should be able to opt-out of any insurance at any time;

(b) the trustee should determine an appropriate minimum default and maximum optional level of cover for its members; and

(c) the premium would not be allowed to include or fund a sales commission or like payment in connection with any group insurance arrangement (although a trustee would be able to pay brokerage for services rendered by a broker or agent on a fee for service basis).

6.2 Optional insurance in MySuper

The Panel believes that trustees should have the option of offering two other types of cover: total and permanent disability (TPD) and income protection (salary continuation) insurance, if they believe that it is in their members' interests to do so. Trustees choosing to do this would be subject to the same conditions as referred to in paragraph 6.1.

6.3 Other types of insurance

The Panel believes that there should be a limit to the extent that insurance that is not directly related to building retirement savings should be paid for out of a member's superannuation. Therefore, a trustee will not be able to offer trauma insurance and other types of cover. This is consistent with the sole purpose test in any event.

6.4 Risk pool

Consistent with the Panel's view that MySuper is aimed at transparency of outcomes and not physical barriers, it should be possible for MySuper members to be in the same pool as other members for the purposes of pricing the risk attaching to group life or other types of insurance.

10 That is, cover would be automatic unless the member chose to opt out.

7 DEATH BENEFIT NOMINATIONS

The Panel is proposing that it should be a matter for individual funds (in their governing rules) to decide how to approach the subject of death benefit nominations. Some large funds currently do not offer any form of nomination while others choose to offer either binding or non-binding nominations.

There are a number of practical issues with death benefit nominations that go beyond the scope of the MySuper proposal and so it is not proposed to make a proposal for change that is specific to MySuper. The Panel's preliminary recommendation is that if a trustee offers a binding nomination, then it would be preferable if it were effective for five years (as opposed to the current three) and were invalidated by the same type of standard life events (for example, re-marriage) that would invalidate a testamentary disposition. It acknowledges that this change will require the establishment of a national standard setting out precisely those events that would void an otherwise binding death benefit nomination.

8 QUESTIONS AND ANSWERS

8.1 What is MySuper exactly?

MySuper contemplates a single, diversified investment strategy designed to suit members as a whole, in which costs and liabilities between MySuper and choice segments of a fund are equitably determined. There is an emphasis on low costs, but not at the expense of investment returns. The product is intended to be more transparent, slightly more homogenous because of the criteria outlined in this paper and hence more comparable.

MySuper seeks to identify a pool of assets that is required to be separately accounted for, but does not necessarily demand that they be physically separate.

The starting point for MySuper is the default investment option and default insurance option in existing default funds for SG Act purposes. The trustee must then decide whether it wants to qualify the default option as a MySuper product. Trustees will need to assess how closely their existing default offering (for example, investment and other features) is to the MySuper model. Quite a number of trustees will find that their current default offering is close to meeting the MySuper criteria already. This is not an unintended result. The Panel had the existing shape of many fund offerings in mind when conceiving MySuper.

8.2 Can a default fund have more than one MySuper product?

Individual members cannot be offered more than one MySuper product and they can only be defaulted into a single MySuper product, not a range of them. Choices can be made outside the MySuper environment.

Generally, there will be only one MySuper product in each RSE. However, there will be situations where a trustee has multiple distinctly branded products within a single RSE, and in those circumstances one MySuper may be permitted under each brand name. The principle here is that they would not be able to present an individual member with choice between different MySuper products.

There will be situations where a master trust has multiple MySuper sub-funds reflecting the fact that it is serving a range of different employers. An employee of any particular employer could, however, only be offered the one MySuper product. The Panel is considering whether, in some structures, the same MySuper product could be offered at different price points reflecting differences in the scale of employer participation.

8.3 Can a trustee offer another option in the default fund, rather than just MySuper?

MySuper would replace defaults altogether, so it's not a question of there being another option in the default — MySuper is the default and the industry can cease using the term 'default'. If a product is not MySuper or an eligible rollover fund, it is in the 'choice environment' which would continue operating very much as it currently does and can be in the same RSE as MySuper.

8.4 Can a trustee offer additional services to members in MySuper?

The Panel has not yet come to a view on whether additional services can be offered in MySuper. The Panel is concerned that offering such additional services might increase costs to MySuper members, in many cases without a corresponding benefit.

8.5 What about transition costs and implementation difficulties?

The Panel is obviously interested in exploring ways to reduce any transition costs and implementation difficulties, but stresses that the MySuper proposal revolves around re-calibrating an existing product, not creating a new one. The Panel has sought feedback from trustees, administrators and other service providers during a roundtable process about what would be involved in a transition to MySuper and what issues might arise and has taken that into account in publishing these proposals.

8.6 Will funds have to dispose of investment portfolios?

Not unless they choose to. The MySuper model imposes certain duties on trustees to develop an appropriate single investment strategy in order to optimise investment performance and manage overall costs to members. There will be a considerable lead time before MySuper comes into operation and the trustee of an existing default offering should be able to transition to the new environment relatively seamlessly, provided it is prepared to comply with the MySuper criteria.

8.7 How do existing corporate funds fit into the MySuper model?

Defined contribution corporate funds must offer a MySuper product if they want to be the employer's default for SG Act purposes.

8.8 How do defined benefit funds fit into the MySuper model?

Pure defined benefit plans would automatically be default funds for SG and award purposes in respect of the defined benefit provided to members. This is because investment and administration costs are not passed on to members, but are instead ultimately borne by the employer. Defined benefits are protected in a way broadly consistent with a MySuper product.

If the plan is a hybrid fund, with the accumulation division separate and used for satisfaction of an employer' SG obligations, that division would be required to offer a MySuper product in order for the fund to be a default fund in respect of those benefits.

If a member has both defined benefits and accumulation benefits as part of the plan's benefit design, and the accumulation portion is not necessary to meet the employer's SG Act obligations, the accumulation portion is not required to meet the MySuper criteria. Depending on decisions that the member has made in respect of that portion, it may be in the choice environment or a MySuper product.

8.9 When will these changes come in?

No change will be implemented unless and until the Government accepts the relevant recommendation and then takes the steps necessary to put it into effect (including passing legislation, if necessary). The Panel recommends that industry participants be given ample time to assess and prepare for any implications.